

NETFLIX SCORECARD TO TEST METTLE OF TECH RALLY

WALL ST WEEK AHEAD

SAN FRANCISCO: The longevity of the technology stocks rally is on the line next week as Netflix Inc kicks off the earnings season for a sector that has mushroomed to account for more than a fifth of the US stock market's value. Surges in Apple, Facebook and other Silicon Valley heavyweights have pushed the S&P 500 technology index 10 percent higher this year, more than double the broader S&P 500 index's 4 percent gain. The tech sector's aggregate value now tops \$4.4 trillion, 30 percent higher than No. 2 financials, and even rivals the size of the Federal Reserve's massive balance sheet.

The next test for these companies is whether their profit growth is sufficient to justify their outsized share price gains. Enter

Netflix, which reports after the bell on Monday. The video streaming pioneer is expected by analysts to quintuple its earnings per share. But with its stock surging 43 percent in the past six months and now trading at 109 times expected earnings, Netflix's valuation is based more on sentiment than on fundamentals, many investors believe.

"The market's reaction to whatever the news is from Netflix will be telling," said Stephen Massocca, Senior Vice President at Wedbush Securities in San Francisco. "If the slightest little negative leads to a 15-point decline, that tells you things are elevated and the market is only going to reward the most excellent of news."

Momentum in many tech stocks has been

driven by ambitious expectations for earnings. Tech profits are seen climbing 14.7 percent for the first quarter, according to Thomson Reuters I/B/E/S. That would account for nearly a third of the 10.4 percent earnings growth predicted across the S&P 500. "It's great for everybody to feel good, but if nobody is buying stuff and the companies are reporting disappointing sales and that affects their margins, then you'll be starting to say - wait a second," said Thomas Martin, a portfolio manager at GLOBALT Investments.

Along with the S&P 500, tech shares have flatlined for weeks as Wall Street reassesses whether President Donald Trump will be able to push corporate tax cuts through Congress. Still, so far in April investors have

poured \$122 million into the US-listed Technology Select Sector SPDR Fund, bringing total flows into the fund this year to \$1.4 billion, according to ETF.com, which tracks fund flows.

Inside the tech rally, chip makers have been notable outperformers, with the Philadelphia Semiconductor index up 40 percent in the past year. Semiconductor companies are expected to boost EPS by 46 percent in the first quarter, helped by the growing use of chips in cars and mobile gadgets. One of the biggest - Qualcomm Inc - reports on Wednesday. While shares of the mobile chip-maker have been bogged down by a legal battle with Apple, its sales are seen rising by 6 percent and EPS by 14 percent. — Reuters

US INFLATION, RETAIL SALES DIP IN MARCH

CONSUMER PRICES FALL 0.3%

WASHINGTON: US retail sales fell for a second straight month in March and consumer prices dropped for the first time in just over a year, supporting views that the economy lost significant momentum in the first quarter. But with the labor market near full employment, the decline in sales and consumer prices reported by the government yesterday is likely temporary and probably does not change expectations that the Federal Reserve will raise interest rates again in June.

"For the Fed, the underlying momentum is more important in terms of policy decisions, and that looks to be strong, supported by a tightening labor market, rising incomes and high consumer confidence," said Gregory Daco, head of US macroeconomics at Oxford Economics in New York. The Commerce Department said retail sales dropped 0.2 percent last month after a 0.3 percent decrease in February, which was the first and biggest decline in nearly a year. Compared to March last year retail sales increased 5.2 percent.

Economists polled by Reuters had forecast retail sales slipping 0.1 percent last month. Excluding automobiles, gasoline, building materials and food services, retail sales rebounded 0.5 percent after falling 0.2 percent in February. These so-called core retail sales correspond most closely with the consumer spending component of gross domestic product. Despite last month's increase in core retail sales, consumer spending likely braked sharply in the first quarter after growing at a brisk 3.5 percent annualized rate in the final three months of 2016.

The apparent slowdown in consumption is partly blamed on the late disbursement of income tax refunds by the government as it sought to combat fraud. The Atlanta Fed is forecasting GDP rising at a 0.6 percent rate in the first quarter. This would be the weakest performance in three years and follows a 2.1 percent growth pace in the fourth



PITTSBURGH: This Feb 8, 2017 photo shows the sale price for a pair of men's boots at a J C Penney store. — AP

quarter. With job growth averaging 178,000 per month in the first quarter, the anticipated slowdown in GDP likely understates the health of the economy. In addition, first-quarter GDP tends to be weaker because of calculation problems that the government has acknowledged and is working to resolve. Retail sales last month were dragged down by receipts at auto dealerships, which fell 1.2 percent, decreasing for a third straight month. Sales at service stations dropped 1.0 percent, reflecting lower gasoline prices. There were also decreases in sales at building material stores, likely as bad weather halted work at construction sites.

Pockets of Strength

But there were some areas of strength. Sales at electronics and appliances stores recorded their biggest rise since June 2015 and receipts at clothing stores increased by the most in a year. Retailers have been hurt by declining mall traffic and increased competition from online retailers, led by

Amazon.com. That has forced retailers like J C Penney Co Inc, Abercrombie & Fitch and Macy's Inc to scale back on brick-and-mortar operations.

The dollar was little moved by the data. US stocks and Treasuries markets are closed for the Good Friday holiday. In a separate report, the Labor Department said its Consumer Price Index dropped 0.3 percent in March, the first decline since February 2016, as declining costs for gasoline and mobile phone services offset rising rents and food prices. The CPI nudging up 0.1 percent in February. In the 12 months through March, the CPI rose 2.4 percent, slowing from February's 2.7 percent increase.

The so-called core CPI, which strips out food and energy costs, fell 0.1 percent, the first and largest decrease since January 2010, after rising 0.2 percent in February. As a result, the year-on-year increase slowed to 2.0 percent. That was the smallest advance since November 2015 and followed a 2.2 percent increase in February. — Reuters

BRIBE DEPARTMENT: HOW ODEBRECHT ORGANIZED GRAFT

SAO PAULO: A secret communications system was used to discuss and arrange the payments of bribes. A detailed spreadsheet mapped out who got what, all veiled under a system of codenames. And overseeing it all, there was an entire department at the Brazilian construction giant Odebrecht whose only purpose was to ensure the graft ran smoothly. Though deals were often sealed over dinners and coffees, there was nothing casual about the massive corruption scheme that Brazilian prosecutors are investigating involving bribes and kickbacks paid to hundreds of politicians in exchange for state contracts, beneficial legislation and other favors.

The Supreme Court opened investigations into about 100 politicians this week, based on testimony provided by current and former executives at Odebrecht. Their testimony describes how bribery and kickbacks were simply part of doing business. "There was a rule: Either we don't contribute to anyone, or we contribute to everyone," explained Emilio Odebrecht, chairman of the board, referring to payments to politicians.

Odebrecht appears to have opted for the latter. Court documents released this week and prosecutors' statements offer a peek into the highly organized way the company managed millions of dollars in bribes. The scheme was overseen by the blandly named Division of Structured Operations, which investigators refer to as simply "the bribe department." It had its own hierarchy and its own accountants. It also used its own off-the-books communications system, called Drousys, to communicate about the bribes both internally and externally.

The payments were detailed in spreadsheets, held in the Drousys system, according to testimony and the judge's decision released this week. On those spreadsheets, politicians who received bribes and the intermediaries who delivered them were referred to by nicknames. The man who is now President Michel Temer's chief of staff, Eliseu Padilha, was called "cousin". Former Rio de Janeiro Mayor Eduardo Paes was "little nervous one". Others were "decrepit", "Viagra", "little boy of the forest" and "Dracula". One congressman even protested on his Facebook page when his nickname - "totally ugly" - was reported in the Brazilian press last year.

The employees at Odebrecht may have had some fun with the nicknames, but their revelations so far show that they took corruption very seriously. Prosecutors are investigating the testimony and deciding whether to bring charges. The politicians have denied wrongdoing, with many saying the funds they received from Odebrecht were legal campaign contributions. — AP