



Basis Points – July 25, 2019

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Above the Fold

Earnings Sigh of Relief – Better than expected results from several heavy hitters, including Coca-Cola, United Technologies, Chipotle, Snap and others are helping keep the equity rally alive despite a brief pause yesterday as the specter of antitrust action against big tech companies like Apple, Facebook, Alphabet and Amazon weighed on upward progression.

The Department of Justice (DOJ) recently announced an antitrust review of big tech companies. Attorney General William Barr wants to know more about how big tech handles competition and the wide swaths of data they collect. And while the DOJ didn't name any firm specifically, all eyes immediately shifted to the big four tech giants mentioned above as they control large shares of spending and market control in their respective businesses.

The inquiry will study how major online platforms grew to have their big market power and whether they are acting in ways that have “reduced competition, stifled innovation or otherwise harmed consumers.” As bad as all this sounds, we should be careful not to jump to conclusions or expect the worst, even though lawmakers on both sides have expressed concerns with differing issues ranging from personal data gathering to information steering. Facebook recently settled a separate investigation for a record \$5 billion with the Federal Trade Commission.

And in what seems like a positive development for stocks and the economy, Treasury Secretary Mnuchin said he and U.S. Trade Representative Robert Lighthizer are headed to Shanghai next week for a two-day meeting starting Tuesday. He noted a critical geopolitical issue that needs to be remedied, but expressed cautious optimism and expects the Shanghai meeting will be followed up with a Chinese negotiating committee coming back to Washington, D.C.

What's Ahead

Plenty more earnings are on deck, with Amazon set to report after today's close. Analysts seem to be anticipating a strong report. Advance readings on second-quarter Gross Domestic Product are due out tomorrow morning, with economists expecting a 1.8% increase based on early data.

Three Things

1. **Biggest for Boeing** – The American aerospace giant reported its largest-ever quarterly loss of nearly \$3 billion compared with a profit of \$2.2 billion a year prior. The earnings pain stems from the grounding of its 737 MAX aircraft, and CEO Dennis Muilenburg said the company might “need to consider possible further rate reductions or other options including a temporary shutdown of the MAX production.”
2. **Option Markets Handicap Amazon** – Option traders, who use volatility to determine the fair value of options, *don't* believe Amazon will move more than 5% after its earnings report. Specifically, the option markets are pricing in a 4.2% move the day after earnings compared with an average of 4.8% over the last two years of earnings reports.
3. **UPS Joins Drone Army** – United Parcel Service Inc. (UPS) applied for U.S. authorization to operate commercial drone flights with the Federal Aviation Administration under a subsidiary called UPS Flight Forward Inc. Its intentions follow alongside Amazon, Alphabet and others in the race to get packages to you quickly and efficiently. According to UPS, the certification will allow drone flights beyond an operator's visual line of sight, at night and without limit to the number of drones or operators in command.

Did You Know?

With all this talk of UPS, FedEx, Amazon and drones, we sometimes lose sight of the good ole United States Postal Service (USPS) and the tasks it completes on a daily basis. Even though the USPS lost \$4 billion last year and is on track to lose another \$7 billion in 2019, the service generates \$234 million per day in revenue — more than UPS or FedEx.

As populations grow and structures are erected, the USPS adds an average of more than 4,070 new addresses to its network every day. Nearly 190 million pieces of First-Class Mail are delivered daily via its staff of nearly 7,000 letter carriers. But that's still less than half of the 484.8 million total mail pieces it processes and delivers every 24 hours.