MORNING BRIEFING
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Travel, Homes & Hydrogen

Check out the accompanying chart collection.

Executive Summary: Maskless and Covid-free, Americans have been venturing further abroad this year, a trend that has saddled companies with domestic-travel-related businesses with tough y/y comparisons. Airbnb and Wynn are prime examples. … Also: Jackie examines the curious divergence between the share price performances this year of two housing-related S&P 500 industries, Homebuilding and Home Improvement Retail, which usually perform in lockstep. … And: Our Disruptive Technologies focus this week is on utilities' use of hydrogen to produce electricity.

Consumer Discretionary I: Tougher US Travel Comps. The further the pandemic recedes into the past, the more adventurous travelers are growing and the tougher y/y comparisons for travel within the US are getting. Airbnb's CEO Brian Chesky noted on his company's Q1 earnings *conference call* that more guests are traveling overseas and returning to cities.

That's great news for international airlines, for hotels and casinos with international exposure, and for cruise lines. But revenue growth at US operations has started decelerating albeit from very high levels as y/y comparisons get tougher and as travelers look to vacation overseas.

Domestic traffic on airlines registered in the US measured in revenue passenger kilometers rose 4.4% y/y in March, while international traffic for carriers registered in North American climbed 51.6% y/y in March, according to a May 4 International Air Transport Association *press release*. The fastest growth is occurring in Asia, where China's Covid travel restrictions only expired in December. Domestic travel on Chinese carriers grew 195.2% y/y, and international travel on Asian Pacific carriers jumped 283.1%.

Let's look at the Q1 results at Airbnb and Wynn Resorts to see how this trend is playing out:

(1) *US growth is great but slowing.* Airbnb has places to rent around the world, but its operations are primarily in North America and Europe. In Q1, its total revenue grew an impressive 20.4%, boosted by its international operations, which grew more quickly than those in North America. Here's how Airbnb's Q1 revenue grew y/y by its listings' geographic

location: North America (12.5%), Europe, Middle East, Africa (22.8), Latin America (32.0), and Asia Pacific (47.0).

Last year when the reopening was newer, Airbnb grew Q1 revenue more quickly, by 70.1% y/y. The company has changed its format for reporting international sales since last year. In Q1-2022, Airbnb broke out only US revenue, which grew 41.1% y/y, and international revenue, which grew 95.9%.

Airbnb shares dropped 10.9% on Wednesday to $113.19 in reaction to the Q1 results. Some press attributed the share price drop to the company's Q2 revenue forecast of $2.35 billion to $2.45 billion, the midpoint of which is slightly below the Wall Street analysts' consensus estimate of $2.42 billion. We'd bet that investors are more concerned that the days of easy US comps are in the rearview mirror.

(2) *Wynn wins in Macau.* Wynn Resorts' Q1 revenue grew both in the US and abroad, but the largest percentage increase occurred at its Macau casinos, which benefitted from the lifting of Covid restrictions in China in late 2022.

Revenue at Wynn's Macau operations jumped 70.8% y/y to $230.7 million in Q1, while revenue grew at its Las Vegas operations by 33.0% y/y to $586.8 million and at its Boston property by 13.4% y/y to $216.3 million. Altogether, Wynn's Q1 revenues jumped 49.3% y/y to $1.4 billion, and the company reinstated its dividend.

"[T]he [Macau] market is coming back much more quickly than anybody would have thought of certainly six, nine months ago. It's incredibly good to see," said CEO Craig Billings on the company's Q1 earnings *conference call*. And regarding Las Vegas, he added: "Despite the confluence of high inflation, high interest rates, bank failures and increasingly difficult year-over-year comps, Wynn Las Vegas delivered an all-time record in Q1 … supported by a consumer that continues to feel flush. … Looking ahead, we currently have a strong pipeline of forward group demand, continued rooms pricing power, healthy drop in handle and a robust programming calendar, particularly in the back half of the year."

But then he noted: "I continue to watch the macro factors that I mentioned earlier, and I will note that, with Q2 2023, we will begin comping against some very strong prior year quarters." Wynn shares were largely unchanged on Wednesday, falling 0.2% to $111.50.

Consumer Discretionary II: Homebuilding vs Home Retail. Not all home-related industries are having the same performance in 2023. The S&P 500 Homebuilding stock price index shot up 28.1% ytd through Tuesday's close, while the S&P 500 Home Improvement Retail stock price index has languished, falling 4.7% ytd (*Fig. 1* and *Fig. 2*).

The performance divergence is especially notable given that the two indexes had been moving in tandem for the past three years. While we were trapped at home during the pandemic, both industries' stock price indexes rose as people either fixed up their abodes or moved out of small apartments and bought a home. From December 31, 2019 through December 31, 2021, the S&P 500 Home Improvement Retail industry gained 97.2%, and the Homebuilding industry wasn't far behind with an 84.0% gain.

After the home boom came the home bust. When Covid cases declined, Americans gave up decorating and gardening and returned to restaurants and traveling. Rising interest rates further crimped large home renovations and home purchases by making financing exponentially more expensive. The 30-year fixed mortgage rate has risen from 2.83% at its low in 2020-21 to 6.99% on May 9, 2023 (*Fig. 3*). As a result, the S&P 500 Home Improvement Retail stock price index fell 23.5% in 2022, and the S&P 500 Homebuilding index lost 20.2%.

Let's take a look at possible drivers of the divergent performances this year and whether the Home Improvement Retail index's returns can play catch up:

(1) *Earnings bounce a bit.* Both the S&P 500 Homebuilding and the S&P 500 Home Improvement Retail industries saw the collective revenue and earnings of their component companies drop this year. But next year, the Home Improvement Retail industry's earnings are expected to grow a touch faster than the Homebuilding industry's earnings.

Revenue for the S&P 500 Homebuilding industry is expected to fall 8.2% this year and 0.7% in 2024, and revenue in the Home Improvement Retail industry is expected to drop this year by 3.5% and inch up 2.7% in 2024 (*Fig. 4* and *Fig. 5*).

Meanwhile, earnings are forecast to fall 28.4% this year in the Homebuilding industry and drop 3.9% in the Home Improvement Retail Industry. Next year, the Homebuilding industry's earnings are forecast to rise 2.2%, which is less than the 6.6% increase expected for the S&P 500 Home Improvement Retail industry's earnings (*Fig. 6* and *Fig. 7*).

One possible contributor to the two indexes' ytd price performance divergence is that net earnings revisions for the S&P 500 Homebuilding was positive in April for the first time in 10 months, while net earnings revisions for the Home Improvement Retail industry has been decidedly negative for the last six months (*Fig. 8* and *Fig. 9*).

(2) *Different competitive trends.* In the market for new homes, we could argue that the competition has decreased because there are fewer existing homes on the market. Existing homeowners are stuck in their homes if they want to hold onto their low-cost mortgages. However, demand to purchase homes remains strong because there is always a new batch of 30-somethings looking to buy their first homes.

In March, sales of newly built, single-family homes increased 9.6% m/m to 683,000 (saar) but fell 3.4% y/y. A lack of existing home inventory helped the market, while a lack of electrical transformer equipment and building material price volatility hurt it, according to an April 25 *press release* citing Alicia Huey, chairman of the National Association of Home Builders. Mortgage rates also fell slightly during the month, from near 6.7% at the beginning of March to 6.3% at month-end. Inventory in the new home market is elevated at 7.6 months' supply, compared to the 2.6 months' supply in the much larger existing home market.

The S&P Home Improvement Retail industry includes Home Depot and Lowe's, big-box retailers that have dominated the industry for years. But more recently, they've faced increasing competition from Tractor Supply, Floor & Décor, and Amazon.

Floor & Décor shares are up 31.7% ytd through Tuesday's close, and Tractor Supply shares have risen 7.4% over the same period, outperforming the 4.0% ytd gain in Lowe's shares and the 8.0% ytd decline at Home Depot. Floor & Décor and Tractor Supply are still expanding their store base rapidly, with Floor & Décor opening 31 stores to bring its store count to 191 in 2022 and Tractor Supply opening 63 stores last year, bringing its store base to 2,066 stores. Meanwhile, Home Depot increased its store count in the US, Canada, and Mexico by five to 2,322 and Lowe's increased its store count by one to 1,738.

A growing store base is no guarantee of increasing profits or a rising stock price, but it doesn't hurt. And the lackluster ytd performance by the S&P 500 Home Improvement Retail industry is less likely a reflection of the broader economy and more likely a reflection of Lowe's and Home Depot's maturity. But enhancing the industry's investment appeal at this point is a forward P/E that has fallen to 17.0 from a recent peak of 23.7 in December 2021 (*Fig. 10*).

Disruptive Technologies: Utilities Tapping into Hydrogen. Searching for a way to reduce their carbon footprint, utilities are experimenting with using hydrogen to generate electricity.

A case in point: Plug Power has entered a $747 million joint venture with Korea's SK E&S to build a hydrogen "gigafactory" and research center in South Korea. The factory will produce hydrogen fuel cells for vehicles and water electrolysis platforms for power generation, a May 2 Energy News *article* reported. The joint venture also plans to build liquefied hydrogen stations across South Korea.

Here's how Plug Power described its plans in its May 9 earnings *press release*: "Our largest market opportunity is in utility-scale grid support, and we are expanding our business with utilities interested in this solution. We have long-term plans to use stationary units as both prime power and peaker plants. The anticipated rapid growth of global green hydrogen production would allow for the quick integration of fuel cell stationary power into the global prime and peak power market. Through our partnership with SK Group, SK Plug Hyverse, we plan to deploy 200MW or more per year of stationary products in South Korea for this purpose."

In last Thursday's *Morning Briefing*, we noted that NextEra, the parent of Florida Power & Light, plans to replace almost all of the utility's natural-gas-fired plants with electricity produced using green hydrogen. In February, the Los Angeles City Council unanimously voted to overhaul the city's largest natural gas-powered electricity plant so it can use at least 30% green hydrogen as fuel, with a goal of ultimately using 100% hydrogen instead of natural gas. Utilities in Massachusetts are looking to replace 20% of the natural gas they use with green hydrogen. And in Minnesota, CenterPoint Energy has been blending green hydrogen into its natural gas pipeline system.

Utility-scale hydrogen use is definitely an emerging area to watch.

Calendars

US: Thurs: Headline & Core PPI 0.3%m/m/2.4%y/y & 0.2%m/m/3.3%y/y; Initial & Continuous Jobless Claims 245k/1.82m; Natural Gas Storage; OPEC Monthly Report; Waller. **Fri:** Import & Export Prices 0.3%/0.2%; Consumer Sentiment Total, Current Conditions, and Expectations 63.0/67.0/59.8; Baker-Hughes Rig Count; WASDE Report; Bowman. (Bloomberg estimates)

Global: Thurs: UK NIESR Monthly GDP Tracker 0.0%; BOE Interest Rate Decision 4.50%;

Schnabel; DeGuindos; Bailey; Mauderer; Balz. **Fri:** France CPI 0.7%m/m/6.9%y/y; Spain CPI 0.5%m/m/4.1%y/y; UK GDP 0.1%m/m/0.1%q/q/0.2%y/y; UK Headline & Manufacturing Production 0.1%m/m/-2.9%y/y & -0.1%m/m/-2.5%y/y; UK Trade Balance -15.7b; China New Loans; De Guindos; Nagel; Pill. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear* Ratio slipped to 1.84 this week from 1.94 the prior two weeks; it was at 2.11 three weeks ago—which was the highest reading since the January 4 week last year. *Bullish* sentiment took a step back for the third week to 44.6% this week, after increasing the prior four weeks from 39.7% to 50.7%—which was the highest since November 2021, when it peaked at 57.2%. Bulls outnumbered bears for the 25th consecutive week. *Bearish* sentiment edged up to 24.3% this week after edging down from 25.0% to 23.6% last week—which was the fewest bears since early January 2022. The *correction count* moved up for the third week to 31.1% this week after moving down from 27.0% to 25.3% three weeks ago—remaining well below its late September 2022 peak of 40.3%. Turning to the *AAII Sentiment Survey* (as of May 4), pessimism was above average for the 11th consecutive week, while optimism and neutral sentiment both fell during the week. The *percentage expecting stock prices to rise* over the next six months fell for the second week from 27.2% to 24.1%—remaining at an unusually low level of 50 for the past 70 weeks. The *percentage expecting stocks to fall* over the next six months climbed for the third week by 10.4ppts (to 44.9% from 34.5%), with 6.4ppts of the gain occurring during the latest week. It remains above its historical average of 31.0% during 71 of the past 76 weeks—reaching a five-week high during the latest week. Pessimism remained above its historical average of 31.0% for 70 of the past 75 weeks. The *percentage expecting stock prices will stay essentially unchanged* over the next six months moved lower for the third week, from 39.5% to 31.0%—ending its five-week streak of above-average levels. It’s below average for just the second time in 18 weeks.

S&P 500 Q1 Earnings Season Monitor (*link*): With the Q1-2023 earnings season nearly 90% complete, this season is turning out to be a big improvement from Q4-2022’s relatively weak showing. Then, the earnings surprise was the lowest since Q4-2008, and the revenue surprise the smallest since Q1-2020. Furthermore, the earnings surprise failed to outpace the revenue surprise in Q4-2022 for the first time since we began tracking that data in Q1-2009. With 449 of the S&P 500 companies finished reporting for Q1-2023, revenues are ahead of the consensus forecast by 2.4%, and earnings have exceeded estimates by 7.2%. At the same point during the Q4 season, revenues were 1.8% above forecast and earnings had beaten estimates by 1.0%. Just 74% of the 449 Q1 reporters that have reported so far through Tuesday's close has reported a positive revenues surprise, while 76% has reported an earnings beat. Those are big improvements from their Q4-2022 readings, when they probably bottomed at 68% for both revenues and earnings. However, their aggregate y/y revenue and earnings growth rates are little changed from their Q4-2022 readings. The collective y/y revenue gain for the 449 reporters so far has dropped to 4.1% from 5.9% at the same point in Q4-2022, and earnings are down 3.5% y/y from a 1.9% y/y decline in Q4-2022. During the past 56 quarterly reporting seasons over the last 14 years, y/y earnings growth has trailed revenue growth in only 14 of the quarters, and it's likely to do so again in Q1-2023. Significantly fewer companies are reporting positive y/y earnings growth in Q1 (55%) than positive y/y revenue growth (69%). These figures are not expected to change much as more Q1-2023 results are reported in the coming weeks. While we expect y/y revenue growth rates to remain positive in Q1, earnings are likely to decline for a second straight quarter.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin rose 0.1ppt w/w to 12.4% during the May 4 week from a 24-month low of 12.3% a week earlier. That's down 1.0ppt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.1pts above its seven-year low of 10.3% during April 2020. Forward revenues jumped 0.6% w/w to a new record high. Forward earnings rose 1.1% w/w to 4.1% below its record high during the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to mid-June; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth rose 0.6pt w/w to 3.4%, which is 1.1pt above its 33-month low of 2.3% during the February 23 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 1.0pt w/w to 5.8% and is now 2.3pts above its 31-month low of 3.5% in mid-February. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 1.8% in 2023 (up 0.2pt w/w) and 4.7% in 2024 (down 0.1pt w/w) compared to a revenues gain of 12.2% in 2022. They expect an earnings gain of 0.1% in 2023 (up 0.3pt w/w) and an 11.2% rise in 2024 (down 0.4pt w/w) compared to an earnings gain of 7.2% in 2022. Analysts expect the profit margin to drop 0.2ppt y/y to 12.0% in 2023 (unchanged w/w), compared to 12.2% in 2022, and to rise 0.7ppt y/y to 12.7% in 2024 (down 0.1pt w/w). The S&P 500's weekly reading of its forward P/E rose 0.1pt w/w to 17.9, which is 0.6pt below its 43-week high of 18.5 during the February 16 week. That's up from a 30-month low of 15.3 in mid-October. It also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.01pt w/w to 2.22, and is now down 0.07pts from a 24-week high of 2.29 during the February 16 week. That's up from a 31-month low of 1.98 in mid-October and down from a four-month high of 2.38 in mid-August; it also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Looking at the 11 S&P 500 sectors, the April 27 week saw consensus forward revenues rise for eight sectors and forward earnings rise for all but the Energy sector. The forward profit margin rose w/w for eight sectors and fell for three. Communication Services joined Consumer Staples and Health Care this week as the only sectors with forward revenues at a record high. Among the remaining eight sectors, just two have forward revenues more than 5.0% below their post-pandemic highs: Energy and Financials. Consumer Staples and Utilities are the only sectors with forward earnings at a record high. Among the remaining nine sectors, just three have forward earnings down more than 10.0% from their post-pandemic highs: Energy, Financials, and Materials. Since mid-August, all but the Industrials sector have seen forward profit margins retreat from their record highs, but half of them are showing early signs of recovering from their lows in early 2023. Those of Communication Services, Consumer Discretionary, Financials, Industrials, Real Estate, and Tech remain closest to their post-pandemic highs. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022, and these five sectors are expected to see them improve y/y in 2023: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Here's how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (23.6%, down from its 25.4% record high in June 2022), Financials (18.2, down from its 19.8 record high in August 2021), Real Estate (16.8, down from its 19.2 record high in 2016), Communication Services (15.3, down from its 17.0 record high in October 2021), Utilities (13.0, down from its 14.8 record high in April 2021), S&P 500 (12.4, down from its record high of 13.4 achieved intermittently in 2022 from March to June 2022), Energy (11.4, down from its 12.8 record high in November), Materials (11.2, down from its 13.6 record high in June), Industrials (10.5, new record high this week), Health Care (9.6, down from its 11.5 record high in March 2022), Consumer Discretionary (7.5, down from its 8.3 record high in 2018), and Consumer Staples (6.8, down from its 7.7 record high in June 2020).

US Economic Indicators

Consumer Price Index (*link*): Both the headline and core CPIs posted gains of 0.4% in

April, with the former accelerating from 0.1% in March, while the latter matched previous gains. On a yearly basis, the *headline CPI* dipped below 5.0%, to 4.9% y/y, the lowest since April 2021 and nearly half of last June's 9.1% peak. Meanwhile, the *core prices* yearly rate remained at an elevated level, easing from 5.6% to 5.5% in April, close to its peak of 6.6% last September. During April, energy prices climbed 0.6% after falling the prior two months, while food prices were flat for the second month after 27 months of gains. The rate for *consumer durable goods* (-0.2% y/y) was in negative territory for the fifth month, though the rate of decline eased for the second month, while the rate for *consumer nondurable goods* excluding food (-1.3) was slightly above March's -2.8%, which was the first negative rate since February 2021. The *services' rate excluding energy* eased a bit for the second month to 6.8% y/y, after rising from 2.7% in August 2021 to 7.3% this February—which was the highest since summer 1982. *Food costs* (7.6) eased for the eighth month from last August's 11.3%, which was the fastest pace since April 1979. Within food, the rate for *food at home* (7.1) slowed steadily from 13.5% last August (the highest since March 1979); the rate for *food away from home* slowed slightly to 8.6% from March's 8.8%—which was the highest since the highest since fall 1981. *Energy costs* were below zero for the second month, slowing from last June's 41.6%—which was the fastest pace since April 1980—to -5.1% in April compared with March's -6.4%. Within energy, the rate for *fuel oil* plummeted to -20.2% y/y, down from last May's record high of 106.7%. The rate for *gasoline* prices fell 12.2% y/y, remaining in negative territory for the third successive month, though was below March's 17.4% drop; it peaked at 59.9% last June (fastest since March 1980). The rate for *natural gas* prices was below a year ago for the first time since August 2020, falling 2.1% y/y in April. It was at 38.4% last June, which was the highest since October 2005. The *electricity* rate eased to a 16-month low of 8.4% y/y in April; it peaked at 15.8% last August—which was the highest since August 1981. Within *consumer durable goods*, the rate for *new cars* rose 5.4% y/y, the lowest rate since mid-2021, down from last April's near-record high of 13.2%, while the rate for *used cars & trucks* was -6.6% last month, up from February's -13.6% bottom—which was the lowest since November 1960. It was as high as 41.2% last February and at a record-high 45.2% during June 2021. The rate for *furniture & bedding* was flat compared to a year ago, down dramatically from last February's record high of 17.1%, while the rate for *major appliances* was -10.4% y/y, down from its recent peak of 12.4% last March. Within *consumer nondurable goods*, the rate for *apparel prices* ticked up to 3.6% y/y in April from March's 3.2%, though is not too far from the 20-month low of 2.9% at the end of 2022; before that, it fluctuated in a 5.0%-5.5% range from last April through September. It was at a recent peak of 6.8% last March (the highest since the end of 1980). Within services, *owners' equivalent rent* climbed to a record-high 8.1% y/y, while the rate for *rent of primary residence* remained at 8.8% y/y again in April, which was the highest since fall 1981. These rates compare with recent lows of 2.0% and 1.8%, respectively. Over the three months through April, the owners' equivalent rent rose 6.9% (saar), and tenant rent rose 7.3%—below their yearly rates for the second month, after being above the past two years. Meanwhile, the yearly rate for *lodging away from home* eased to 3.3% y/y, down from 7.7% at the start of the year, heading back toward the recent low of 1.0% last July; it was at a record high of 25.1% in both March and February of 2022. Turning to medical care, the yearly rate for *hospitals'* (2.9) services was little changed from March's 20-month low of 2.7% and down from the 4.4% rate at the end of 2022, while the *physicians' services* (0.3) rate continues to drop sharply from March 2021's 5.3% peak. Meanwhile, the yearly rate for *airfares* fell below zero for the first time since November 2021 and was down sharply from this March's 17.7% y/y. It was at 42.9% last October, which was not far from the record high of 45.0% in September 1980.

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