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Newsletter 2-15

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VIRGINIA TECH SEED *Weekly Highlights* Global News:

Market Indicators: Various market indicators used by analysts to measure the health of the economy turn bullish, shifting away from last year's bearish territory. Major U.S. indexes like the DJIA, S&P 500, or Russell

2000 index have crossed or are nearing their 200-day moving average. Furthermore, the number of stocks setting 52-weeks high is on the rise, a bullish sign for many portfolio managers. The stock rally is seen as a result of the Federal Reserve's cautious rate increase outlook.

Border Security: On Monday, senior lawmakers said they had reached an agreement to a framework for border security funding. The deal will prevent another partial government shutdown this weekend. The agreement terms include \$1.38 billion for 55 miles of physical barrier along the Mexican border, as well as funding for the Homeland Security Department (which oversees the border). Most importantly, according to people familiar with President Trump's plans, he is likely to sign the border-security legislation.

US-China Trade talks: This Tuesday President Trump stated he was willing to delay next month's deadline (March 1st) for resolving the trade conflict between the United States and China. The President said he believed

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UK-Switzerland Trade Deal: The United Kingdom and Switzerland signed a post-Brexit deal to continue trading on preferential terms after the Brexit. This "continuity agreement," which is based on the EU's free trade deal with Switzerland, will protect \$32 billion worth of goods.

Below is a list of the continuity agreements the UK signed so far (46 days before Brexit):

- Switzerland • Chile
 - The Faroe Islands

- Eastern and Southern Africa

Sources: Wall Street Journal, BBC News, and Reuters

China wants to reach an arrangement. His announcement sent stocks higher, as markets would welcome a cessation of trade hostilities.

Financials Sector:

Two of our holdings, Everest Reinsurance (RE) and Four Corner Property Trust (FCPT), released Q4 2018 earnings this week. Everest missed on EPS and revenue due to underestimated losses. Their CEO addressed these concerns on a conference call and said industry models have not adequately addressed wildfire risk, but will tighten policies to control exposure in 2019. FCPT reported funds from operations (a better metric for revenue for Real Estate Investment Trusts) in line with estimates but missed EPS expectations. They reported strong acquisitions in the past quarter and have aggressive plans for 2019.

The Fed has expressed growing concern about the state of the growing economy, specifically concerned with the global slowdown and how it affects the United States. The Fed has promised patience on rate hikes this year, and is signaling two (2) more for this year. We will continue to watch as rising interest rates could rise to levels that affect consumer borrowing and affect primary revenue lines for our financial service companies. Assured Guaranty (AGO) reports earnings next week and wraps up Q4 2018 earnings announcements for the financial sector.

Consumer Sector:

This week, the Consumer Sector was led by Hilton Worldwide (NYSE:HLT) which is currently up 8.19% since Monday. This is largely due to their most recent Q4 earnings report, in which the company announced they beat EPS estimates by \$0.10, saw an increase in revenue per available room of 2%, and improved operating margins to 15.8%.

The sector has been out-performing all benchmarks YTD and our biggest mover has been Hanes Brands, which is up 49.32% YTD. We believe they can reach the \$20 mark in the first half of this year as their Champion brand continues to bring in increased revenue internationally. Once this happens, we may look to exit this position along with Home Depot, which has shot up about 9% YTD.

Energy Sector:

On February 7th Marathon Petroleum Corporation (MPC) reported earnings in which they missed revenue targets by 1.37 billion, while beating Non-GAAP EPS by \$0.52, however, missing GAAP EPS by \$0.27. MPC also stated that their refinery utilization was at 94% during Q4, which resulted in total throughputs increasing by 55% from 2.0 bbl/day in the previous year's Q4 to 3.1 bbl/day this Q4. Finally, MPC management has recognized ~\$160 million from the Andeavor acquisition this quarter and expects ~\$600 million by the end of their fiscal year.

Since January, OPEC, along with Russia, have engaged in slowly curbing the global supply of oil due to what they called an "oversupplied market" by 1.2 million barrels a day for the first half of 2019. Saudi Arabia is taking the heavy load in reducing their supply by cutting a fourth of the 1.2 billion. OPEC stated Tuesday that global oil supply has decreased by 1.09 million barrels a day to an average of 99.32 million barrels a day. Shortcomings of their projected supply curb comes from various Russian projects still heavily producing output.

Industrial Sector:

This week Congress settled on the spending package to fund the government for the rest of the year and President Donald Trump is not enthused. This was no surprise as the new plan for the proposed border wall

contains less money for fewer miles of new border barriers. The new plan provides \$1.375 billion for the wall compared to the full \$5.7 billion Trump had asked for. Despite Trump's disappointment in the border deal, he may reluctantly accept the congressional border-security deal to avoid another government shutdown and attempt to tap into other funds for the wall. If more funding is secured for the wall, Nucor (NUE), our Materials holding should stand to benefit greatly from the steel required to build the massive wall.

Healthcare Sector:

UnitedHealth Group's OptumRx unit got out in front of the drug rebate changes. They reportedly sent out letters to drugmakers demanding changes to rebate terms seven quarters prior to make adjustments to its insurance plans that benefit from rebates.

Biogen (BIIB) had a visceral reaction to the news they could potentially lose a patent battle to competitor Mylan. This dispute is over a multiple sclerosis drug, Tecfidera. Given that Tecfidera is one of Biogen's highest-earning drugs, a potential loss will crush its stock price. If Mylan loses, Biogen will try to extend the drug's exclusivity for the next ten years.

Technology Sector:

With the release of Apex Legends a week and a half ago, EA has seen their stock price rise 10.54%, a reversal from the previous downward trend of nearly 50% over the past six months. Apex Legends is yet another addition to the battle royale genre of video games where players team up in squads or go out solo and fight in servers consisting of up to 60 players to the death. This platform has seen tremendous growth over the past two years with Fortnite being the premier game for this genre with over 200 million users as of November 2018. However, Apex had a very successful launch (especially for EA titles) and has garnered over 10 million users after its first weekend. Unfortunately, our holding Take-Two Interactive (TTWO \$92.14) has taken a hit due to its absence in the world of battle royale as investors believe that it is the future for video games for the short term.

In other news, Google just announced that it is building new data centers across the USA including Texas, Ohio, Nebraska, and Nevada with a brand-new office in Georgia to top things off. CEO Pichai believes that this \$13B investment in new data centers will not only help Google but bring new jobs to thousands of construction workers across the nation.

Graph of the Week:

15.0 10.0 5.0 0.0 -5.0 -10.0 -15.0

Advance Retail Sales: Retail and Food Services

The December retail sales report came out much weaker than expected – a 0.1% MoM change from November was expected, but the actual change was -1.2%. Could this mean consumer spending is weakening? We will have to keep an eye on the revised numbers from the U.S. Census Bureau and hope this is just a temporary blip due to the government shutdown and the reeling stock market during December.

Source: Economic Resource Division of the Federal Reserve Bank of St. Louis

Closing Words:

Have a good weekend everyone – look out for our 2018 Annual Report coming out soon.

Logan Stone

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% Change From a Year Ago

2000 2001

2002 2003

2004 2005

2006 2007

2008 2009

2010 2011

2012 2013

2014 2015

2016 2017

2018

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