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Investors Look Past Shaky Earnings Reports --- S&P 500 has gained nearly 5% in July as companies withstand soft quarterly results

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Corrections & Amplifications

A chart with a Page One article on Monday about the U.S. stock market showed July 1-22 performance for the Nasdaq Composite and S&P 500. The chart was incorrectly labeled as index performance month to date, which implies that data were calculated from June 30's close.

(WSJ July 26, 2022)

(END)

Disappointing earnings reports from several big companies don't seem to be fazing investors, with the S&P 500 up nearly 5% this month, and 2.5% last week, after a punishing start to the year.

Even some companies that have posted sharply lower quarterly results have seen their shares rally in the following days. Bank of America Corp. posted a slimmer-than-expected profit last week, yet its shares finished the session little changed and jumped 3.4% the subsequent day. Netflix Inc. said it lost nearly a million subscribers, and its stock jumped 7.3% in the next session. Tesla Inc. snapped its streak of record quarterly profits, yet its shares rallied 9.8% the following day. All three stocks have underperformed the broader market this year.

So far this reporting season, shares of companies in the S&P 500 that have missed Wall Street's earnings expectations have slipped 0.1% on average in the two days before their report through the two days after, according to FactSet. That compares with the five-year average of a 2.4% decline.

With inflation at a four-decade high and the Federal Reserve in the midst of an aggressive campaign to raise interest rates to rein in rising prices, many investors say they had braced for a messy quarter. Companies across industries have pointed to higher input costs and waning consumer demand.

"It just hasn't been the train wreck that I think investors were predicting," said Sandy Villere, portfolio manager at Villere & Co. "Sentiment was pretty negative going into earnings."

Still, few investors are willing to call a bottom to a selloff that has dragged the S&P 500 down 17% in 2022, and many are predicting more volatility for the rest of the year.

In the week ahead, investors will be watching the Fed's highly anticipated policy meeting -- where another 0.75-percentage-point rate increase is expected -- and the initial reading on second-quarter gross domestic product. Earnings season also ramps up with reports from Apple Inc., Amazon.com Inc. and Exxon Mobil Corp., among others.

Better-than-feared reports from companies such as Netflix and Tesla have given investors greater confidence to scoop up shares of beaten-down growth stocks. The consumer discretionary and information **technology** sectors are leading the way in the S&P 500 this month after lagging behind the broader market for most of the year.

Netflix shares rose 17% last week, its best weekly performance since January 2018, while Tesla added 13%. The **technology**-focused Nasdaq Composite, which has fallen 24% this year, is up 7.3% in July -- on course for its best month since November 2020.

"We're starting to see some of that selling subsiding," said Leslie Thompson, chief investment officer of Spectrum Wealth Management, who said she has been adding exposure to tech and consumer discretionary sectors. "Some of that cyclical growth actually looks attractive to me right now."

Bank of America's global fund manager survey for July, which was released last week, showed investor pessimism at a "dire level" and the market mood as "max bearish." Such bleak sentiment is often a contrarian signal that suggests stocks could rally in coming weeks, the bank's analysts said.

Earnings season is still in its early innings, with about a fifth of companies in the S&P 500 having reported results. About 70% have topped consensus estimates, and 26% have missed projections, according to FactSet.

Analysts have cut their profit estimates in recent months, but many investors say the projections are still too sunny. In all, earnings for the second quarter are expected to rise 4.8% based on a blend of actual results and projections. If that figure holds, it would mark the slowest growth since the fourth quarter of 2020. For the year, profits are projected to climb 9.8%.

"Consensus estimates are still too high, but the market had already discounted in many companies the expected decline in earnings," said Kent Insley, chief investment officer of Tiedemann Advisors.

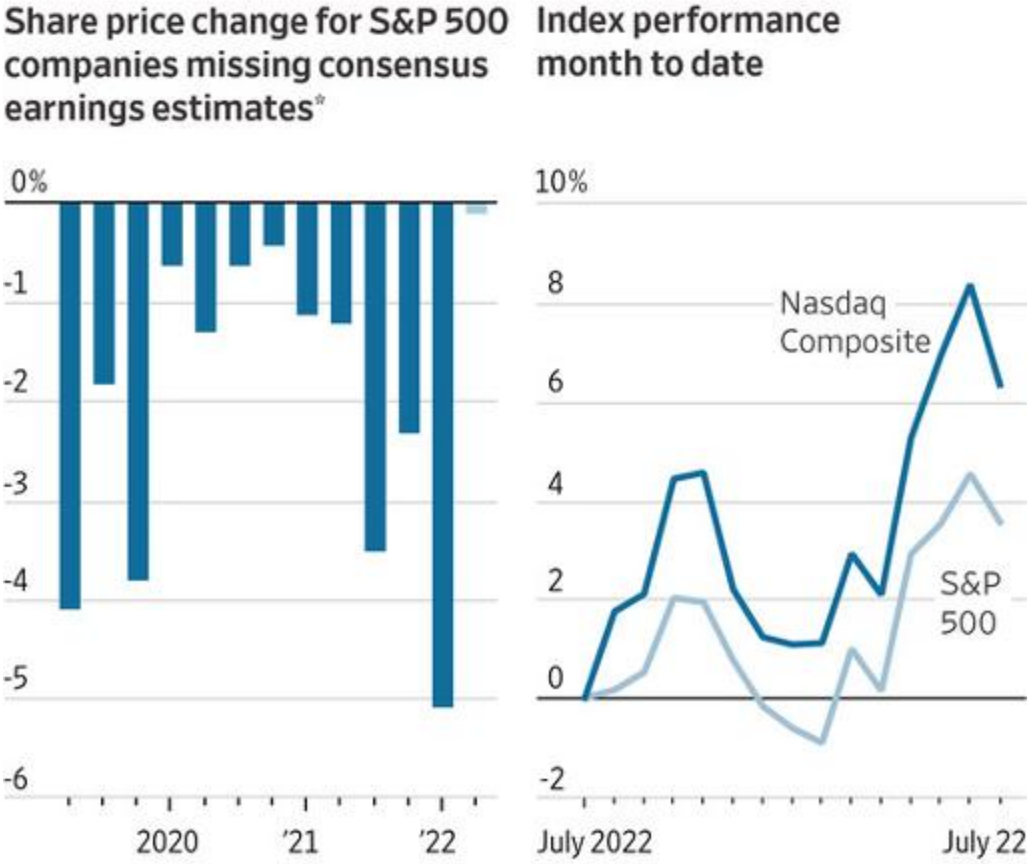
Valuations have slumped since at the start of the year as well. The S&P 500 is trading at 16.9 times expected earnings over the next 12 months, down from roughly 21 times earnings at the end of 2021.

And, of course, plenty of companies have seen their shares fall in the wake of reporting weak results.

Shares of American Airlines Inc. and United Airlines Holdings Inc. dropped 7.4% and 10%, respectively, Thursday after the companies said they are reining in their schedules for at least the rest of this year to focus on reliability. Snap Inc. on Thursday posted its weakest-ever quarterly sales growth as a public company, sending shares tumbling 39% Friday.

As always, investors are also paying particularly close attention to commentary from management about how companies are navigating the second half.

"The next few quarters are going to be more representative of the slow growth, persistent inflation environment," Mr. Insley said.



*Two days before earnings release through two days after. As of market close July 22, 2022
Sources: FactSet

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The New York Times

Business/Financial Desk; SECTB
The Digest

By Stacy Cowley, Erin Griffith and The Associated Press
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REGULATION

Bank of America Fined$225 Million Over Aid

Two federal regulators fined Bank of America $225 million on Thursday for mishandling prepaid debit card accounts used by a dozen states to distribute unemployment benefits during the pandemic, and the bank must compensate people for damages, an amount likely to total hundreds of millions more, federal officials said.

Because of a faulty **fraud detection** program, Bank of America improperly froze accounts and stymied customers who sought to have them unlocked, cutting people off from desperately needed funds in 2020 and 2021, the Consumer Financial Protection Bureau said.

Bank of America said the problems had stemmed from state systems besieged with fraudulent claims.

The pandemic ''created unprecedented criminal activity where illegal applicants were able to get states to approve tens of billions of dollars in payments,'' said Bill Halldin, a bank spokesman. STACY COWLEY

COMPANIES

Payments Start-Up StripeLowers Valuation 28%

Stripe, a payments start-up that has been one of the most valuable privately held tech companies in Silicon Valley, has lowered its internal valuation 28 percent, according to a person with knowledge of the situation, in another sign of how the fluctuating stock market and economic uncertainty are affecting private companies.

Investors had valued Stripe at $95 billion last year. The new internal share price, which does not affect shares owned by external investors, puts it at $74 billion, said the person, who spoke on condition of anonymity because the information was private.

The Wall Street Journal first reported on the news of Stripe lowering its internal valuation.

Shares of tech companies like Meta, Netflix and Coinbase began tumbling this spring as rising inflation and interest rates created uncertainty over their ability to keep growing as quickly as they have been. The sell-off has prompted private start-ups to evaluate whether their soaring valuations over the last two years will hold up. ERIN GRIFFITH

ECONOMY

Wholesale Inflation Jumps11.3% Over a Year Earlier

Inflation at the wholesale level climbed 11.3 percent in June compared with a year earlier, the latest reminder that inflation is running hot through the economy.

The Labor Department reported Thursday that the U.S. producer price index -- which measures inflation before it hits consumers -- rose at the fastest pace since hitting a record 11.6 percent in March.

Last month's jump in wholesale inflation was led by energy prices, which soared 54 percent from a year earlier. But even excluding food and energy prices, which can swing wildly from month to month, producer prices in June jumped 8.2 percent from June 2021. On a month-to-month basis, wholesale inflation rose 1.1 percent from May to June.

The wholesale prices report came a day after the Labor Department reported that surging prices for gas, food and rent catapulted inflation to a four-decade peak. ASSOCIATED PRESS

(PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS)

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