Basis Points

Weekly Market Commentary

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Above the Fold

The equity market traded down sharply yesterday due to an increase in global trade war rhetoric by the U.S. administration. Small proposed tariffs on steel and aluminum imports from earlier this year which the consumer would not directly feel, have given way to threats last week of 20 percent tariffs on all autos coming to the U.S. from Europe, affecting a far larger number of consumer pocketbooks. And yesterday, the administration announced plans to bar many Chinese companies from investing in U.S. technology firms, and blocking additional technology exports to China. Problems at the Mexican border notwithstanding, the President is clearly emboldened right now, as a new CNBC poll showed the approval rating for his handling of the economy reached 51 percent for the first time, and has moved his overall approval rating up as well. Trump would like a big win for his party this fall in the mid-term elections, and mid-term elections are about bringing out the base to vote, so expect him to hammer home his favorite issues of immigration reform and fair global trade right through election day. The rhetoric may be starting early, as historically politicians realized that investor and political attention would be on vacation from July 4 to Labor Day, but in this new social media age, Twitter is always on duty to make headlines and rattle the markets even during the typically slow summer news cycle.

Summer market corrections during midterm election years are fairly standard fare over the past few decades, and arise for various reasons that do not last more than a few months. During the past four non-recessionary midterm election summers, we lived through corrections of 6 percent, 15 percent, 7 percent and 19 percent. In all of those years, the market closed the full year with a positive return. With yesterday's S&P 500 decline, the market is only off 3 percent from its summer high thus far.

The price of oil has popped 6 percent over the past few days, rising to $69 a barrel, after OPEC decided to raise global production among its member nations, but by only 600,000 barrels a day, vs. the 1 million bpd that was expected. Strong global economic demand and some crimps in the supply system had caused industry inventories to decline, so a large increase in production targets was expected from OPEC. However, thoughts of $30 oil two years ago, when inventories spiked with higher production, caused cooler heads to prevail.

Three Things

- Since 1950, the S&P 500 has entered the first day of summer with a year-to-date gain of 3 percent or more in 35 different years. In all 35 of those years, the index closed the year with a positive gain. 2018 could be the 36th year, as the index was up 3.8 percent year to date on June 21.
- Atul Gawande, a surgeon and journalist who has written extensively about the U.S. failure to grapple with rising health-care spending, has been named to head a new health venture for Amazon, Berkshire Hathaway and JPMorgan. The new firm, meant to help the three companies improve care and lower costs, will start in July. It will be independent from the three firms whose leaders formed the group as a way of contending with what Warren Buffett called a “tapeworm” eating the U.S. economy. Gawande wrote an award-winning article regarding the sources of high costs of providing health care in the U.S. for the *New Yorker Magazine* back in 2009, which helped raised his exposure considerably in this complicated field, and got him on Buffet’s radar. Please see this link for the very interesting article:

https://www.newyorker.com/magazine/2009/06/01/the-cost-conundrum

One year ago this week, Amazon closed its purchase of grocery chain Whole Foods, and sent fear through the traditional grocery store chain stocks. However, it seems like the fear of certain death for grocery store chains may have been premature. Due to the threat of competition from Amazon, Kroger, the largest U.S. supermarket chain by stores and revenue, has been overhauling every aspect of its business, from cutting costs, renovating stores, adding in-store pickup points for online orders, to buying stakes in global online grocers to run its automated warehouses and process its online orders. Kroger also last month bought a stake in Home Chef and will sell its meal kits in its stores. Additionally, Kroger is cutting the number of products that it sells in its stores, to emphasize more popular products and store-branded goods. Kroger’s stock price has risen 35 percent over the past year, and recently released quarterly profits that doubled from last year. It seems like a little fear of competition may sharpen the brain to make the tough changes that need to be made.

Did You Know

As I know from my own household of four teenagers, kids don't watch TV anymore, and traditional cable providers and broadcast networks should be very afraid. In a recent Business Insider survey of teens nationwide, only 2 percent of teens said that cable is their most-used choice for video content. Nearly a third said YouTube is their most-used source, and 62 percent say streaming including Netflix or Hulu is their most-used. Most teens don't like traditional TV, as they say the episodes are too long. They love online shows like Vlog Squad, a group of YouTube-famous 20-somethings based in Los Angeles. Several times a week, the group posts instances from their daily lives like flying (but with a llama), going hiking or roller skating. The interest in short but frequent video content from younger, more relatable sources is widespread among teens. Another of YouTube's most popular vloggers is Zoella, who runs a beauty, fashion and daily life account with more than 12 million subscribers. Vloggers like Zoella are as pretty and personable as any celebrity, but their transparency and frequent life updates makes subscribers feel more like they're spending time with a friend. The majority of teens use smartphones as their primary medium to watch videos, while millennials primarily still use actual televisions. Netflix is the top streaming choice for teens, as it lacks ads and is set up for binge watching, which is how today's teens prefer to watch content. Among American adults, 59 percent still say cable or satellite is their primary method of watching television. The preference for cable is even more marked among older Americans. For those 65 or older, 84 percent use primarily cable. But every day another person is born who will never subscribe to a traditional cable service.