

This Week in Review

Good Afternoon! US equities finished higher last week after the Dow, S&P and Nasdaq all saw their three-week winning streaks snapped last week and the Russell came under pressure for a third straight week. **Growth** (IVW +3.0%) continued to outperform **value** (IVE +0.9%). This week is a monster for earnings, with Apple, Amazon, Alphabet, Microsoft and Facebook all reporting, plus a Federal Reserve meeting adding even more to the mix. Have a great week! – **Regards, SFG**

Outperforming Sectors:

- **Communications Svcs.** +3.24%, **Consumer Disc.** +2.85%, **Tech** +2.77%, **Healthcare** +2.18%

Underperforming Sectors:

- **Utilities** (0.87%), **Energy** (0.39%), **REITs** (0.07%), **Financials** +0.33%, **Consumer Spls.** +0.44%, **Materials** +0.80%, **Industrials** +1.62%

Other Asset Classes:

- **Treasuries** were mostly firmer with 10-year yields down 2 bp to end the week at ~1.28%. The **dollar index** was up 0.2%. **Gold** lost 0.4%, snapping a four-week winning streak. **WTI crude** gained 0.7%.

Weekly Highlights:

- Stocks sold off sharply on Monday with an increase in coronavirus infections from the spread of the **Delta variant the go-to excuse**. The traction behind the peak growth, peak profit and peak policy themes also continued to be flagged as an overhang on risk sentiment, particularly in the face of stretched valuation, sentiment, and positioning indicators.
- However, the longstanding buy-the-dip mantra was quickly embraced, underpinned by a largely intact **bullish narrative that revolves around easy financial conditions, central bank liquidity tailwind, excess savings from fiscal stimulus, pent-up demand, positive earnings surprises, elevated operating leverage, corporate buyback boom and strong retail impulse**.
- Corporate commentary on **Q2 earnings calls also highlighted a strong demand backdrop** and while input cost pressures continued to receive outsized attention, price increases, cost savings and productivity measures also continued to be cited as cushions.
- The path to additional fiscal stimulus looked a bit less complicated this week though there did seem to be some **increased headline risk surrounding the debt ceiling**.
- It was a quiet week on the monetary policy front ahead of a Fed meeting next week that is not expected to offer anything particularly incremental on tapering timing. However, there were **some dovish takeaways from the ECB's guidance update**.



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MARKETS JUNE 25th- July 2nd

S&P/TSX Composite **Up +1.02%** to 20,188

S&P 500 **Up +2.0%** to 4,412

Dow Jones **Up +1.1%** to 35,062

Nasdaq Composite **Up +2.8%** to 14,837

Russell 2000 **Up +2.1%** to 2,209

MSCI Emerging Markets **Down -2.1%** to 642

FTSE 100 **Up +0.3%** to 7,028

Hang Seng **Down -2.6%** to 27,285

Shanghai **Up +0.3%** to 3,550

Oil (WTI) **Up +0.5%** to \$72.17/bbl

Gold (Spot USD/oz) **Down -0.7%** to \$1,801.9/oz

Copper (USD/lb) **Up +1.8%** to \$4.40



What Moved Markets?

Sources: EDGAR, Bloomberg, CNBC, Reuters, Renaissance Capital

- **Tech Big Deal** - Zoom ([ZM](#)) became a household name during the pandemic as video conferencing became all the more important in a world without social contact. The company even saw explosive revenue growth of 326% in 2020, given the shift to remote work and distance schooling. As the economy reopens amid a broad vaccine rollout, some of those streams drying up and organic growth is unlikely to placate Wall Street. The stock has even tumbled 36% since reaching its peak in October after surging nearly 400% last year.

Where does the company turn? Zoom spent big on M&A this week, scooping up Five9 ([FIVN](#)) in an all-stock transaction that values the company at \$14.7B. Five9 is a provider of cloud-based call center technology, which allows representatives to do their jobs from home. The transaction is expected to close in the first half of 2022, though Five9 stockholders still have to approve the deal and it will require regulatory clearance.

"We are continuously looking for ways to enhance our platform, and the addition of Five9 is a natural fit that will deliver even more happiness and value to our customers," Zoom CEO Eric Yuan declared. The acquisition is Zoom's first billion-dollar purchase and is the second-largest U.S. tech deal this year, behind Microsoft's ([MSFT](#)) planned \$16B deal for Nuance Communications ([NUAN](#)).

Cisco in the mix: Zoom CEO Eric Yuan, who founded Zoom in 2011, helped build WebEx, which Cisco ([CSCO](#)) bought in 2007 for \$3.2B (he ended up staying at Cisco until he left to start Zoom). Five9 CEO Rowan Trollope also joined Cisco in 2012, and eventually became in charge of all of Cisco's collaboration products (some even saw him as the top deputy to CEO Chuck Robbins). Trollope left the networking giant to take the CEO role at Five9 in 2018, and will remain CEO under the new deal, as well as president of Zoom

- **Earnings Challenges Ahead** - Netflix ([NFLX](#)) is finding it getting harder to live up to Wall Street's expectations. Evidence of that was seen late Tuesday, as the company forecast Q3 streaming TV subscriber gains that fell far short of analysts' expectations (3.5M vs. 5.9M). While Netflix did add 1.54M subscribers for the period that ended June 30 - compared to estimates of 1.12M new paid members - total first-half subscriber growth was the worst since 2013. Profit also came in at \$2.97 a share, missing analysts' expectations of \$3.14, though revenue of \$7.34B inched ahead of consensus estimates for \$7.32B.

Comparisons could be difficult: "We hope we are at the tail end of this COVID choppiness," Netflix CFO Spence Neumann said on a conference call. He also noted that during the second quarter of 2020, Netflix added more than 10M new members as pandemic stay-at-home policies went into effect, which "distorts year-over-year comparisons." "If we deliver on our [third-quarter] guide, our growth pattern in our business is remarkably steady [and] averaging 27M [new subscribers] a year over the last two years," Neumann added, helping shares rise slightly in AH trading. However, for a company that depends on subscriber fees in order to fuel its ongoing forays into original and exclusive content, Netflix's results hint at a possible rough road ahead. The company lost 430K subscribers in the U.S. and Canada during Q2, and added just 190K paid members in Europe, the Middle East and Africa. "Combined, they shrunk in their two most-profitable markets," said Wedbush analyst Michael Pachter. "That suggests [market] saturation to me. All the recent moves by Peacock, Disney, Hulu and HBO suggest that competition for content will become more fierce."

Outlook: Netflix confirmed it was in the "early stages" of expanding into video games, viewing it as "another content category for us, similar to our expansion into original films, animation and unscripted TV." Last week, Netflix even [hired](#) a former Electronic Arts and Facebook executive to lead the effort. While a time frame wasn't given for launching the new vertical, games will be included in current subscription plans at no additional cost



Sources: EDGAR, Bloomberg, CNBC, Reuters, Renaissance Capital

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- **Crypto – The 'B' Word** - CoinDesk columnist Nic Carter kicked things off at "The ₿ Word" event, an "initiative that aimed to demystify and destigmatize mainstream narratives about Bitcoin, explain how institutions can embrace it, and raise awareness around areas of the network that need support." Carter began by explaining the crucial importance of Proof of Work for Bitcoin (BTC-USD), and why Proof of Stake (less energy intensive) is inferior. He also noted that more transactions doesn't necessarily mean more energy expenditure (that's rather dependent on securing the network), which was in direct contrast to Elon Musk, who two months ago helped set off Bitcoin's collapse by claiming transactions use too much energy.

Seeking Alpha contributor Lyn Alden then took to the floor to try and debunk "Bitcoin Can Be Displaced Easily" FUD. Bitcoin has three "irreplaceable attributes," said Alden - security, scale, and decentralization. She also took note of the oft-used comparison of Bitcoin to MySpace. Bitcoin, she reminded, hit a \$1T market cap 13 years after coming into existence - it's a level of scale and market dominance that MySpace never even sniffed.

Meanwhile, Coin Metrics author Nate Maddrey discussed whether "Bitcoin Ownership is Concentrated." He first explained that all Bitcoin transactions are transparent to anyone who wished to view them, including the addresses of wallets that hold Bitcoin. While yes, the top 10% of addresses hold 99% of supply, "addresses" is the key word. Addresses, said Maddrey, are not individuals. An address can represent thousands of individuals (think exchanges like Coinbase (COIN) and institutions). In fact, he says, five of the top 10 largest Bitcoin addresses are exchanges.

Movement: Bitcoin notched a session high of \$33K during the event and then stayed around that level for most of the week. Don't forget THE talk:

Cathie Wood: "Our focus on disruptive innovation" attracted her to Bitcoin and crypto in general and she offered her thoughts about how Bitcoin fits within the ESG investing landscape. "Bitcoin's limit of 21M coins ever means its primary use right now is store of value," she added. "Purchasing power will go up over time." She also passed on the research to economist Arthur Laffer, who threw up his hands, and said at last, a rules-based monetary system.

Elon Musk: "I might pump, but I don't dump," he declared, while wearing a shirt about Bitcoin being the evolution of money. "I think about money as an information system, and there's an opportunity for something better than ACH and credit card networks." He further noted that he's an owner of Bitcoin through not just Tesla (TSLA), but through SpaceX (SPACE), and he personally owns Bitcoin, Ether (ETH-USD), and Dogecoin (DOGE-USD). Once Musk is convinced more than 50% of Bitcoin mining was based on renewables, Tesla will again accept the crypto for purchases.

Jack Dorsey: "Bitcoin reminds me of the early Internet. If the internet gets a chance to be a native currency, it's Bitcoin because of its resilience, and community driving it." He also has high hopes for the currency. "We have all these monopolies off balance and the individual doesn't have power and the amount of cost and distraction that comes from our monetary system today is real and it takes away attention from the bigger problems. My hope is that it creates world peace or helps create world peace."

- **Brexit Tension Resurfaces** - The Brexit drama is far from over, with the U.K. and EU on a collision course over the rules for Northern Ireland. It was only seven months ago that the two sides came to an agreement on a Brexit deal, but Britain now wants to overhaul the trading system for the territory. The special arrangement was previously inked to avoid a hard border on the island of Ireland and prevent a backdoor for smuggling into the bloc, but the protocol has subsequently resulted in a fractious relationship.

Why is it still an issue? Northern Ireland's status is somewhat of a hybrid as it is still part of the United Kingdom, as well as the European Single Market. That means checks need to be done on goods that are traveling from Great Britain to Northern Ireland to block items from leaking into the EU. Most of the checks are carried out on the Irish sea border, which has caused tensions among the pro-U.K. unionist community in Northern Ireland, which doesn't like the idea of a barrier with the mainland. U.K. Brexit Minister David Frost now sees the situation as untenable and has proposed a plan to substantially rewrite the Northern Ireland protocol. The deal would largely be based on a light-touch regime and the honesty of traders, whereby businesses would register their transactions and agree to inspections of their supply chains. Meanwhile, a deadline is looming at the end of September, when a series of so-called grace periods come to an end and the full weight of checks are supposed to be applied across Irish sea traffic.

Going further: Frost wants to extend the waiver periods indefinitely, and if the EU doesn't put the current arrangements on hold, he's holding back the option of overriding the entire treaty unilaterally. If that would happen, the EU would likely retaliate with tariffs and sanctions, while the relationship would deteriorate even further. European Commission President Ursula von der Leyen said the EU will be "creative and flexible," but has ruled out renegotiation.

- **Space – The Last Frontier** - Just 11 days after Richard Branson flew to space on Virgin Galactic's (NYSE:[SPCE](#)) spaceplane, Jeff Bezos made a successful attempt aboard Blue Origin's ([BORG](#)N) New Shepard rocket. He flew with a crew of three, including his older brother Mark, female aviation pioneer Wally Funk and 18-year-old Oliver Daemen, a fill-in for the winner of a \$28M charity auction. The passengers experienced a few minutes of weightlessness before their capsule parachuted onto the desert in West Texas just 10 minutes after liftoff. *Quote:* "To see the Earth from space, it changes you. It changes your relationship with this planet, with humanity," Bezos said before the flight. "It's a thing I've wanted to do all my life."

Backdrop: Bezos founded Blue Origin in 2000 and has been funding the company by selling \$1B in Amazon (NASDAQ:[AMZN](#)) stock a year. His high school girlfriend even once remarked, "Jeff started Amazon just to get enough money to do Blue Origin," to which Bezos exclaimed, "I can't prove her wrong." Since 2015, Blue Origin has completed 15 test flights, carrying up experiments and the company's test dummy named Mannequin Skywalker. Besides a booster crash landing on the maiden flight, all the trips were successful.

Differences: As mentioned earlier, Bezos' capsule sits atop a rocket (compared to Galactic's VSS Unity which takes off on a jet plane and is released at 50,000 feet). Test pilots and flight engineers were also not aboard the Blue Origin journey as the capsule was entirely automated (Galactic requires two pilots to get to space and back). Meanwhile, Bezos' flight shot above the Kármán line, a boundary commonly referred to as the beginning of space, with an altitude of about 66 miles vs. Branson's 53.5 miles.

Outlook: Congress has restricted the FAA from regulating the safety of commercial space flights since 2004 to help the sector develop without heavy compliance costs. The policy has been extended several times over the years and now runs until 2023. Crews today fly under a regime known as "informed consent," meaning potential astronauts take on similar risks to skydivers and bungee jumpers. Bezos is fighting for a share in the space market that will triple in size to more than \$1T in annual sales by 2040, according to Morgan Stanley, whose forecast assumes rapid developments in space tourism, moon landings and satellite broadband Internet.

The Week Ahead

- **Earnings spotlight: Monday, July 26th:** Lockheed Martin (NYSE:LMT), Hasbro (NASDAQ:HAS) and F5 Networks (NASDAQ:FFIV).
- **Earnings spotlight: Tuesday, July 27th:** Centene (NYSE:CNC), UPS (NYSE:UPS), Archer-Daniels (NYSE:ADM), General Electric (NYSE:GE), Apple (AAPL), Alphabet (GOOG), Microsoft (MSFT), AMD (NASDAQ:AMD), Chubb (NYSE:CB), Mattel (NASDAQ:MAT), Starbucks (NASDAQ:SBUX), Visa (NYSE:V) and Mondelez International (NASDAQ:MDLZ).
- **Earnings spotlight: Wednesday, July 28th:** McDonald's (NYSE:MCD), Shopify (NYSE:SHOP), Tilray (NASDAQ:TLRY), Facebook (FB), Ford Motor (NYSE:F), Qualcomm (NASDAQ:QCOM), Boeing (NYSE:BA), Pfizer (NYSE:PFE), PayPal (NASDAQ:PYPL), Spotify (NYSE:SPOT) and Shopify (SHOP).
- **Earnings spotlight: Thursday, July 29th:** Altria (NYSE:MO), American Tower (NYSE:AMT), Anheuser-Busch InBev (NYSE:BUD), Amazon (NASDAQ:AMZN), Fortinet (NASDAQ:FTNT), T-Mobile US (NASDAQ:TMUS) and Merck (NYSE:MRK).
- **Earnings spotlight: Friday, July 30th:** AbbVie (NYSE:ABBV), Caterpillar (NYSE:CAT), Chevron (NYSE:CVX), Exxon Mobil (NYSE:XOM) and Procter & Gamble (NYSE:PG).
- **Microsoft earnings preview:** More Wall Street analysts seem to be expecting a beat-and-raise quarter out of Microsoft (MSFT) with Azure growth numbers in particular seen standing out. The company is expected to issue positive commentary on its role in the enterprise-wide digital transformation shift
- **Apple earnings preview:** Apple (AAPL) is seeing a lot of analysts increase their FQ3 estimates just ahead of the big report. UBS forecasts that aggressive carrier promotions in the U.S. and strength in China drove iPhone units up 15% year-over-year to 44M units. Meanwhile, Wedbush Securities analyst Dan Ives still thinks Apple is looking to break into the auto sector. "Now, looking at the Apple Car, it has been one step forward, two steps back. It's coming, I believe 2024 or 2025. But I believe they lay the groundwork over the next 3, 6 or 9 months to get there," he notes.
- **Tesla earnings preview:** Consensus marks on Tesla (NASDAQ:TSLA) are for Q2 revenue of \$11.40B and EPS of \$0.97. Barclays expects Tesla to top estimates as price increases are seen outpacing cost pressures. The firm is still highly cautious on valuation as it expects an increased desire down the road to model Tesla based on traditional OEM measures. A big wildcard for Tesla will be if the company takes an impairment charge on Bitcoin (BTC-USD) and what the latest spin is from Elon Musk on cryptocurrencies.
- **Stocks in travel/Leisure Reopening theme** - Hilton Worldwide Holdings (NYSE:HLT), Host Hotels & Resorts (NASDAQ:HST), MGM Growth Properties (NYSE:MGP), Royal Caribbean Group (NYSE:RCL), Travel + Leisure (NYSE:TNL) and Wyndham Hotels & Resorts (NYSE:WH) all make the list. Other stocks making the buy list this week are water treatment player Evoqua Water Technologies (NYSE:AQUA) and TripAdvisor (NASDAQ:TRIP). While Robinhood Markets (HOOD) is called a transformational company, advice is doled out to sit out the direct listing.

"People Who Are Crazy Enough To Think They Can Change The World, Are The Ones Who Do." – Rob Siltanen

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