TECHNOLOGY TRADER

Tech Earnings Start Monday. Here Are 5 Trends to Watch.

By Eric J. Savitz July 16, 2021 7:22 pm ET

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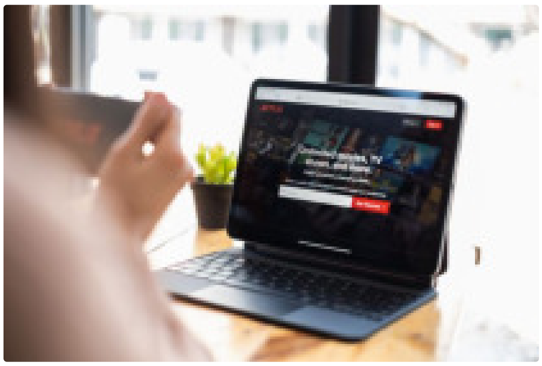

Netflix is one of the many tech companies reporting earnings in the coming week.
Worawee Meepian/Dreamstime

The tech earnings season kicks off this coming week, with IBM, Netflix, Intel, Twitter, SAP, AT&T, Seagate, Texas Instruments, and Snap all due to report June-quarter results. Expect strength across the tech landscape, but there are considerable cross currents: Hardware and chips companies will be hampered by component shortages. Stay-at-home plays will likely see moderating growth. It should still be a strong quarter for handsets, cloud computing, online advertising, and e-commerce.

Here are five looming questions for the latest round of tech earnings:

Is the PC boom over? Personal-computer demand soared during the pandemic, as the work-and-learn from home trend took hold. Apple's (ticker: AAPL) Mac sales were up 70% last quarter; consumer PC sales also soared at HP Inc. (HPQ) and Dell Technologies (DELL). But Gartner last week said worldwide second-quarter PC shipment growth decelerated to 4.6%, from 35.7% in the first quarter, due to severe component shortages. Intel's (INTC) results on Thursday should provide clues on PC demand.

How bad is the parts crunch? Taiwan Semiconductor (TSM) last week said that it will ramp capacity for microcontrollers used in auto production. But as Wireless Fund portfolio manager Paul Meeks notes, the news triggered a sharp selloff in both Microchip Technology (MCHP) and NXP Semiconductor (NXPI). "In some cases, boosting supply is a bad thing, particularly if their stocks had been beneficiaries—because higher prices had trumped fewer units shipped—of Covid-related supply chain clogs," Meeks says. David Readerman, portfolio manager of Endurance Capital, thinks Texas Instruments' (TXN) earnings report on Wednesday should provide important clues about demand from industrial, automotive, electronics, and communications-equipment markets.

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Will IT spending spike? Corporate data-center spending sagged in 2020, as companies shut down, pinched pennies, and shifted their focus to the cloud. But Gartner sees IT spending up 8.6% this year, versus last year's 0.9%, as the economy reopens and workers return to offices. That should be great for hardware companies like Dell, Cisco Systems (CSCO), and Hewlett Packard Enterprise (HPE); disk-drive makers Seagate Technology (STX) and Western Digital (WDC); and enterprise-software players such as SAP (SAP) and Oracle (ORCL). IBM's (IBM) results Monday will be an early read on how the enterprise trend is playing out.

Ready to hit the road? There are signs that more Americans are leaving the house for both work and pleasure, which is good news across online travel. Evercore ISI analyst Mark Mahaney is bullish on Uber Technologies (UBER), and he thinks run-rate bookings in the company's mobility, or ride-sharing, business could beat Wall Street's forecast. He says recent data on airline passengers from the Transportation Security Administration "suggest a material recovery" is under way. (Mahaney is keen on Lyft [LYFT], too.)

Can anything slow the megacaps? I'm betting all five of the tech megacaps—Apple, Microsoft (MSFT), Alphabet (GOOGL), Amazon.com (AMZN), and Facebook (FB)—beat estimates. Together they are worth $9.1 trillion. Evercore's Mahaney thinks Amazon is "the strongest fundamental asset in 'Net Land, trading in line with its pre-Covid valuation despite a strengthened outlook." He's also bullish on Facebook, based on a continued recovery in internet advertising. The same factor should boost Alphabet. Wedbush analyst Dan Ives likes Apple best because he sees pent-up demand for iPhones. As for Microsoft, all the trends—gaming, PCs, cloud, enterprise spending—are working in its favor.

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