



Basis Points – September 4, 2018

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Above the Fold

Warren Buffett spoke on *CNBC* last Thursday, and reiterated his positive opinion on his large Apple holding. Buffett said he has continued to increase his Apple holdings recently, and that he feels that the iPhone is “enormously underpriced,” given its indispensable utility to the average person’s life. Buffett has been piling more money into Apple, increasing that stake to 252 million shares as of June 30. Buffett’s Berkshire Hathaway owns more than \$50 billion in Apple stock, which makes Berkshire the third-largest Apple shareholder, with a more than 5 percent stake. Buffett also noted that he is buying stocks these days even in this strong bull market. He said he has been a buyer every day since 1942, and the question is not when to buy stocks, but whether to buy stocks. He sees equities always outperforming fixed income bonds over the long term, so he will always be a buyer of stocks.

Three Things

- The *WSJ* has noted the precipitous drop in popularity of the once dominant family sedan. Less than five years ago, sedan cars accounted for 50 percent of all auto sales, with the other 50 percent made up of SUVs, pickups and vans. Today sedans account for less than a third of total auto sales, due to the rise of the crossover SUV like the Nissan Pathfinder and the Honda HR-V. At the heart of the decline in sedan sales is the changing relationship between people and their automobiles. Owners are less concerned with the shape of the car and what is under the hood, and more concerned with how many people can fit in it, or how much sports gear can fit in the back. Activity is in these days, and elegance is out.
- President Trump signed an executive order Friday directing the government to review rules requiring retirees to start taking annual withdrawals from retirement funds after they turn 70½ and to consider making it easier for small businesses to offer employees 401(k) plans. This order was billed by the White House as a push to

better prepare workers for retirement. The Treasury Department would review the rules on required minimum distributions from retirement plans to see if investors can keep more money for a longer time in a 401(k), IRA and other tax-sheltered savings plans. If successful, it could allow retirees to spread retirement savings over a longer period. The order would also direct the Treasury and Labor departments to consider issuing regulations that could make it easier and cheaper for smaller employers to band together to offer 401(k) plans for their workers.

- The Coca-Cola company is stepping up its efforts to redefine its drink portfolio to include less sugary and more profitable drinks including water, alcohol and hot drinks. Coke announced on Friday that it is buying Costa Limited, a U.K.-based global coffee chain with 4,000 retail stores. The price paid was a rich one, at almost 16 times EBITDA. While Costa does not have stores in the U.S., it is the U.K.'s leading coffee chain and also operates 300 stores in China. Global coffee sales are growing at a 6 percent rate, and Coke feels they need a significant presence in the business, given that sales of traditional soft drinks look like they are in a permanent decline as more and more consumers cut back on their sugar intake.

Did You Know

Short-term corporate bond yields have risen sharply this year, due to the recent lack of demand for short-term fixed income securities by the huge cash-rich tech companies that have been repatriating the bulk of the cash held overseas. Yields on corporate bonds with maturities between one and three years have jumped 0.85 percentage points this year to 3.21 percent, close to the highest point in eight years. Once the largest buyers of short-dated corporate debt, cash-fat companies like Apple, Microsoft and Oracle have turned into huge sellers, as they liquidate holdings in order to bring the cash back home and use it for other purposes. These companies once bought \$25 billion of debt per quarter, now they are selling in \$50 billion chunks, leaving a \$300 billion demand hole in the market that they once filled. Yield spreads may continue to widen over the next year, as the flow of overseas cash to the U.S. continues. The increase in yields raises the borrowing costs for those companies issuing corporate debt, so the pinch could be seen on income statements as lower earnings due to higher borrowing costs. Longer-dated yields have not risen commensurate with short-term yields, so some companies have taken to issuing longer-term corporate debt.

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