MORNING BRIEFING
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Semis, Ag & FinTech

Check out the accompanying chart collection.

Executive Summary: The semiconductor industry appears to be entering a heyday, with sales rising on m/m and q/q bases, though not yet y/y. Analysts' estimates have been rising, managements have been upbeat, and investors have bid up the S&P 500 Semiconductor industry's share price index by 79% ytd. Everyone's enthused about the potential impact of the AI revolution on chip demand. … At the other end of the spectrum, meat processors such as Tyson Foods are down on their luck, Jackie reports. … And: Traditional banks are getting a run for their money from forays into fintech by Apple, Walmart, and other heavyweights.

Technology: Semis on the Rise. Investors have decided that the semiconductor industry's cycle has bottomed, and things are looking up. The S&P 500 Semiconductor industry's stock price index has risen an astounding 79.1% ytd through Tuesday's close (*Fig. 1*). It's sitting 4.6% below its August 1 record high and 6.6% above its previous high in November 2021. The Semiconductor Industry Association's most recent sales data confirm the notion that a turn has arrived, as did commentary from Skyworks Solutions executives during the company's June-quarter (its fiscal Q3) earnings conference call. I asked Jackie to take a look at what each had to say:

(1) *Industry data improves.* Global semiconductor sales are still down sharply compared to last year, but they've been improving on a sequential-quarter basis, giving investors hope that the cycle's bottom is behind us. Q2 global semi sales fell 17.3% y/y in June according to an August 4 Semiconductor Industry Association (SIA) press release. The Q2 y/y sales declines were broad based, in all the major regions except Europe: Europe (7.6%), Japan (-3.5), Americas (-17.9), Asia Pacific (-20.4), and China (-24.4).

However, on a q/q basis, global semi sales increased 4.7% in Q2 compared to Q1 sales. June marked the fourth consecutive month that the industry's revenue has increased m/m (*Fig. 2*). The m/m sales gains, based on a three-month moving average, also were broad based geographically, with June sales rising over May levels by 4.2% in the Americas, 3.2% in China, 0.9% in Japan, and 0.1% in Europe. The only region in which m/m sales fell in June was Asia Pacific/All Other, -0.5% m/m.

The upward turn in semiconductor sales is confirming the jump in the S&P 500 Semiconductors industry's forward earnings estimates, which have been climbing since mid-February (*Fig. 3*). Likewise, the industrial production of semiconductor and other electronic components has risen for the last five months, by 9.3%, after dropping 7.0% from a recent high during February 2022 through this January (*Fig. 4*).

(2) *Skyworks sees blue skies.* Skyworks executives' optimism about the future countered the y/y and q/q sales declines that the company reported last quarter: Revenue of $1.1 billion was down 13.1% y/y and down 7.1% q/q. The inventory correction continues at Android original equipment manufacturers and at Skyworks itself, noted CEO Liam Griffin in the company's quarterly *conference call*. The company aims to reduce its inventory to $1.0 billion or slightly below that, down from $1.2 billion last quarter—a process that will take a couple more quarters.

Nonetheless, Griffin expects double-digit sequential-quarter revenue and earnings growth in the current quarter. Specifically, the company expects its fiscal Q4 (ending September) revenue to increase 13% sequentially (using the midpoint of the company's expected revenue range) and its fiscal Q4 earnings to increase 21% sequentially to $2.10 per share—still far below the year-earlier $3.02 a share. In a display of confidence, Skyworks recently boosted its quarterly dividend 10% to $0.68 a share.

Next quarter's results should be bolstered by Apple's expected introduction of a new phone this fall. Longer term, several trends should support the company's sales. Griffin believes that artificial intelligence (AI) will spark "exponential growth in the amount of data accessed from the network edge to the cloud. In turn this will further drive complexity in wireless infrastructure network, as AI will require higher throughput, more secure connections, lower latency, and improved power management." Consumers' switch to electric vehicles, the expansion of the Internet of Things, and the emergence of augmented and virtual reality also should boost demand for the company's products.

(3) *Semi stats*. Analysts are expecting earnings for the S&P 500 Semiconductor industry to fall 15.3% this year but rebound sharply in 2024, by 32.3% (*Fig. 5*). The net earnings revisions data that Joe tracks for the industry have yet to turn positive but have been improving. The industry's forward P/E has jumped to 27.7 as of August 3 from 13.7 on June 20, 2022, as share prices have soared in anticipation of an earnings recovery (*Fig. 6*). Enthusiasm about AI and its impact on chip demand likewise have boosted some chip makers' valuations. We wouldn't be surprised if the industry's stock price index moved sideways for a while after its recent ascent, allowing the industry's P/E to decline as

earnings improve.

Consumer Staples: Life's Tough on the Farm. Tyson Foods posted disappointing results for its third fiscal quarter ended June. Revenue was down 3% y/y, and adjusted operating income fell 82% y/y to $179 million. The company faced headwinds in each of its poultry and meat categories—chicken, beef, and pork—for varying reasons:

(1) *Where's the beef?* Revenue from beef sales was flat last quarter y/y, but adjusted operating profit in the segment dropped to $79 million from $506 million a year earlier because the price of cattle has risen sharply. The number of US cows being raised for their beef has fallen to the lowest level since at least 1971, when records began, and the futures price for live cattle has risen 30% over the past year and 47% over the past two years (*Fig. 7*).

Normally, we'd expect ranchers to respond to high cow prices by increasing the number of cows they raise. This time, that may be trickier, as herd size is being affected by changes in weather patterns and herd counts may remain lower for longer. "Ranchers have increasingly sent cows to slaughter as dry weather reduced the amount of pasture available for grazing," a July 21 Reuters *article* reported. Tyson doesn't expect relief anytime soon.

(2) *Dropping pork & chicken prices.* The pork market has suffered from excess supply and falling demand from consumers at home and in China. In Tyson's pork division, that has translated into a decline in both volume and average price, leading to an adjusted operating loss of $70 million last quarter compared to an adjusted operating profit of $25 million a year earlier.

Revenue in the chicken segment declined last quarter due to lower prices for processed chicken. Higher feed costs further darkened the picture, boosting expenses and leading to an adjusted operating loss of $63 million compared to the $269 million of profits the segment enjoyed in the same quarter last year. Tyson may get some relief on feed prices, as recent rains have resulted in a bumper corn crop in the US, sending the price of corn down 28% ytd (*Fig. 8*).

While tough times are expected to continue in the current quarter, Tyson executives noted the company's improvement on a q/q basis. Tyson reported a loss of four cents a share in its fiscal Q2 (ended March) compared to the 15 cents a share it earned last quarter. Tyson has closed some of its chicken processing plants and increased the automation in remaining plants to improve utilization and profitability. The processors' shares have fallen

11.6% ytd through Tuesday's close compared to the S&P 500's 17.2% gain. Since they peaked in February 2022, Tyson shares have fallen by 41.0%, dramatically underperforming the S&P 500's 2.5% gain.

(3) *Industry data.* Tyson is a member of the S&P 500 Packaged Foods & Meats stock price index, which is near an all-time high (*Fig. 9*). The industry is dominated by food companies including Hershey, Kellogg, and J.M. Smucker. After raising prices and enjoying strong revenue growth in recent years—6.0% in 2021 and 8.4% in 2022—the industry's top-line growth is forecast to slow to 4.8% this year and 2.7% in 2024 (*Fig. 10*). Profits have grown more slowly than revenue—4.7% in 2021 and 4.0% in 2022—and they're expected to decline 6.3% this year and rebound 9.6% in 2024 (*Fig. 11*). The industry's forward P/E has risen from a low of 13.9 in 2018 to 18.3, not far from its recent peak of 20.0 on May 11.

Disruptive Technology: Fintech's Drumbeat Grows Louder. Fintech companies have started to grow up. They might not be large enough to keep JP Morgan Chase CEO Jamie Dimon awake at night—yet. But they're offering competitive interest rates on a fast-growing pile of deposits, which make them a competitive threat to smaller banks and perhaps even to regional players.

Apple *announced* earlier this month that its online savings account had accumulated more than $10 billion in deposits *in less than four months!*

To put that in perspective, if Apple were a bank, its deposit base would be the 141st largest in the US. That's according to a January 23 *blog post* listing financial institutions by deposit size as of year-end 2022, courtesy of MX Technologies, a tech company catering to the financial industry. Again, that's not likely to worry JP Morgan or Bank of America, ranked number one and two on MX's list with roughly $2.0 trillion of deposits each. But deposit sizes drop pretty quickly as the institutions on the list get smaller: Ranked 10th was TD Bank ($329.7 billion of deposits at year-end), 20th was the now-defunct Silicon Valley Bank ($161.5 billion), and 30th was Discover Bank ($94.9 billion). At the rate Apple has been growing deposits, it won't take long before it's among these top 30.

Let's take a look at what Apple and other players in the dynamic fintech space—Walmart, SoFi, Bread, and Chime—have been up to:

(1) *Apple taking a bite.* Apple has a way of making things easy. Its Wallet app comes already installed on the iPhone. It started small, asking customers to load information from other credit cards onto the app. Then in 2019, Apple started offering its own credit card, the

Apple Card, which is provided by Goldman Sachs. Apple initially had the cash back from credit card purchases loaded onto the Apple Cash Card, which was issued by Green Dot Bank. (Green Dot boasts FDIC insurance and $3.7 billion of deposits.)

Now consumers have another option. They can deposit the cash earned on credit card purchases into an Apple savings account, which is also provided by the FDIC-insured Goldman Sachs Bank, a division of The Goldman Sachs Group. The savings account has no annual fees, no minimum balances, and pays a 4.15% interest rate. Consumers can opt to deposit additional funds into the account from other banks.

The Goldman Sachs Group had $148.3 billion of consumer deposits as of June 30 that came from Apple and Marcus, its retail banking arm. The MX blog ranking includes deposits from other arms of Goldman, which when taken together totaled $352.0 billion at year-end and placed the firm in 9th place. Despite the fast deposit growth, Goldman has indicated that it wants out of retail banking and is in talks to sell the Apple credit card and high-yield savings account business to American Express, according to a June 30 CNBC *article*. While the division grew its revenue over the past two years, it failed to turn a profit.

(2) *Walmart jumps in too.* Walmart offers One, a debit card and savings account provided by Coastal Community Bank. The bank is part of Coastal Financial Corporation, which had $3.2 billion of deposits as of June 30. About half of the deposits comes from its online banking services arm, and the other half comes from a traditional brick-and-mortar community bank.

Walmart also offers credit cards through Capital One and the Walmart MoneyCard, another debit card provided by Green Dot. Walmart has sued in an attempt to break its contract with Capital One. The company has said it's doing so because Capital One has failed to deliver on its customer care responsibilities. But there's speculation that the retailer would much prefer to issue its own credit cards under the One brand.

(3) *Online-only banks in the mix.* Bread Financial offers its banking services online, including a high-yield savings account boasting a 5% interest rate. The firm also provides private-label credit cards to more than 50 million individuals on behalf of retailers, like BJs and Wayfair. The company owns Comenity Capital Bank, which has $9.2 billion in deposits, placing it 148th on the MX list of deposits.

SoFi also offers its financial services online, sometimes on its own and sometimes through partnerships with other financial institutions. SoFi Bank, which is FDIC insured, had $12.7

billion of deposits at the end of Q2, 98% of which were insured. That's up from $7.3 billion at year-end, when the firm ranked 176 on the MX list. Today, its online savings account offers a 4.5% annual yield.

Other financial services SoFi offers include cyber insurance through Blink by Chubb, auto insurance from Gabi, life insurance from Ladder, and homeowners' and renters' insurance by Lemonade. Personal, student, and auto loans as well as credit cards and small business loans are provided by the Bank of Missouri.

Chime's checking and savings accounts are offered through The Bancorp Bank or Stride Bank, both FDIC members. Bancorp Bank had $7.1 billion of deposits at year-end, putting it in 182nd place on the MX list.

For more on fintech's charge into banking, consider reading earlier Morning Briefings dated *May 18, 2023*, *May 19, 2022*, and *March 11, 2021*.

Calendars

US: Thurs: Headline & Core CPI 0.2%m/m/3.3%y/y & 0.2%m/m/4.7%y/y; Initial & Continuous Claims 230k/1.695m; Real Earnings -0.1%; Federal Budget Balance -$92.5b; Natural Gas Storage; Fed's Balance Sheet; Harker; OPEC Monthly Report. **Fri:** Headline & Core PPI 0.2%m/m/0.7%y/y & 0.2%m/m/2.3%y;y; Consumer Sentiment Index Total, Current Conditions, and Expectations 71.0/76.8/68.0; University of Michigan 1-Year & 5-Year Expected Inflation 3.8%/3.0%; Baker-Hughes Rig Count; WASDE Report; IEA Monthly Report. (Bloomberg estimates)

Global: Thurs: Italy CPI 0.1%m/m/6.0%y/y; ECB Bulletin. **Fri:** Eurozone CPI; France Unemployment Rate 7.1%; UK GDP 0.2%m/m/0.0%q/q/0.2%y/y; UK Headline & Manufacturing Industrial Production 0.0%m/m/-1.1%y/y & 0.2%m/m/0.3%y/y; UK Trade Balance -6.38b. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* moved back below 3.00 this week, to 2.69, from 3.07 last week, which was the highest since early August 2021. It's

been bouncing around 3.00 the past six weeks. *Bullish* sentiment retreated to 52.2% this week after climbing the prior three weeks by 5.7ppts (from 51.4% to 57.1%)—which was the most bulls since November 2021 when it reached a danger level of 57.2%. Meanwhile, *bearish* sentiment climbed to 19.4% this week, after falling from 19.4% to 18.6% last week. It was at 18.0% three weeks ago. The *correction count* rebounded to 28.4% this week, after falling 6.2ppts the prior three weeks (from 30.5% to 24.3%)—which was the lowest since the start of this year. Turning to the *AAII Sentiment Survey* (as of August 3), optimism rose this week, remaining above average for the ninth successive week, while both bearish and neutral sentiment declined. The *percentage expecting stock prices to rise over the next six months* climbed 4.1ppts during the latest week, to 49.0%, after sinking 6.5ppts the prior week to 44.9%. Optimism is above its historical average of 37.5% for the ninth consecutive week—the longest above-average string since a 13-week stretch from February to May 2021. Optimism is unusually high for the second time in three weeks. The *percentage expecting stocks to fall over the next six months* fell 2.8ppts to 21.3% after rising 2.6ppts the prior week to 24.1%. That puts it below its historical average of 31.0% for the ninth straight week—the longest below-average streak since a 23-week one from February to July 2021. The report noted that "pessimism is right on the cusp of being unusually low." The *percentage expecting stock prices will stay essentially unchanged over the next six months* dropped 1.3ppts to 29.7% after increasing 3.8ppts to 31.0% the prior. It was below its historical average of 31.5% for the seventh time in 12 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin rose 0.1ppt w/w to a 28-week high of 12.5% during the August 3 week. That's up from a 24-month low of 12.3% during the March 30 week, but down 0.9pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.2pts above its seven-year low of 10.3% during April 2020. Forward revenues jumped 0.5% w/w to a new record high. Forward earnings surged 1.2% higher w/w to its highest level since early October, and is only 1.8% below its record high during the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth rose 0.3ppt w/w to a nine-month high of 3.9% and is now up 1.6pts from its 33-month low of 2.3% during the February 23 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth jumped 1.0pts higher w/w to a 13-month high of 8.8% and is now 5.3pts above its 31-month low of 3.5% in mid-February. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 1.9% in 2023

(up 0.2 ppt w/w) and 4.7% in 2024 (unchanged w/w) compared to a revenues gain of 12.3% in 2022. They expect an earnings gain of 0.1% in 2023 (up 0.6ppt w/w) and an 11.8% rise in 2024 (down 0.4ppt w/w) compared to an earnings gain of 7.1% in 2022. Analysts expect the profit margin to drop 0.3ppt y/y to 11.9% in 2023 (unchanged w/w), compared to 12.2% in 2022, and to rise 0.8ppt y/y to 12.7% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E fell 0.5pt w/w to 19.3 and is down from a 17-month high of 19.8 during the July 20 week. That's still up from a 30-month low of 15.3 in mid-October. It also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio was down 0.04pt w/w to 2.42 from a 15-month high of 2.46. That's up from a 31-month low of 1.98 in mid-October and down from a four-month high of 2.38 in mid-August; it also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Looking at the 11 S&P 500 sectors, the July 27 week saw consensus forward revenues rise for all but the Health Care, Tech, and Real Estate sectors. Forward earnings and the forward profit margin rose for all but the Tech sector. Four sectors have forward revenues at post-pandemic highs this week: Consumer Staples, Health Care, Industrials, and Utilities. Among the remaining nine sectors, only Energy and Financials have forward revenues more than 5.0% below their post-pandemic highs. These four sectors have forward earnings at post-pandemic or record highs this week: Communication Services, Consumer Staples, Industrials, and Utilities. Among the remaining seven sectors, four are down less than 5.0% from their post-pandemic highs, and these three have forward earnings down more than 10.0% from their post-pandemic highs: Energy, Financials, and Materials. Since mid-August 2022, all but the Industrials sector have seen forward profit margins retreat from their record highs, but six of the 11 sectors are showing signs of recovering from their lows in early 2023. Industrials' forward profit margin is at a record high again this week, but Health Care is at a record low. Those of Communication Services, Consumer Discretionary, Financials, Real Estate, and Tech remain close to their post-pandemic highs. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022, and these five sectors are expected to see them improve y/y in 2023: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Here's how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.3%, down from its 25.4% record high in June 2022), Financials (18.3, down from its 19.8 record high in August 2021), Real Estate (17.5, down from its 19.2 record high in 2016), Communication Services (16.3, down from its 17.0 record high in October 2021), Utilities (13.1, down from its 14.8 record high in April 2021), S&P 500 (12.5, down from its

record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.0, down from its 12.8 record high in November), Materials (11.1, down from its 13.6 record high in June 2022), Industrials (10.8, record high this week), Health Care (9.3, record low this week and down from its 11.5 record high in February 2022), Consumer Discretionary (7.8, down from its 8.3 record high in 2018), and Consumer Staples (6.8, record low this week and down from its 7.7 record high in June 2020).

S&P 500 Sectors & Industries Forward Profit Margin Since March 30 Bottom (*link*): The S&P 500's forward profit margin rose 0.1ppt w/w to a 28-week high of 12.5% as of the August 3, 2023 week. It's now up 0.2ppt from a two-year low of 12.3% during the March 30 week. Seven of the 11 sectors' margins have improved since then, with the S&P 500's gain paced by five sectors. It's still down 6.8%, or 0.9ppt, from its record-high 13.4% during the June 9, 2022 week, as eight of the 11 sectors' margins are down since then, with the S&P 500's drop paced by four of the 11 sectors. Here's the sector performance since the S&P 500's forward profit margin bottom on March 30: Communication Services (up 12.4% to 16.3%), Consumer Discretionary (up 7.1% to 7.8%), Real Estate (up 5.2% to 17.5%), Industrials (up 5.0% to 10.8%), Information Technology (up 4.4% to 24.3%), S&P 500 (up 2.0% to 12.5%), Consumer Staples (up 1.1% to 6.8%), Materials (up 0.2% to 11.1%), Financials (down 0.5% to 18.3%), Utilities (down 0.6% to 13.1%), Health Care (down 3.2% to 9.3%), and Energy (down 6.2% to 11.0%). These are the best performing industries since the March 30, 2023 bottom: Casinos & Gaming (up 95.6% to 7.5%), Publishing (up 28.2% to 3.1%), Passenger Airlines (up 23.1% to 6.5%), Homebuilding (up 19.1% to 12.7%), Wireless Telecommunication Services (up 19.1% to 13.7%), Interactive Media & Services (up 16.2% to 23.1%), Multi-Sector Holdings (up 15.9% to 10.7%), Brewers (up 13.7% to 9.0%), Hotels, Resorts, & Cruise Lines (up 13.6% to 13.0%), and Oil & Gas Storage & Transportation (up 13.2% to 12.2%).

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