

# Wentz Weekly

## December 2, 2019

### An Update from Powell, M&A Monday, Stronger U.S. Growth and more...



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- Federal Reserve's Chairman Powell gave a speech at the Greater Providence Chamber of Commerce dinner last Monday and said the U.S. economy's "glass is much more than half full and with the right policies we can fill it further". He added him and Fed members have been touring and speaking with local businesses and workers, and the comments are generally good. He emphasized the outlook for further progress is good. He did note three risks; trade, where businesses are telling him trade related uncertainties are holding back their decisions, manufacturing, where output and business investment have been weak, and inflation, core inflation has "unexpectedly" remained below the 2% target.
- The Chinese government signaled they will tighten rules on intellectual property by increasing penalties for intellectual property infringement. Recall intellectual property and technology theft are key sticking points for the U.S. in the trade negotiations. Separately, Chinese officials report negotiators have "reached consensus on properly resolving relevant issues", which follows a phone call between Chinese Vice Premier Liu He and U.S. trade representative Robert Lighthizer and Steven Mnuchin. In addition, President Trump said we are in the "final throes of a very important deal" but he is "holding up" the deal to get better terms.
- The second revision on third quarter GDP shows the economy grew a little quicker than what was thought in the first estimate. GDP growth was at a 2.1% annualized rate in Q3, upgraded from 1.9% in the first estimate. The upward revision was due to larger inventory growth and better investments in structures (business investments declined 1.0% instead of 1.3%), while consumer spending growth was unchanged at 2.9%.
- New home sales add to the evidence the housing market is on a better trend, with total new home sales at a 733,000 annualized pace in October, above the consensus of 707,000. In addition, September was revised up to a 738,000 pace from 701,000 and a new 12-year high. The three month average is now at the highest rate since the mid-2000s housing boom. Supply is becoming an issue again for new homes as well, but not as bad as existing homes, with just 5.3 months supply on the market.
- The S&P Case-Shiller Home Price Index shows home prices increased 0.4% on a seasonally adjusted rate in September. Data shows home price increases are accelerating again after showing slower growth for almost 18 months, with the year-over-year rate now at 3.2%, up from 3.1% in the month prior. We also continue to see the shift in cities experiencing the highest prices increases, with those now being Charlotte, Tampa, Phoenix and Cleveland. Lowest price increases are being seen in San Francisco, Seattle, Chicago, and New York.
- There were a series of M&A deals announced Monday. Discount brokerage firm Charles Schwab agreed to acquire TD Ameritrade in an all stock deal valued at \$26 billion. LVMH (Louis Vuitton) is buying Tiffany & Co for \$16.2 billion to boost its presence in the jewelry and U.S. markets. Drug maker Novartis is buying The Medical Company for \$9.7 billion for its experimental cholesterol drug Inclisiran, which is in phase 3 trial and likely to come to market. Finally, eBay will be selling StubHub to Viagogo, which is another ticket resale company, for \$4 billion. eBay bought StubHub for just \$310 million in 2007.



## Company news

- Best Buy reported another quarter beating earnings and revenue estimates, with sales up 1.8% y/y. The company raises its full year guidance with earnings per share expected to be in the range of \$5.81 to \$5.91 versus the \$5.76 consensus, and increases comparable store sales growth to +1% to +2%.
- Dick's Sporting Goods beat estimates on its third quarter results and increased its full year forecasts. For the quarter comparable store sales growth was 6% which is double the 3% rate expected. The company now expects EPS of \$3.50-\$3.60 versus the \$3.39 consensus estimate.
- A report from research firm Apptopia estimates Disney+ has been downloaded about 15.5 million times in less than the two weeks it has been out. They further estimate its more than just free trials as their data shows over \$5 million of in-app purchases since launch day.

## The Week Ahead

The economic calendar will be busy this week starting with the Institute of Supply Management and Markit economics releasing their manufacturing reports for November on Monday, where results are expected to show slight growth again. Following that will be trade data Thursday and the employment report on Friday.

The earnings calendar thins out this week with salesforce.com, Dollar General, Kroger and Ulta reporting throughout the week.

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