

FRANdex

Index of Publicly-Traded Franchises

4th Quarter 2018

Trade Pressures, Interest Hikes, 'Go-Private' Transactions Hits Franchises in 2018

While returns for FRANdex were down by -12.95% Q-o-Q, the recent volatility in the markets led to FRANdex outperforming broader indices in Q4 2018. The returns for S&P 500 and Russell 2000 in Q4 were -13.15% and -17.40%, respectively. Hotel companies performed better than food franchises which saw their returns decline by 10.26%. Overall, non-food brands ended the quarter with a -14.4% Q-o-Q loss.

Over the full year, FRANdex declined by -21.08%, underperforming the S&P 500 and the Russell 2000, which registered Y-o-Y losses of -13.27% and -7.38%, respectively. Non-food brands were major losers over the year with their overall returns decreasing by -19.76%, while food brands posted a relatively lesser loss of -4.38%. Having witnessed several "go-private" and spin-offs in 2018, the lodging industry's returns were down by 19.76%. Domino's (DPZ), YUM! Brands (YUM) and Planet Fitness (PLNT) were major winners in 2018 after adjusting for component weights. Ameriprise (AMP) and Marriott (MAR) took largest losses for this year.

Stocks suffered major blowback in Q4 as U.S. equity averages suffered one of the worst months of December on record. Tax cuts continued to support corporate profits, but ongoing Federal Reserve interest rate hikes and US-China trade tension have been exacerbating late-cycle pressures on returns. Going forward, broader systematic risks such as slowing Chinese and European growth, Brexit, slowing housing and rising interest rates are likely to impact performance in 2019.

FRANdex tracks the performance, based on market capitalization, of 60 U.S.-based publicly-traded companies operating under and generating income through the franchise business model. All index levels are normalized to 1,000 at Q1 2006 for comparison purposes, and all remaining periods are adjusted accordingly. As McDonald's represents over 25% of the overall market capitalization of publicly-traded franchise companies, it is excluded from the base FRANdex, but shown above as FRANdex+M.

