Basis Points

Weekly Market Commentary

Basis Points – October 18, 2018

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Above the Fold

- Housing starts fell short of expectations last month due to slowing demand, and the homebuilding sector has seen its bad year get worse. Home price increases have moderated around the country recently, as buyers have reacted to a considerable rise in mortgage rates this year. The homebuilding sector ETF has lost 10 percent so far in October and is down 21 percent in 2018. Other housing-related stocks have retreated as well due to industry demand concerns, such as Lowe's and Sherwin Williams, which were both down more than 10 percent during the past month.
- Netflix reported very strong subscriber addition and profit numbers on Tuesday that exceeded expectations, which led to a 7 percent pop in its stock yesterday. Netflix reported especially strong user growth in international markets as it continues to invest heavily in its global programming offerings. Netflix needs to grow its subscriber base at a rapid clip to cover its rapidly growing content costs. Netflix said it will spend as much as $8 billion this year on buying and producing movies and shows for its streaming service. It will also spend an additional $4 billion on shows and movies that will be released in the future, bringing its total cash spent on content to $12 billion, which is far higher than spending from Amazon Prime Video and HBO. In the quarter, Netflix gained 5.9 million new international subscribers and 1.09 million in the U.S. The company had forecast gaining 4.35 million international subscribers and 650,000 domestic subscribers during the period. On the Netflix conference call, the CEO shot a comment over the bow of traditional media companies, saying that in the future, traditional television will only be focused on news and sports, and that every other type of program will be accessed from streaming services such as Netflix, Hulu and Amazon Prime.

Three Things

- Is a wealthy ghost town a paradox? Not in New York City. *The Atlantic* reports that due to very high rents for retail locations and the rise of online shopping, the street-level retail store vacancy rate in the city is higher than 20 percent. The number of retail workers in Manhattan has fallen for three straight years by more than 10,000, and the retail sector in New York has lost more jobs since 2014 than it did during the great recession of 2008-09. Rents in the most expensive areas of the city such as the West Village, Times Square and Fifth Avenue soared by 89 percent from 2010-14, while retail sales in the city rose just 32 percent. Those business dynamics have caused small stores and boutiques to go out of business or move elsewhere. However, walking these neighborhoods today, you will see who the survivors are: nail salons, hair salons, eyebrow shops and restaurants. The survivors are the businesses that can't be "Amazoned." Nobody gets their hair cut online, after all. To fill all the vacant stores, landlords will have to bring rental rates down to match the market, which they have not been interested in doing so far.
- In Tuesday's market pop of 547 Dow points, more than 90 percent of stocks rose on the day, which was the best daily breadth skew in more than two years. At the beginning of the week, only 10 percent of S&P 500 stocks were above their 50-day moving average, an indication that the market in general was extremely oversold on a short-term basis. Large growth stocks battled back on Tuesday after declining much more than the market so far this quarter. Growth rose 2.7 percent on Tuesday compared to 1.6 percent for large value stocks.
- U.S. corporate pensions are at the highest funded level since the financial crisis, which is leading to more companies turning over their pension responsibilities to insurers. Insurers take the funds in a pension and assume the future responsibility for paying retirees, for an added fee. It is more expensive for a company to sell the pension to an insurer, but the company exits the business of worrying about its pension plan funding level. Higher funding levels mean corporate sponsors get a better deal when transferring pension obligations to insurers, so many firms are finding this the perfect time to transfer. Traditional pension plans of S&P 500 companies are, in total, 91 percent funded at the end of the last quarter, which is the highest level since 2007, when they were 108 percent funded. However, most of corporate America has switched to 401(k)-type plans, which are much less risky for companies to run. Roughly two-thirds of U.S. corporate pension plans are either frozen or closed to new employees. U.S. companies transferred $23.3 billion in pension obligations to insurers in 2017, and that number could be $30 billion in 2018.

Did You Know

The youngest woman on this year's Forbes 400 list of the country's richest folks is Lynsi Snyder, making her debut on the list with a fortune estimated at $3 billion. Snyder is the sole heir to burger chain In-N-Out, which her grandparents founded in 1948. Lynsi is on her fourth marriage, and became a billionaire when she turned 35 last year and received the final portion of her inheritance. However, Snyder is no entitled, couch potato, trust fund brat. Snyder has been president of In-N-Out since 2010, and since taking the top job has opened more than 80 In-N-Out locations.

The chain totals 335 company-owned locations now, and Snyder has no interest in ever selling franchises or taking the company public. The business has always been closely held by the Snyder family, and will stay that way. Like the rest of the Snyder family, Lynsi is extremely press-shy, does very few interviews and prefers to focus only on the success of her business. She endured attempted kidnappings at age 17 and 24, so don't expect her to change her need for privacy for her and her four children.