



MORNING BRIEFING

March 28, 2019

FANG Fight

See the [pdf](#) and the [collection](#) of the individual charts linked below.

(1) More pie or just more whipped cream from Apple? (2) Do consumers value their privacy? (3) How much content is too much content even at \$9.99/month? (4) Apple's fan base: 1.4 billion is a big number. (5) Battle of the entertainment and media disruptors. (6) Lots of digital players want to play with our wallets.

Disruptive Technology I: Apple's Pie. In a slick meeting on Monday, live-streamed across the Internet, Apple introduced a number of new services that touch many of its platforms. The presentation was light on details, and the new services offered only incremental improvements to existing Apple services, leaving some observers disappointed, according to news reports. Apple, however, thought the changes were big enough to ask customers to pay for these services instead of getting them for free.

Apple contends that its new services are easier to use, family friendly, and protect users' privacy. The company's focus on privacy was strongly emphasized during each product introduction. The company is presumably taking aim at both Facebook and Amazon, which have used customer data to create innovative offerings and monetize their business with advertising. With its new products, Apple is also betting that consumers will pay up for quality—whether that be quality news articles from leading publications, quality gaming, or quality video programs from entertainment legends like Oprah and Steven Spielberg.

The move isn't without risk. Streamed video entertainment is an awfully crowded field that's expecting two new, giant competitors—Disney and AT&T—to enter the fray shortly. The glut of new programming may lead to subscription fatigue, dissuading consumers from buying yet another service.

But Apple stands more than a fighting chance, thanks to its extremely deep pockets and an established base of 1.4 billion existing Apple devices. Just as importantly, Apple doesn't have much of a choice. iPhone sales are slowing, and it needs alternate ways to grow. I asked Jackie to take a look at Apple's latest offerings and their disruptive impact. Here is her report:

(1) *Apple News+*. Is anyone willing to pay to read articles in newspapers and magazines anymore or are we all too used to getting our information for free? Apple is about to find out. The company currently has a free app that predominantly serves up free articles on the day's headlines. It introduced on Monday *Apple News+*, which is currently available and will offer news from more than 300 of the most prestigious and popular magazines and newspapers in the country.

Time, Vogue, People, National Geographic, Popular Science, Billboard, The New Yorker, Sports Illustrated, Fortune, WSJ, and The LA Times are among the titles being offered. Apple's new service also offers privacy: It will have advertisements, but Apple is promising not to track what you're reading or sell your information to advertisers. Take that, Facebook. When suggesting what to read, Apple will use editors to evaluate articles and prioritize items that readers spend a long time reading over articles

that have the most clicks to avoid passing on to readers mere clickbait.

In return for this bountiful content, publishers get a split of the fees and access to Apple's 1.4 billion devices. A 3/25 *WSJ* [article](#) said Apple was looking for a 50% share in talks with publishers. Publishers may be betting that they'll generate enough revenue with Apple to offset any cannibalization of their existing subscriber base. Or perhaps publishers fear there's no other option in a world where fewer and fewer consumers are reading to stay informed or entertained.

With Apple News+, consumers pay \$9.99 a month for access to content that would cost \$8,000 per year if it were purchased individually, Apple stated in its [presentation](#).

(2) *Apple TV+*. Apple already offers TV shows and movies produced by others on Apple TV. The service is free after you pay for the equipment. AppleTV provides a fast, easy way to access Netflix, HBO, and other channels that you're already paying for directly or via a cable provider.

Apple TV is far from dominant. "[O]ne early 2018 report by Parks Associates put[s] the Apple TV at having a 15-percent share of the market. By comparison, Roku had a 37-percent share," reports a 3/26 [article](#) on Appleinsider.com. Along those lines, Apple's share of movie sales and rentals was more than 50% in 2012. By 2017, it was between 20%-35%, a 3/25 *WSJ* [article](#) noted.

In a new strategy, Apple is making Apple TV available on non-Apple devices, including Roku and smart TVs from Samsung, LG, and others. It's also rolling out a new subscription service, Apple TV+, that will carry original movies and TV programs produced exclusively for Apple from the likes of Steven Spielberg, Oprah Winfrey, and Ron Howard. In return, these content creators potentially have access to Apple's 1.4 billion devices. That compares to Netflix's 139 million subscribers, Amazon Prime's 100 million, and Hulu's 25 million.

That said, Apple is being severely outspent. The company plans on spending \$2 billion on programming, far less than the \$15 billion Netflix is reportedly shelling out. And whereas Netflix has successfully hooked consumers on programs like *Orange Is the New Black*, *Arrested Development*, *Jessica Jones*, and *The Crown*, Apple is starting from scratch.

Once again, Apple touted the privacy it's offering consumers who subscribe to Apple TV+. In an implied challenge to YouTube, Netflix, and Amazon, Apple highlighted that it won't track what consumers are watching. Apple TV is available in 10 countries today, but it's being expanded to 100 countries, and Apple TV+ will be available this fall.

(3) *Apple Card*. Apple already offers Apple Pay, which allows you to use your iPhone and other issuers' credit cards to make purchases at many merchants. But now it will offer Apple Card, its own credit card that can be used as a traditional credit card or linked to an iPhone and used at Apple Pay locations. Apple Pay is accepted at more than 70% of US retailers now and will be in 40 countries by year-end.

The card is issued by Goldman Sachs and runs on the Mastercard network. It will pay unlimited cash rebates instantly into your account: 3% on Apple products, 2% at merchants that take Apple Pay, and 1% on all other purchases. "Information posted on Apple's website said annual rates would range from 13.2% to 24.4%, depending on how creditworthy a consumer is. Currently, the average U.S. credit card charges about 18% a year, according to CreditCards.com," a 3/25 *WSJ* [article](#) reported.

The Apple Card will track your spending on your phone in a format that's easy to see, offer a number of different ways to pay, and provide enhanced security. Apple promised that it won't track what you buy, where you buy it, or what you pay for it. Take that, Amazon.

Disruptive Technology II: Odd Fellows Converging. As disruption shakes up the world of media and entertainment, the participants' stocks remain in odd silos. Disney and Netflix are members of the S&P 500 Movies & Entertainment stock price index, which has risen 22.9% since the market's 12/24 low, beating the S&P 500's 19.9% jump ([Fig. 1](#)). CBS is a member of the S&P 500 Broadcasting stock price index, which has risen only 9.7% since the market's low ([Fig. 2](#)). AT&T, despite its major TimeWarner acquisition, remains in the S&P 500 Integrated Telecommunication Services index, which has popped 14.5% since 12/24 ([Fig. 3](#)). And the latest content creator, Apple, is in the S&P 500 Technology Hardware, Storage & Peripherals index, which has gained 26.3% since the 2/24 market low ([Fig. 4](#)). Here's a comparison of some of the industries' key statistics:

(1) *Top and bottom lines.* The revenue and earnings growth projections as of 3/14 for the four industries looking 12 months ahead are quite varied: Movies & Entertainment (7.0% and 7.5%), Broadcasting (6.3, 26.4), Integrated Telecom Services (3.8, 0.9), and Technology, Hardware, Storage & Peripherals (-0.3, 2.6) ([Fig. 5](#), [Fig. 6](#), [Fig. 7](#), and [Fig. 8](#)).

(2) *Margins.* The industries' forward profit margins are more aligned: Movies & Entertainment (14.2%), Broadcasting (14.3), Integrated Telecom Services (14.4), and Technology, Hardware, Storage & Peripherals (17.3) ([Fig. 9](#), [Fig. 10](#), [Fig. 11](#), and [Fig. 12](#)).

(3) *Multiples.* Forward earnings multiples range from 7.8 to 23.7: Movies & Entertainment (23.7), Broadcasting (7.8), Integrated Telecom Services (10.1), and Technology, Hardware, Storage & Peripherals (14.1) ([Fig. 13](#), [Fig. 14](#), [Fig. 15](#), and [Fig. 16](#)).

Disruptive Technology III: Electronic Payments. Apple's introduction of its own credit card to bolster the use of Apple Pay is just the latest news coming out of the electronic payments industry. Acquisitions, new products, and the continued move away from cash have kept the industry in the headlines. Here's a roundup of some of the most recent industry news:

(1) *Industry's plumbers merging.* The giants that provide the systems over which the electronic payments industry works have entered consolidation mode. Fidelity National Information Services agreed in March to buy Worldpay for about \$35 billion. The deal follows Vantiv's \$10.6 billion acquisition of Worldpay about a year ago (the combined company was called "Worldpay").

"Worldpay is a major player in card payments, particularly in Britain, while FIS, produces software for banks and asset managers as well as its financial services outsourcing business," a 3/18 Reuters [article](#) explained.

Fidelity National's deal follows Fiserv's January acquisition of First Data for \$22 billion. Both companies provide a number of tech services to banks, including payments. "Fiserv processes credit- and debit-card transactions for banks, while First Data handles the merchant side of the equation. [Square](#) Inc. and other fintech firms have muscled into the market in recent years, luring away potential customers and threatening a major source of revenue," a 1/16 *WSJ* [article](#) noted. "The deal could help Fiserv sell more of its products to First Data's core merchant customers, and vice versa." First Data's Clover payments station competes with Square's readers.

Just yesterday, Mastercard announced plans to make a \$300 million investment in the IPO of Dubai-based Network International, the largest payments processor in the Middle East and Africa, a 3/26 Reuters [article](#) states.

(2) *New product offerings.* T-Mobile has introduced GoPoint, a merchant services business that will

compete against Square and Clover. To use GoPoint, merchants will need a T-Mobile-compatible smart phone or tablet and a GoPoint mobile card reader. Transactions over the system will be processed by Total System Services, reported a 3/26 [article](#) in Digitaltransactions.net.

(3) *Digital wallets proliferate.* US consumers may not have latched onto digital wallets yet, but that's not because they lack for choices. Digital wallets represented less than 1% of all US card transactions last year, an 11/21 *WSJ* [article](#) reported. But US companies, watching digital wallets take off in Asia with apps like AliPay and WeChat Pay, are positioning themselves for the future.

PayPal's digital wallet gained in popularity as a safe, easy way to make purchases online, instead of typing in a credit card number each time. PayPal has more than a 60% share of the online wallet market, followed by Visa Checkout, with about 20%, and Amazon Pay. Other wallet providers include Apple Pay, Google Pay (works on Android phones), Samsung Pay, Venmo, Masterpass, AmEx Express Checkout, Chase Pay, Zelle, Facebook Payments, and Square Cash.

Electronic wallet providers are hopeful that consumers will move beyond using their wallets for online purchases and also use them at the registers of brick and mortar stores. As we mentioned above, Apple is accepted at 70% of US retailers. Now consumers just have to get into the habit of paying with their phone or watch instead of cash or credit card.

CALENDARS

US. Thurs: GDP & PCE 2.4%/2.6%, GDP Deflator 1.8%, Jobless Claims 225k, Pending Home Sales 0.0%, Kansas Fed Manufacturing Index, EIA Natural Gas Report, Bullard, Clarida. **Fri:** Personal Income & Spending 0.3%/0.3%, Headline & Core PCED 1.4%/1.9% y/y, Consumer Sentiment, New Home Sales 620k, Baker-Hughes Rig Count, Quarles, Kaplan. (DailyFX estimates)

Global. Thurs: Eurozone Economic Confidence 105.9, Germany CPI 1.6%/m/m/1.5%/y/y, Japan Jobless Rate 2.5%, Japan Industrial Production 1.3%/m/m/-1.2%/y/y, Japan Retail Trade 0.8%/m/m/0.9%/y/y, Japan Headline, Core, and Core-Core CPI 0.9%/1.1%/0.7% y/y, Mexico Overnight Rate 8.25%. **Fri:** Germany Unemployment Change & Unemployment Rate -10k/4.9%, Germany Retail Sales -0.9%/m/m/2.2%/y/y, UK GDP 0.2%q/q/1.3%/y/y, UK Consumer Confidence -14, Canada GDP 0.1%/m/m/1.5%/y/y, Japan Housing Starts 931k. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): The Bull/Bear Ratio (BBR) fell to 2.52 this week from a five-month high of 2.61 last week. The BBR has been in a volatile flat trend the past four weeks after advancing from 0.86—which was the lowest since mid-February 2016—to 2.57 the first eight weeks of the year. Bullish sentiment slipped to 52.0% this week after increasing 10 of the prior 11 weeks, by 24.0ppts, from 29.9% (which was the fewest bulls since February 2016) to a 21-week high of 53.9%. It's the sixth consecutive reading above 50.0%. Bearish sentiment continues to bounce in a range between 20.4% and 21.5% the past nine weeks, holding at the bottom of the range again this week, at 20.6%. Meanwhile, the correction count increased for the first time in eight weeks, to 27.4%, after falling the prior seven weeks from 33.6% to 25.5%—which was the lowest since early October. The AAI Ratio jumped to 61.4% last week, after sinking from 67.5% to 51.1% the previous two weeks, as bullish sentiment rose from 32.4% to 37.3% last week and bearish sentiment fell from 31.1% to 23.4%.

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): Consensus S&P 500 forward revenues rose 0.1% w/w, but forward earnings dropped 0.3%. Forward revenues is now less than 0.1% below its record high in early January, and forward earnings is now 2.1% below its record high in early

December. Analysts expect forward revenues growth of 5.6% and forward earnings growth of 6.2%, compared to week-earlier readings of 5.5% and 6.3%, respectively. Forward revenues growth is down 0.7ppt from a seven-year high of 6.3% in February 2018, but is up from a 31-month low of 5.0% in mid-February. Forward earnings growth is down 10.7ppts from a six-year high of 16.9% last February, but that's up from a 34-month low of 5.9% in late February. Prior to the passage of the Tax Cuts and Jobs Act (TCJA), forward revenues growth was 5.5% and forward earnings growth was 11.1%. Turning to the annual growth expectations, analysts expect revenues growth to slow from 8.4% in 2018 to 5.4% in 2019 and 5.4% in 2020. They're calling for earnings growth to slow sharply from 24.2% in 2018 to 3.7% in 2019 before improving to 11.4% in 2020. The forward profit margin remained ticked down 0.1ppt w/w to a 12-month low of 12.0%, and is down 0.4ppt from a record high of 12.4% in mid-September. Still, that's up from 11.1% prior to the passage of the TCJA in December and compares to a 24-month low of 10.4% in March 2016. The S&P 500's forward P/E has moved higher in 11 of the past 12 weeks, rising w/w to a five-month high of 16.6 from 16.4. That's up from 14.3 during December, which was the lowest reading since October 2013 and down 23% from the 16-year high of 18.6 at the market's valuation peak in late January. The S&P 500 price-to-sales ratio was steady w/w at 1.99, but is up from 1.75 during December. That was the lowest since November 2016 and down 19% from a record high of 2.16 in late January.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins ([link](#)): Consensus forward revenues rose w/w for seven of the 11 S&P 500 sectors, but forward earnings rose for just two. Energy was the only sector to have both measures rise w/w, while three sectors had both measures fall: Consumer Discretionary, Real Estate, and Utilities. Forward revenues and earnings are at or around record highs for 4/11 sectors: Consumer Discretionary, Health Care, Industrials, and Tech. Energy's forward earnings is beginning to stabilize now after tumbling about 25% since early November. Forward P/S and P/E ratios are now well below their 2018 highs for all sectors, and had been at multi-year lows during December for five sectors: Energy, Financials, Industrials, Materials, and Tech. Energy's forward P/E of 17.6 is higher than usual due to its earnings deterioration. Due to the TCJA, the profit margin for 2018 was higher y/y for all sectors but Real Estate, but that sector's earnings includes gains from property sales, which typically are infrequent. The forward profit margin was at record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Since then, it has rolled over for all of the sectors. The outlook for 2019 shows lower margins are now expected y/y for 7/11 sectors: Communication Services, Consumer Staples, Energy, Health Care, Materials, Real Estate, and Tech. During the latest week, the forward profit margin fell for six sectors and rose for three. Nine sectors are down from their highs in late 2018. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (22.0%, down from 23.0%), Financials (18.4, down from 19.2), Real Estate (15.4, down from 17.0), Communication Services (15.0, down from 15.4), Utilities (12.9, down from 13.0), S&P 500 (12.0, down from 12.4), Materials (10.5, down from 11.6), Health Care (10.4, down from 11.2), Industrials (10.1, down from a record high of 10.4 a week earlier), Energy (6.7, down from 8.0), Consumer Discretionary (7.5, down from 8.3), and Consumer Staples (7.4, down from 7.7).

S&P 500 Sectors Net Earnings Revisions ([link](#)): The S&P 500's NERI was negative in March for a fifth straight month, but improved m/m for the first time in 12 months. That follows 18 months of positive readings through October, which had been its longest positive streak since a 26-month string ending August 2011. NERI rose to -6.3% from 7.9% in February, which compares to a record high of 22.1% in March 2018. NERI improved m/m for 8/11 sectors and was negative for all 11 sectors (compared to two improving and 11 negative in February). Consumer Staples has the worst track record, with 11 months of negative NERI, followed by Materials (6). All of the sectors are down from their TCJA-boosted highs during early 2018. Here are the sectors' March NERIs compared with their February readings: Utilities (-2.1% in March [28-month low], down from -0.7% in February), Health Care (-2.1, -2.4 [22-month low]), Consumer Discretionary (-2.8, -4.6 [14-month low]), Industrials (-3.3 [26-month low], -1.9),

Communication Services (-4.9,-5.9), Consumer Staples (-5.2 [10-month high], -5.5), Real Estate (-6.0, -4.4), Tech (-7.3, -10.3), Financials (-8.5, -11.5 [29-month low]), Energy (-14.3, -22.8 [34-month low]), and Materials (-20.0, -20.3 [34-month low]).

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

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