



Basis Points – May 19, 2022

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Above the Fold

Consumers Remain Resilient

Consumers continue to spend money (and it seems they are still going beyond the basics). Despite the highest inflation rate since the early '80s, Americans' willingness to part with cash remains relatively strong. Retail sales rose 0.9% last month, marking the fourth straight month of an increase in consumer spending. That said, it's important to note that the month-over-month rate of spending growth is slowing. With inflation rates as high as they are, people aren't necessarily getting more for spending more. Restaurants and bars contributed heavily to the increase in spending as people are adjusting to life with the COVID-19 pandemic a consistent threat. Obviously, people are eager to get out of the house and live their lives without letting the fear of sickness slow them down, even as COVID-19 cases are seeing a small rise in May. Stephen

Purtell, interim chief financial officer at Six Flags Entertainment Corp., said in earnings call last week that, "... people wanted to get back out and enjoy experiences, and we don't think that will change." And here at Westwood, we agree ... albeit with a few caveats.

While many businesses are continuing to see higher sales, increased labor costs and supply chain issues continue to eat away at profits. Food prices are also continuing to reach new highs as corn, soybean and wheat production, along with exports of those crops, are challenged globally. Companies like Walmart and Target struggled specifically due to the rise in food and fuel costs over the past few months. Residential builders also continue to feel the heat of higher material and fuel costs. Home-builder sentiment dropped for the fifth straight month to the lowest reading since the initial pandemic lockdown in June 2020. As interest rates continue to rise, this sentiment may see continued drops as the Fed continues to fight inflation. At the Wall Street Journal's Future of Everything Festival, Jerome Powell, Fed Chairman, said, "We need to see inflation coming down in a convincing way; until we do, we'll keep going." In sum, things still look good, but price and interest rate pressures are unlikely to relent in the near term.

Three Things

Hot Housing Market Feeds Fixer-Uppers

Home Depot just had its best quarter ever, with sales rising 3.8% in Q1 from last year. Considered a bellwether for the home improvement industry, Home Depot's success is a welcome development to investors nervous about the potential upside of the stock. The pandemic locked everyone in their homes, giving them time to catalog everything they wanted to fix. With labor costs skyrocketing — not unlike material costs — homeowners have apparently decided to take these renovations into their own hands. Expectations are mixed for Q2, considering the high home prices and the chilly spring weather for much of the nation, but with more factors backing home improvement retail sales, trading doesn't always shadow the trends of the real estate market.

Goldman Sachs: Take All the Vacation Time You Need!

Goldman Sachs is known for its long hours and uncompromising work culture. These days, however, the company seems to be taking a page out of Netflix and Twitter's books, offering senior employees unlimited paid time off. With the labor market as tight as it is, companies are starting to adopt this idea of uncapped vacation time to retain their high-level employees before another company offers them more pay and more vacation time. Firms want to instill a sense of trust in their most valued employees and avoid employee burnout, while simplifying time management methods. This also helps companies retain a more consistent workforce year round as employees don't have to rush to use vacation by a certain date.

This Harley Might Look a Little Odd at Biker Bars

Harley-Davidson is continuing their foray into electric bicycles with their recent launch of the second generation of Serial 1 electric bikes. In October 2020, Harley-Davidson launched the Serial 1 to create high-quality electric bikes that come complete with a 250W motor that can push their bikes up to speeds of 28 mph. The newest launch is more of an update for the Serial 1 app, which now uses Google Cloud and AI technology to better connect the user to their bike, tracking ride times and offering GPS and more security. While an electric bike might seem like a major departure from Harley's traditional offerings, the design is slick, and Google integration certainly makes the brand stand out.

In the Know

Gerber to the Rescue!

In response to the recent baby formula shortage here in the United States, Gerber's parent company, Nestlé, is moving up shipping schedules to get the formula from Norway and Switzerland back into the United States. As the third-largest distributor of baby formula in the world, Nestlé is shipping two brands of formula specifically designed for babies with cow milk allergies to alleviate the shortage of supply due to supply chain constraints. Abbott Laboratories, the company leading the way in baby formula production, had to close its factory in February due to the Food and Drug Administration (FDA) finding traces of a germ that is potentially lethal to infants in their Sturgis, Michigan, factory. The germ was not found in any baby formulas. While Abbott Labs is currently working with the FDA to get the factory reopened, it looks like Nestlé is here to save the day for now.

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