

MINT MARKET MONTHLY

Mint Financial
SERVICES LLC



Samuel Mangiapane, CRPC®, MBA
*Managing Principal | Financial Advisor
Chartered Retirement Planning CounselorSM*

732-807-2340 *direct*
sam@mintfsllc.com *email*
mintfinancialservicesllc.com *website*

Mint Financial Services LLC
2-10 Broad Street, Suite 303
Red Bank, NJ 07701

July 2021 - A recap of recent financial and economic market activity.

Applications for U.S. state unemployment insurance fell by more than projected, reaching a fresh pandemic low.

U.S. manufacturing continued to expand at a solid, yet slightly slower pace while a measure of prices paid for materials jumped to an almost 42-year high.

Year to date, cyclicals have been some better performers. Energy shares are up 44.5% with the rebound in oil prices, and financials have bounced 25.2%. In contrast, S&P 500 growth stocks are up 14.3%, lagging slightly the S&P 500's 15.5% gain. Tech stocks are up 14.9% year-to-date.

Oil jumped to the highest in more than six years after a bitter fight between Saudi Arabia and the United Arab Emirates plunged OPEC+ into crisis and blocked a supply increase.

Fearful of their growing influence, China is in the middle of a sweeping crackdown on the nation's biggest tech firms. Last November, Beijing pulled the planned IPO of fintech giant Ant Group, and in April, it hit Alibaba (BABA) with a record \$2.8B fine over abusing its market dominance.

The Fed delivered a double-whammy after its quarterly economic forecasts showed officials expect two rate hikes in 2023 and Chair Jerome Powell announced the central bank was getting the taper debate into gear.

Alphabet Inc.'s Google was sued by three dozen states alleging that the company illegally abused its power over the sale and distribution of apps through the Google Play store on mobile devices.

Wells Fargo shutting down personal lines of credit - "In an effort to simplify our product offerings, we've made the decision to no longer offer personal lines of credit as we feel we can better meet the borrowing needs of our customers through credit card and personal loan products," the bank said in an emailed statement.

Pfizer says it plans to meet with top U.S. health officials to discuss the drugmaker's request for federal authorization of a third dose of its COVID-19 vaccine.

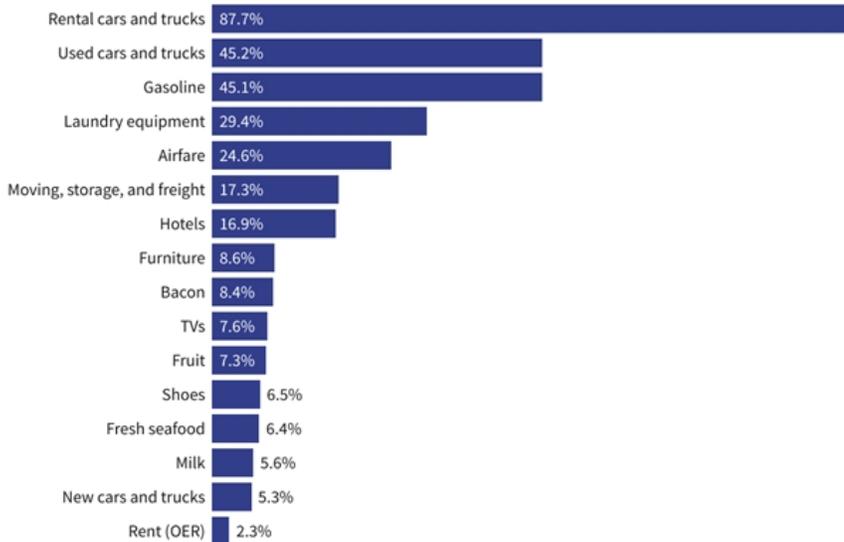
A wildfire raging uncontrollably across southern Oregon has knocked out three electrical lines so critical to the stability of grids in the western U.S. that California has warned of rotating blackouts and Nevada faced a power emergency. The fast-moving Bootleg fire crippled a key transmission system known as the California Oregon Intertie that the Golden State has depended on for years for electricity imports.

JP Morgan investment bankers posted their best quarter ever as a record first half in deal making bolstered the bottom line. Fees from advising on mergers and underwriting stocks and bonds soared 25% in the second quarter, smashing analysts' estimates and boosting net income to \$11.9 billion.

Pepsi reported the fastest sales growth in at least a decade and raised its forecast, benefiting from thirsty consumers returning to restaurants, bars and stadiums and others diving into bags of chips. Second-quarter revenue rose 13% on an organic basis, which excludes acquisitions and currency changes, reaching \$19.2 billion, the company said. Analysts expected \$17.9 billion. Earnings grew to \$1.72 a share excluding some items, compared with the \$1.53 average of analysts' estimates.

Lumber, which at one point was among the world's best-performing commodities as the pandemic sent construction demand soaring and stoked fears of inflation, has officially wiped out all of its staggering gains for the year. Prices were down 0.6% for the year as demand eases and supply expands in response to earlier gains.

What's Driving up Inflation?



Year-over-year (YOY) unadjusted percent change.

Source: U.S. Bureau of Labor Statistics



Prices paid by U.S. consumers surged in June by the most since 2008, topping all forecasts and testing the Federal Reserve's commitment to sticking with ultra-easy monetary support for the economy. The consumer price index jumped 0.9% in June and 5.4% from the same month last year, according to Labor Department data.

Federal Reserve Chair Jerome Powell had his semi-annual testimony to the House Financial Services Committee this morning, with Democrats on the panel seeking his support for another round of government spending. Republicans are likely to point to the hotter-than-expected inflation print as evidence of the dangers of further stimulus.

Apple Inc. has asked suppliers to build as many as 90 million next-generation iPhones this year, a sharp increase from its 2020 iPhone shipments, according to people with knowledge of the matter. The Cupertino, California-based tech giant has maintained a consistent level in recent years of roughly 75 million units for the initial run from a device's launch through the end of the year. The upgraded forecast for 2021 would suggest the company anticipates its first iPhone launch since the rollout of Covid-19 vaccines will unlock additional demand. The next iPhones will be Apple's second with 5G, a key enticement pushing users to upgrade.

Second-quarter earnings were in the spotlight, with reports from Bank of America, Wells Fargo, Citigroup, and Delta Air Lines among the most prominent. Big Tech got even bigger, as Apple, Alphabet, and Microsoft all closed at records in July. Apple had a market value of \$2.5 trillion.

Netflix is marking its first big move beyond TV shows and films, is planning an expansion into video games and has hired a former Electronic Arts Inc. and Facebook Inc. executive to lead the effort.

Intel Corp. is exploring a deal to acquire semiconductor manufacturer GlobalFoundries Inc., the Wall Street Journal reported. Closely held GlobalFoundries, controlled by Abu Dhabi's sovereign fund Mubadala Investment Co., could be valued at about \$30 billion, the Journal reported.

A gauge of New York state manufacturing in July advanced to a record high, reflecting the strongest orders and shipments in 17 years, while a measure of selling prices advanced to an unprecedented level.

Morgan Stanley bankers cashed in on last quarter's hectic period for deal making, helping the firm post its second-most profitable quarter on record and weather a steep decline in trading. Investment banking hauled in \$2.38 billion in revenue, according to a statement Thursday, vaulting past analysts' estimates of \$2.08 billion. Fixed-income trading revenue tumbled 45% from last year's pandemic-driven surge.

M.L.B. postponed a game with the Boston Red Sox because three Yankees pitchers had tested positive for the coronavirus. The three — Nestor Cortes Jr., Jonathan Loaisiga and Wandy Peralta — are all vaccinated.

Zoom Video Communications Inc., whose online conferencing services took off during the Covid-19 pandemic, agreed to acquire Five9 Inc. for \$14.7 billion, using its surging stock to expand into an adjacent market that could bolster revenue as lockdowns end.

IBM reported its biggest increase in revenue in three years on the back of strong cloud-computing demand, beating analysts' estimates and signaling Chief Executive Officer Arvind Krishna's pivot to the fast-growing market is starting to pay off. Sales rose 3.4% to \$18.7 billion for the three months ending June 30.

Nasdaq Inc. is teaming up with a group of banks including Goldman Sachs Group Inc. and Morgan Stanley to spin out its marketplace for shares of private companies. The deal could help drive more transactions to Nasdaq Private Market, the New York-based exchange operator's trading platform for shares of companies that haven't yet had an initial public offering.

U.S. housing starts increased by more than forecast, suggesting residential construction is stabilizing despite lingering supply-chain constraints and labor shortages. Initial home construction rose 6.3% last month to a 1.64 million annualized rate, a three-month-high, according to government data released.

Johnson & Johnson raised its annual adjusted earnings and revenue forecast as quarterly sales rebounded strongly from a year ago, when the pandemic stifled non-Covid procedures. The health-care giant boosted its profit forecast to \$9.60 to \$9.70 a share, up from as much as \$9.57, helped by the performance of its drug and medical-device units and sales of Covid-19 shots. The company also raised its revenue outlook to as much as \$94.6 billion from an earlier range that topped out at \$91.6 billion.

Coca-Cola Co.'s sales beat expectations in the second quarter and the soda maker raised its revenue forecast for the year as it saw a significant bounce back in its business, a stark contrast to the pandemic-related lockdowns that diminished sales last year. Coke's organic revenue, which excludes the impact of currency or acquisitions, climbed 37% in the quarter ended July 2.

Biden administration officials say they're starting to see signs of relief for the global semiconductor supply shortage, including commitments from manufacturers to make more automotive-grade chips for car companies that have had to idle production.

AT&T Inc. exceeded Wall Street profit estimates while adding wireless customers and continuing growth in subscribers to its HBO Max video service, relieving concerns about the costs for new entertainment productions and the expansion of its 5G network. Second-quarter earnings were 89 cents a share on \$44 billion in revenue, topping estimates of 80 cents on \$42.8 billion.

Biogen Inc. edged up its revenue guidance for the year as its highly controversial Alzheimer's drug Aduhelm gained its first partial quarter of sales. Biogen raised its 2021 revenue forecast to a range of \$10.65 billion to \$10.85 billion. Its earlier forecast was for \$10.45 billion to \$10.75 billion.

American Airlines Group Inc. sounded a more cautious note than rivals about the third quarter, saying it expected a pretax loss despite a travel rebound. Pretax margins will be minus 3% to minus 7% in the period excluding special items, the carrier said in a statement.

The housing data continued to be constructive as sales of previously owned U.S. homes rose for the first time in five months as housing inventory improved slightly, illustrating the strength of housing demand. The improvement in sales suggests underlying demand for homes remains robust despite surging prices and still-lean inventory that have curbed sales in recent months. The median selling price was up 23.4% from a year earlier to a record \$363,300 last month, reflecting in part increased sales of higher-end properties.

Twitter Inc. and Snap Inc. blew past analyst estimates for second-quarter results, as companies continue to pour money into digital advertising. Snap's second-quarter sales more than doubled to \$982.1 million, while Twitter forecast revenue from \$1.22 billion to \$1.3 billion, higher than expectations.

American Express reported second-quarter net income of \$2.3 billion, or \$2.80 per share, compared with net income of \$257 million, or \$0.29 per share, a year ago. The results reflected the impact of \$866 million (\$658 million after tax) in credit reserve releases, primarily driven by the company's strong credit performance and continued improvements in the macroeconomic outlook.

Tesla reported better-than-expected earnings as record sales of its electric vehicles fattened margins and carried the company to a first \$1 billion quarter of net income in its 18-year history.

UPS is bolstering profit by combining efficiency gains with a torrent of package-delivery demand fueled by soaring e-commerce. Adjusted operating profit rose to 14% of sales in the second quarter, UPS said in a statement.

Microsoft reported sales and profit that exceeded analysts' estimates for a 10th straight quarter, sending shares higher after some investors were initially spooked by signs of slowing growth in the software giant's Azure cloud-computing business. Sales in the fourth quarter, which ended June 30, climbed 21% to \$46.2 billion. Net income rose to \$16.5 billion, or \$2.17 a share, while analysts had predicted \$1.92. Microsoft's market value now tops \$2 trillion.

Apple reported record third-quarter revenue on demand for iPhones, iPads and services, bolstered by retail stores reopening globally and consumers embracing new 5G networks. Sales grew 36% to \$81.4 billion from a year earlier.

Google parent Alphabet Inc. reported quarterly sales that topped Wall Street estimates, driven by robust digital ad spending from marketer's eager to get consumers buying again during an uneven pandemic reopening. Second-quarter revenue, excluding payments to distribution partners, was about \$51 billion, the Mountain View, California-based company said. Analysts projected \$46.1 billion, according to data compiled by Bloomberg. Profit was \$27.26 a share, topping the average estimate of \$19.35.

Facebook Inc. reported higher second-quarter sales and profit but struck a cautious tone looking ahead, saying growth could stall as Apple Inc.'s new rules pinch data collection on mobile devices and as pandemic-fueled advertising gains subside. The warning came as the company reported quarterly sales climbed 56% to \$29.1 billion, compared with the \$27.9 billion average estimate of analysts.

Ford Motor Co. overcame a critical parts shortage and managed to post a surprise profit in the second quarter, thanks to surging prices on models that have become harder to find on dealer lots. The automaker also raised its full-year forecast for adjusted earnings to a range of \$9 billion to \$10 billion before interest and taxes. That's an increase of about \$3.5 billion from its previous projection and at least triple what it made last year.

The U.S. economy grew by 6.5% in the second quarter of 2021 marking the start of the current business cycle and the return to an above pre-pandemic level of overall economic activity. The 6.5% of growth is the second best quarter of growth since 1983.

Amazon's results were disappointing after the bell on Thursday as the retail giant reported sales and gave a forecast that fell short of expectations. Investors overlooked better-than-predicted profits and a strong performance in the company's advertising and cloud units, and focused instead on slowing growth in the core e-commerce business. Revenue will be \$106 billion to \$112 billion in the period ending in September, Amazon said. Operating profit will be \$2.5 billion to \$6 billion. Analysts, on average, projected \$8.11 billion in profit on sales of \$118.7 billion.

The second quarter earnings season has been nothing short of spectacular. Over 300 S&P 500 companies have posted results so far, and of those, 91% beat EPS estimates on +86.31% from 2Q20. On the revenue line 88% topped estimates on +24.43% growth.

The U.S. Senate is heading toward passage this week of a \$550 billion infrastructure bill that would provide the biggest infusion of federal spending on public works in decades and mark a major milestone for President Joe Biden's economic agenda. The Democratic and Republican senators who negotiated the plan spent the weekend haggling over last-minute details and combing through the 2,702-page bill text before submitting it to the full Senate. It includes about \$110 billion in new spending for roads and bridges, \$73 billion of power grid upgrades, \$66 billion for rail and Amtrak, and \$65 billion for broadband expansion. It also provides \$55 billion for clean drinking water and \$39 billion for transit.

Square Inc. agreed to buy Australian buy-now, pay-later company Afterpay Ltd. for \$29 billion in its largest-ever acquisition.

We continue to recommend a diversified equity allocation with a barbell approach that has Growth exposure on one end, and Economically Sensitive Cyclical exposure on the other end. We would prefer to see the growth exposure expressed in three thematic ways: 5G; Security software; and Cloud computing. On the cyclical side we would look for exposure to Financials; Industrials; Materials; and Energy. We would suggest rebalancing the equity allocation every two months to keep the barbell level.

Our year-end target for the S&P 500 is 4400, which represents 18.5% 12-month return, and is based on a 23 multiple of the \$192 earnings we see for the large cap index over the calendar year.

**Information sourced from Art Hogan's Morning Commentary, Chief Market Strategist at National Securities. Contact us at 732-807-2340 for more details or to read Art Hogan's full Morning Commentary on a particular topic mentioned.*

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