Basis Points – April 9, 2019

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Above the Fold

A stronger than expected BLS jobs report helped keep markets in the green on Friday, temporarily quelling concerns of a slowing domestic economy following weak employment data from ADP earlier in the week. Job growth may be only a partial metric of U.S. economic health, but it's a principal dataset and political hot button that influences investors' sentiment and investment decisions in a big way. Employment trends remain relatively strong as job gains have surpassed 100,000 jobs in 26 of the 28 months, adding 211,000 per month on average over the last year.

As markets enter the second quarter, investors will remain focused on jobs and overall consumer health but will also likely want to see earnings growth exceed expectations — the good news is that the bar is set extremely low.

According to consensus earnings estimates, analysts are projecting negative -4.0% growth in the first quarter on +4.6% revenues in the S&P 500 compared to Q1 2018. Q2 earnings are also likely to be slightly negative at -0.2%, with a recovery set for the back half. Full-year 2019 earnings growth is expected to be in the green at just 2.0% on 3.5% revenue growth.

With such a low hurdle for growth, it's logical to assume the path of least resistance for stocks may be higher, as investors seem to be shrugging off the first negative earnings growth season in years. Some skeptics are concerned that sentiment seems unusually positive and tolerance for a surprise bearish event may be low.

Three Things

1. *Formation Rallies Bulls* — In the widely traded and popular S&P 500 index, the 50-day moving average crossed above the 200-day moving average, signaling a "golden cross," or bullish formation, for the first time since April 2016. Some investors use technical factors like the golden cross to trigger or confirm trends — Chart followers consider this a fairly significant occurrence.
2. *Bond Yield Forecasts Drop* — Several large firms lowered their year-end predictions on U.S. government bonds, suggesting a growing probability of an economic slowdown. Goldman Sachs sees year-end yields at 2.8%, while J.P. Morgan adjusted its forecast to 2.75%, down from 3% and 2.9%, respectively. Remember, when bonds are purchased (typically for safety), yields decline.
3. *Netflix vs. Apple* — Apple's recent foray into the world of video content with Apple TV+ seems to be upsetting the competition. Netflix announced it will no longer support Airplay, and starting this week consumers will no longer be able to cast Netflix with a mobile device on Apple TV. Apple is set to launch its new service in the fall, but dates and pricing haven't been announced yet.

Did You Know?

Tech historian Brian McCullough estimates 7,000 to 10,000 new online enterprises were launched in the late 1990s. After the dot-com bubble burst, many were completely wiped out, and by 2003, around 4,800 of those had either been sold or gone under.

One company that (sort of) survived the carnage was AOL, formerly known as America Online. What began as one of the first online multiplayer hosts for the Commodore 64, AOL went on to become an internet pioneer in the '90s, becoming the most recognized online brand in America at one point with its "You've Got Mail" signature.

At the height of its power in the late '90s, AOL's ubiquitous installation CDs dominated the majority of worldwide CD production. During the launch of AOL 4.0 in 1998, not a single music or data CD was produced for several weeks, as AOL completely monopolized the market.

AOL, along with former internet titan Yahoo, were subsequently purchased by Verizon.

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