Basis Points – April 11th, 2019

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Above the Fold

Markets were mixed midweek as investors prepared for earnings season and digested monetary/economic data here and across the pond. In the EU, Mario Draghi and the ECB took an increasingly dovish stance as “slower growth momentum” was seen throughout the eurozone. Record low EU rates for its marginal lending facility and deposit facility remain unchanged at 0%, 0.25% and -0.40%, respectively. The ECB is currently working on a solution to address the negative rates being charged to banks with excess reserves as the costs will further weigh on lenders who are already struggling to maintain profitability.

Stateside, consumer prices rose 0.4% influenced substantially by higher fuel costs. In fact, the average price of gasoline rose nearly 10% in March to $2.62 a gallon. Stripping out volatile components such as fuel, core CPI registered a mere 0.1% increase, suggesting inflation is currently not a threat. Eyes then turned to the Fed minutes, which echoed similar concerns of growth and will remain “patient” with any rate hikes. “Several” Fed members went as far to suggest that inflation might not be able to meet the central bank’s long-standing 2% target. There also seems to be an internal debate as to when the bank should resume purchases of Treasurys after it ends its balance-sheet runoff.

Key earnings to watch this week:

J.P. Morgan Chase and Wells Fargo are first in their sector to report Q1 results this Friday. Analysts are expecting many large banks to see declines in both earnings and revenues year-over-year due to one-time benefits in Q1 2018 from the tax cut legislation — this makes for a tough comparison. Consensus estimates are for J.P. Morgan’s Q1 EPS to rise 4.0% year-over-year, while Wells Fargo’s is expected to fall 1.3%. Greater emphasis will likely be on earnings guidance, trading revenue and commentary rather than hard earnings data. The government shutdown is likely to also weigh on results.

Three Things

1. *Disney to Launch Digital Service* — No longer will Disney depend on Netflix to stream its content. Under the new Disney+ brand, the media powerhouse will produce, market and distribute content direct to consumers through a smart streaming app for a monthly subscription fee. The new service will complement its ESPN+ service made available last month. Hulu will also be controlled by Disney once it completes a $71 billion deal to acquire major assets from 21st Century Fox.
2. *Too Much Yogurt!* — Have you looked in the yogurt aisle of your supermarket and wondered why there are so many options? The blizzard of new, sometimes overly complex offerings by many yogurt companies have left consumers confused and apparently disappointed. With the average U.S. supermarket carrying 306 different yogurt varieties, you’d think sales are booming, but overall yogurt sales fell 6% by volume in the year through February, according to Nielsen — Greek yogurt sales are down 11% in the same period.
3. *Robo-Mart* — To keep costs low and increase efficiency, Walmart is broadening the use of robots for everything from floor scrubbing to unloading trucks and even inventory control. The Bentonville behemoth said that 300 stores will add machines that scan shelves for out-of-stock products in 2019. Autonomous floor scrubbers will be deployed in 1,500 stores to expedite cleaning and auto-scanning conveyors and truck sorters will double to 1,200. And if you don’t want to deal with a human at all, Walmart will also be installing 16-foot-tall towers in 900 stores for online order pickup.

Did You Know?

With Lyft now public and Uber's IPO imminent, many investors are looking for autonomous or self-driving vehicles as part of both companies' future growth story. Consumers are already demanding automation, and companies like Tesla, GM, Ford, BMW, Toyota and others are already developing technology to capitalize on the eventuality of cars without drivers — most are further along than you might think.

And while I don't think cars without any driving supervision will dominate the roads within the next few years, automation is increasing each year, adding safety and convenience in ways most of us don't even think of.

Levels of automation range from 0 (where the driver is in complete control and 100% responsible for all driving duties) to 5 (the vehicle performs all safety-critical driving functions and road monitoring for the entire trip), and everything in-between. Several automakers already have cars that operate at a level 3 (think Tesla).

We might not realize it, but cruise control, restraint systems (airbags and seat belts) and antilock brakes were the beginning of automation and have been around for decades. Blind spot detection, forward collision warning and lane departure warning systems have been around for many years as well, along with auto-braking for all sorts of hazards.

Adaptive cruise control, self-parking and dynamic lane assist are also being used or developed, and NHTSA expects fully automated cars and highway autopilot to be mass produced by 2025.

So, like it or not, the world may be full of automated cars before you know it!