US earnings season delivers for the believers

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The US earnings season has delivered plenty for investors to like, countering the low-growth narrative that led the US Federal Reserve to put its tightening plans on ice.

In the same week that the S&P 500 and Nasdaq advanced to fresh record highs, the digital giants triumphed with reliable earnings growth, defying challenges to their business models from governments, regulators and an advertiser backlash.

But it was not just Amazon, Microsoft, Facebook and Twitter which delighted investors. The food delivery company Grubhub surged on Thursday by more than 6 per cent in after-hours trading to $US74.10.

Starbucks second-quarter global same-store sales increased 3 per cent; the stock rose nearly 1 per cent to $US77.11. Same-store sales growth was 4 per cent in its US coffee shops.

And Ford Motor forecast that 2019 would deliver better results than last year, underpinned by a strong performance from the trucks and utility vehicles category in the North American market, where margins improved by nearly a percentage point. Ford shares rose 7 per cent in after-hours trading to $US10.07.

Trucks delivered for Ford. **Bloomberg**

"The IT and consumer discretionary sectors are ahead of the pack while financial stocks are up, somewhat of a surprise given low rates and not ultra convincing results," said Giselle Roux, Escala Partners chief investment officer.

"Into this reporting period there had been substantial downgrades and earnings expectations were weak, therefore any above expected result is being warmly embraced."

Amazon - whose first-quarter profit beat estimates - signalled greater investment in delivery services. Its shares were flat closing at $US1,902.25, but more significantly, it was briefly joined in the trillion-dollar club by Microsoft. Demand for cloud computing services led Microsoft shares to a record high $US131.37.

And Facebook extended its 2019 advance, after producing evidence of daily and monthly active user growth in the first quarter. Revenue in the first-quarter was $US15.1 billion, beating every quarter in 2018 except Q4. Shares of the social network closed at $US193.26, up more than 5 per cent.

"It's been a punching bag, and if you were to look at the news headlines throughout last year and this year, almost every week Facebook has been in the press about privacy issues or the dissemination of hateful content," said Montaka Global Fund analyst George Hadjia.

"The concern was these issues could deter advertisers and users; from what we've seen, actually users are still using Facebook and they increased their DAUs [daily active users] in Q1."

Mostly supported by advertising dollars, Facebook's average revenue per user in the US and Canada was $US30.12 in Q1.

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"They're still growing and advertisers are still allocating more ad dollars," Mr Hadjia said, believing other platforms cannot match its return on investment in the eyes of marketers. And at its December price of $US125 a share, it was "just an absolute steal".

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Intel, the chipmaker, missed expectations and trimmed its guidance. "Looking ahead, we're taking a more cautious view of the year, although we expect market conditions to improve in the second half," said Bob Swan, Intel's CEO.

Intel fell 7 per cent after-hours to $US53.52.

"We need the earnings cycle to now come back into the picture as stock prices have rallied hard this quarter while the downgrades came into play," Ms Roux said.
"It will have to be more broadly based to really drive the index higher, but in the meantime the now tried-and-tested path of least resistance is to stay with the tech favourites."

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The S&P 500 has rallied 17 per cent year-to-date. Of the almost 50 per cent of results so far to report, 77 per cent have beat expectations at the earnings level and 54 per cent on revenue, according to AMP Capital.


iRobot's Roomba vacuum cleaner. **Supplied.**

iRobot Corp, the maker of the Roomba vacuum cleaner, erased more than half of this year's gains upon its results release, despite increasing full-year earnings per share guidance. iRobot showed rising inventories, and Roomba sales were lower than expected.

"With any sort of consumer technology, they get commoditised at some point and there's massive price deflation and margin erosion as competition creeps in," Mr Hadjia said. Montaka has successfully shorted iRobot. "We think this could be analogous to the GoPro."

Since GoPro was floated in 2014, its shares have fallen more than 90 per cent in value, peak to trough.