Netflix Gets Hammered After Losing U.S. Subscribers for First Time in 8 Years

The Entrepreneur Index™ was also down this week as investors hope for Fed interest rate cut.

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Netflix lost subscribers in the U.S. for the first time in eight years, and it added about half as many international subscribers as expected in the second quarter. The company did beat earnings estimates, but Netflix shares were down more than 10 percent after it reported results late on Wednesday. The stock was down 9.93 percent in the last five trading sessions.

Netflix's weak results, however, may be an aberration in the second quarter earnings season. Expectations were for a 2.7 percent drop in earnings for companies in the S&P 500 index in the second quarter, but actual results are trending better than expected so far. The banks and financial companies reporting earliest have posted significantly better numbers than expected this week and companies are generally beating lowered estimates on the quarter.

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Cintas Corp. is a prime example. The business services provider handily beat estimates on Wednesday and saw its shares jump 8.74 percent. The stock is up 7.71 percent in the last five days and 55.62 percent on the year – one of the best

returns on the Entrepreneur Index™ this year.

The broader market, however, is still on tenterhooks, with investors worried about weak second quarter earnings and looking for the Federal Reserve Board to support the market with a rate cut later this month. After setting new highs early in the week, the stock market has retreated in the last several days. The Entrepreneur Index™ is down 0.14 percent in the last five days while the S&P 500 and Nasdaq Composite indexes are down 0.29 percent and 0.04 percent respectively. The Dow was the only major index to register a gain, rising 0.21 percent in the last five trading sessions.

All eyes are now on the Fed. “It’s better to take preventative measures than to wait for disaster to unfold,” said New York Federal Reserve President John Williams earlier this week. The market took that to mean a 50 basis point cut in short-term interest rates was now in the cards for the Fed’s end of July meeting. Stocks responded positively but the markets could be disappointed if the Fed doesn’t follow through on a more aggressive strategy.

Economic data for June, however, does not suggest the economy is on the edge of disaster. In fact, it seems to have righted itself from early weakness in the second quarter. June retail sales were up 0.4 percent versus 0.1 percent estimates, job creation was much higher than expected and regional manufacturing indexes are all pointing to a sharp rebound in the economy last month. While slowing global growth and a bleak trade landscape still have Fed Chairman Powell expressing concern, a fifty basis point cut in the Fed Funds rate at the end of the month now seems unlikely.

The stock indexes, however, are holding onto gains. Technology stocks, one of the hottest sectors in the market so far this year, have cooled of late. Semiconductor stocks like NVIDIA Corp. and Analog Devices have been hard hit by trade worries this year but have stopped falling. Both posted small gains in

the last week. The FAANG stocks have been mixed. Besides Netflix's big drop, Amazon was also down 1.83 percent in the last week while Alphabet Inc. was up 0.29 percent and Facebook gained 0.56 percent. Software-makers Adobe Inc. and salesforce.com were up 1.42 percent and 0.22 respectively.

Drug-makers had a good week. Regeneron Pharmaceuticals was up 4.8 percent though it is still down 18.6 percent on the year. Alexion Pharmaceuticals was also up 2.3 percent and has returned 26.6 percent so far this year. Tesla has also continued to rebound from a horrible start to the year, rising 5.12 percent in the last week. The stock is up more than 40 percent since early June though still down 23.8 percent on the year.

Other industrial manufacturers have been under pressure lately. Truck-maker PACCAR Inc. was down 3.52 percent in the last week and oil and gas producer Hess Corp.fell 4.23 percent as the price of oil has retreated back to the mid $50s per barrel range.

Apparel makers also fell after a Goldman Sachs analyst downgraded Ralph Lauren Corp. and Levi Strauss to sell ratings on Wednesday, suggesting that an inventory overhang could hurt results in the second half for many clothing makers. Ralph Lauren was down 2.27 percent on the week. Limited Brands, on the other hand, was up 4.57 percent on the week.

The Fed's next two-day meeting is on July 30-31 and it may determine whether this 11-year bull market in stocks continues upward for the rest of the year.

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