



Basis Points – January 24, 2019

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Above the Fold

- United Technologies (UTX) reported strong earnings yesterday, with very strong sales in the aerospace segment, even as worries mount about a slowdown in global industrial growth. UTX reported an unexpectedly sharp 11 percent gain in revenue, which was the first time quarterly organic growth stretched into the double digits since 2007. The increase was driven primarily by the Pratt & Whitney unit, where sales of its new geared turbofan jet engine drove a 22 percent surge in organic growth. The company sees solid global economic growth for 2019, with global GDP growth slowing to 2.9 percent compared with 3.2 percent in 2018. UTX also expects demand for air travel to remain strong, with revenue passenger miles climbing 6 percent in 2019, compared with 6.5 percent growth in 2018.
- What a difference a word makes: When former Fed Chairperson Janet Yellen began the current rate hike program in late 2014, the Fed committee began using the word “gradual” to describe the pace of the upcoming cycle of rate increases. The word was used in each Fed rate hike communication after that, and rates did in fact increase at a gradual pace. However, last month a new word “patient” replaced “gradual” to describe the Fed’s position on rate increases in the future. With global growth slowing, ongoing trade war challenges and a muted inflation rate, the market clearly prefers and appreciates the Fed’s patient stance on data dependence and a thoughtful approach to future hikes, rather than a preset plan.

Three Things

- If you have noticed that every airplane you are on is usually always full, you are correct, but that may begin to ease soon. The WSJ reports that the major airlines are adding larger planes to their fleets and more rows to existing aircraft, which will increase the total number of available seats. For the first time in many years, airlines have been cautious in estimating profits for this year. Even as air traffic has boomed, available industry capacity has continued to increase with new planes and

refurbished older jets. U.S. domestic flights were 83.5 percent full in November, down from a record 86.3 percent in July. U.S. domestic flights had an average of 118 total available seats last year, up 20 percent over the past decade.

- Due to continuing trade tensions between the U.S. and China, Apple's largest iPhone assembler, Foxconn Technology Group, is considering manufacturing the devices in India, which would reduce Apple's dependence on China for manufacturing and sales. Top managers at Foxconn are studying whether to include an India project in their budget, with executives planning to visit India this quarter to discuss plans. The move could also increase exposure to the large Indian cell phone market, as only about a quarter of Indian consumers own smartphones. Apple has struggled to crack the Indian market, with a tiny 1 percent market share in India.
- Americans are drinking less alcohol these days, and the world's largest brewers, wine and liquor companies are trying to compensate by pushing beyond their traditional products to roll out new teas, energy drinks and nonalcoholic spirits. U.S. alcohol volumes dropped 0.8 percent in 2018, after a 0.7 percent decline in 2017. Beer saw the largest decline, down 1.5 percent after losing 1.1 percent in 2017. Alcohol industry data tracker IWSR's Brandy Rand told the WSJ that "the fall in alcohol volumes reflects a growing trend toward mindful drinking or complete abstinence, particularly among the millennial cohort." Industry executives say drinkers are increasingly concerned about health and that younger generations socialize differently from their parents, drinking less.

Did You Know

In the latest sign of the apocalypse from the world of Instagram, consider the "world_record_egg" Instagram account. Earlier this month, a new anonymous Instagram account posted a photo of an egg, with a caption urging all those who see the photo to tap on the like button. The objective was to beat the record for likes to a single photo, which at that time was held by Instagram and business influencer sensation Kylie Jenner, at 18 million likes for one of her posted photos.

The egg photo soon went viral, and today the egg photo has been liked by 51 million people, and 8.8 million people have subscribed to follow the egg account. Although the owner of the account is still unknown, the next post could earn him or her a lot of money. An advertisement for a product as the next post on the account could be sold for millions, as it will immediately be seen by 8.8 million people.

While the account may have a short shelf life if subscribers are not entertained by the next post or if the trend creates countless copycats, it shows the viral and advertising power of today's social media. In the past few days, two more photos have been posted

to the egg account, one showing the egg with a small crack and one showing the egg with a larger crack, so we can assume that the egg will eventually open to display something that another company paid a lot of money to feature there. Stay tuned.