Basis Points – April 16, 2019

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Above the Fold

A defiant stock market surged into the weekend despite an increasingly risky global growth landscape. The S&P 500 is now up more than 15%, besting year-end targets from Bank of America, Barclays, Morgan Stanley and Citigroup, while Goldman Sachs, RBC and J.P. Morgan (JPM) all see the index even higher over the next 8.5 months.

JPM was a key contributor to Friday's rally as the largest U.S. bank by assets reported a record $29.9 billion in revenue, delivering $9.18 billion in adjusted income for the quarter, also an all-time high. JPM gave a relatively upbeat outlook, reassuring investors that its typical customer credit profile was stable. With heavy exposure to foreign and domestic interests, JPM's strong results at least temporarily quelled recession concerns.

Backing up this thesis was the beat by Wells Fargo (WFC), which for years has been struggling with PR issues and regulatory scrutiny. WFC still maintains about 450 more branches than JPM, but continues to fall short on executing its comeback plan. And though the company beat analyst expectations on revenue and earnings, its weak profit outlook sent shares lower. Goldman and Citigroup disappointed investors and pulled stocks lower Monday with mixed results that failed to impress.

Key earnings to watch this week:

A slew of financial companies report results this week — investors will be looking for patterns from the majority that will help predict future economic outcomes. Detailed banking data and commentary can offer an “inside” look at consumer credit quality along with spending and saving patterns.

Three Things

1. *Flight Cancellations Rise* — Ripple effects from the FAA’s grounding of Boeing 737 MAX jets are spreading fast as spring travel heats up. American Airlines and Southwest are extending cancellations for 737 MAX flights out to Aug. 5 and Aug. 19, respectively. Boeing has proposed a software fix for the flawed MCAS system; it still must pass regulatory approval. The grounding only affected a small minority of passengers for both carriers.
2. *Cord-Cutting Conundrum* — Dump your cable provider and save money? Not so fast! The cord-cutting revolution could be hitting a snag, or more appropriately, your wallet. The rise of profitable streaming services has prompted many providers to go a la carte. This means that the cost of high-speed internet, which could be $100 or more, is becoming just a small portion of monthly costs. Netflix premium will run you $16 per month, add-in other favorites like Disney, YouTube TV, Hulu, Prime and HBO NOW for your Game of Thrones fix, and you could easily be looking at another $100. The lesson here — do your homework before switching.
3. *Got a Job?* — The actions of American small businesses are said to be coal mine canaries for the health of our economy. If so, investors may have more reason to believe in continued growth as the National Federation of Independent Businesses (NFIB) reported record job creation and strong optimism. NFIB Chief Economist William Dunkelberg noted that 60% reported hiring or trying to hire, but 54% (90% of those hiring or trying to hire) reported few or no qualified applicants for the positions they were trying to fill. The tight labor market may help bring much needed wage increases to American workers.

Did You Know?

San Francisco, one of the most expensive places to live in the U.S., is likely to see a fresh wave of new millionaires as the IPOs of Uber, Pinterest, Slack, Airbnb, Postmates and others get set to come to market.

The Wall Street Journal reported that San Francisco, at just 47 square miles, is comparatively tiny and just over 6,400 homes sell annually. This small market could see another surge in real estate buyers as IPO-generated wealth impacts supply and demand.

The large number of tech companies based in the Bay Area have already pushed the average value of a home in San Francisco proper to nearly $1.7 million, according to Zillow data. And despite a volatile market and slowdown in sales during the first quarter of 2019, online real estate firm Redfin estimates that the Lyft IPO alone could generate $1.458 billion in stock value — enough to (hypothetically) buy all the homes that were for sale in March.