



Basis Points – July 18, 2019

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Above the Fold

A Momentary Pause – After several days of new highs in the Dow Jones Industrial Average and S&P 500, stocks are taking a breather to assess next steps as earnings season kicks off with financial firms in focus this week.

Investors saw a few strong earnings out of the banking sector with Bank of America and PNC all reporting strong growth. And while J.P. Morgan Chase showed solid growth across several of its businesses, the company disappointed investors with its outlook. Wells Fargo continued to work on its turnaround after a fake accounts scandal and Goldman Sachs bested analysts' expectations for revenue and earnings, but saw its quarterly profit fall 6% as trading revenues, investment banking and merger advisory fees all fell.

The second quarter is expected to be a (relatively) good one for banks as a higher rate environment benefits the group. But as the Federal Reserve turns the corner and begins its expected rate reduction trajectory, many of those banks' futures become cloudier. During the "turn," some banks should experience a boost in mortgage origination and loan volume, but those gains could be offset by reductions in margin from declining rates.

Another (ongoing) concern for banks and the economy as a whole is the U.S.-China trade dispute that's becoming more like a soap opera than a straightforward negotiation as news outlets disseminate and sometimes exaggerate every nugget of commentary from either side.

It was reported earlier in the week that China added commerce minister, Zhong Shan, to the negotiating team. Shan is seen as a hardline negotiator and made comments in China on Monday that seemed to indicate a less-flexible China. President Donald Trump said Tuesday that "there's still a long way to go to reach a deal with China," threatening to tariff another \$325 billion of Chinese goods if necessary. Needless to say, it seems that trade deal optimism is fading, at least until we know more.

No face-to-face meetings have been set between the two countries as negotiations continue via phone.

What's Ahead

Look for earnings results to continue to drive the market's short-term narrative, and remember that expectations for results are very low. This could likely lead to a large number of "beats" from reporting companies. Preliminary readings on the University of Michigan's Consumer Sentiment Index are due out tomorrow, with a rise to 98.6 expected.

Three Things

1. *Heard of Project Kuiper?* – Amazon is planning to launch 3,236 satellites that will beam high-speed internet to any location on Earth. Morgan Stanley estimates that Project Kuiper could be a \$100 billion business for the retailer. While no timeline has been established, Amazon last year hired the former head of SpaceX's satellite program.
2. *Bitcoin's Boo-Boo* – As lawmakers, economists and politicians pressured Facebook on its new cryptocurrency called Libra, Bitcoin, the world's most popular crypto, shaved nearly a third of its value in a week's time. Bitcoin buyers were hoping for a wider adoption of crypto with less regulatory scrutiny — unfortunately, that path may not be as simple as some hoped.

3. *Rig Reduction* – Even with crude prices jumping nearly 30% year-to-date, the number of U.S. oil rigs fell to a 17-month low of 784 last week. Raymond James believes the declines will continue into 2020. The dearth of production increases is due to the fact that drillers have failed to attract capital investments in what's been a volatile oil market.

Did You Know?

Researchers from ETH Zurich's Computer Engineering and Networks Laboratory have devised a way to embed data in music without the human ear detecting it. Called Acoustic Data Transfer, data is embedded in dominant notes or through harmonics. In other words, information can be hidden in a song and only someone with a decoder would know. Pop music is most efficient, while quiet, easy listening music is less suitable.

The inventors say it could be used to create more seamless interactions. Like ambient music playing in a business could contain access data for the WiFi network. Or maybe secret messages or passwords could be embedded into downloaded songs.

The technology is different from the RDS systems in your car, which is a separate signal displaying the song and artist. Acoustic Data Transfer transmits data direct from the loudspeaker to a mic.

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