



Basis Points – February 11, 2020

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Above the Fold

Earnings Recession May Be Ending

With many stocks climbing to new highs over the last few weeks, the term “earnings recession” has been buried deep under all the exciting headlines. Believe it or not, while all these share price records are being made, S&P 500 earnings have logged three straight quarters of year-over-year declines — and analysts predicted yet another drop for current fourth quarter (Q4) results. Ahead of Q4 results, which started rolling in a few weeks ago, FactSet anticipated a -2.0% decline in the overall bottom line. Lucky for us, the landscape is changing.

Now that we are about 60% through the reporting period, new estimates reflect a glimmer of positivity in the form of about 0.6% to 0.9% growth (depending on who you ask). The greatest strength has been seen in the utilities sector, which showed a near 20% gain, while energy earnings on the other hand, are still down 42+% (ouch).

Why do we care? Well, the behaviors we've seen over the last few months tell a story of both tempered expectations and optimism. Investors were absolutely willing to push stocks to record territory even though earnings were set to extend their recession to a full year. This underlying confidence speaks volumes about the potential of U.S. equities, especially when analysts have set such a low bar. And while no one can predict or time the markets perfectly, investors seem to be looking toward a bigger and brighter future; which is a good thing for all.

Three Things

1. *Chinese Military Personnel Tied to Equifax Breach* – Four members of China's People's Liberation Army were indicted by the U.S. government for malicious hacking into credit-reporting agency Equifax Inc. back in 2017. The breach affected roughly 145 million Americans and is regarded by many as one of the biggest hacks in history.
2. *Why Little Chickens Are in High Demand* – In order to meet demand and keep prices down, global producers have engineered chickens to be bigger. Oddly enough, the rise of the fried chicken sandwich has depleted stocks of smaller, tastier, more tender chickens that fit easier between two pieces of bread. Companies like Popeyes and Chick-fil-A may have to take serious action to counter the worsening small-chicken shortage; Wendy's on the other hand, says they've shored up their poultry supply chain.
3. *The Ironic Drawback to Wind Power* – We've all seen the peaceful images of wind turbines dotting remote landscapes around the world, quietly generating millions of megawatts of electricity. What most don't realize is that these gigantic, hyper-dense fiberglass blades, built to withstand hurricane-force winds, are not only nearly impossible to recycle, but are ending up in landfills by the thousands. Scientists are working on the problem, and there's a Texas startup that may have a method to repurpose the blades into building material.

Did You Know?

How a British Airways 747 Crossed the Atlantic in Under 5 Hours

After a series of incidents and rising costs, the supersonic jet, Concorde, was retired in 2003. When it was flying, the thin-cabin, single-aisle airliner cruised at more than twice the speed of sound or about 1,350 miles per hour (MPH). It could cross the Atlantic from JFK airport to Heathrow in 3 hours, carrying just 128 passengers.

Over the weekend, the much larger Boeing 747, capable of carrying up to 600 passengers, made the 3,500 mile trip in a record 4 hours and 56 minutes (102 minutes less than planned). Even though the Boeing has a top speed of just 614 MPH, a massive jet stream generated tailwinds of

260 MPH, propelling the jumbo jet to speeds that match some military jet-fighters.

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