Basis Points – February 2, 2023

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Above the Fold

Fed Slows Hikes Again, but Signals Further Action

The Federal Reserve (Fed) raised its benchmark federal funds rate for the sixth consecutive time, increasing the target range by another 25 basis points. This hike, though the smallest in 10 months of increases, brings the new target range to between 4.5% and 4.7%, the highest level since 2007, just before the Great Recession. Chairman Jerome Powell continued to deliver a fairly hawkish view, citing past “mistakes” when the Fed loosened monetary policy too quickly. He continued to tout the strength of the labor market, largely ignoring the hundreds of thousands of layoffs rippling through that marketplace. And actually, went on to defend the strength of the labor market, citing the number of job openings, now reportedly 1.9 times the number of unemployed Americans. The correlation of job openings and general labor market health to inflation has been hotly debated in recent times.

Chairman Powell did seem “happy” with the increasingly disinflationary results of their actions, but remained resolute overall in his hawkish statements and tone. In addition to removing some specific causes for inflation, Mr. Powell did offer a bit more color around the logic of its use of aggressive, possible over-corrective action now to truly quell inflation as opposed to a more dovish approach that could end up in an inflation resurgence and yet another abrupt policy shift months down the road. Equity and debt markets both reacted positively initially to the news, as the Fed did finally acknowledge progress in its efforts while inching closer to the top of its terminal rate target.

Three Things

SNAP Continues to Struggle

Once a hot IPO (initial public offering), shares of Snap, the parent company of the Snapchat app, traded sharply lower yesterday as the company reported its slowest growth since going public in 2017. The company also warned that sales were likely to continue slowing in the current quarter as competition from companies like TikTok, Instagram and others grows amid an increasingly challenging climate for social media companies. Revenues for Snap were flat (compared to last year) for Q4 at $1.3 billion, but the company posted a wider net loss of $288 million in the period. The last year or so has been tough to navigate for the majority of Snap’s peers as Apple tightened its privacy policy in 2021, making it more difficult for social-media companies to sell targeted ads. Economic challenges, geopolitical unrest and other factors have added pressure as well.

Drill, Baby, Drill

With global demand and prices surging, offshore petroleum rigs are being put back into production after many sat idle for years. Russia’s invasion of Ukraine has also added to pressure for energy independence as geopolitical risks rise elsewhere as well. According to Westwood Global Energy Group (unrelated), roughly 90% of the world’s 600+ oceanic rigs are currently leased and being put to work, up from just 63% five years ago. The cost to operate these massive machines is now eclipsing $400,000 per day, up from around $300,000 last year and less than $200,000 at the end of 2020. Middle Eastern producers are expected to depend heavily on offshore drilling for added output and income.

Rivian and FedEx Join in the Layoff Wave

After slashing roughly 6% of its workforce last summer, embattled electric vehicle maker Rivian just announced it will cut another 6% of global employees. CEO RJ Scaringe is working to cut costs as inflationary pressures and a deteriorating economic climate have increased the company's cash-burn. FedEx will also cut 10% of its global management force as package demand slips sharply. FedEx has been under a hiring freeze since September and has already trimmed its staff by 12,000 since that freeze, according to the Wall Street Journal. UPS also just warned that sales could decline for the first time since 2009 as worldwide delivery volumes fall.

In the Know

Single Ladies Dominate in Homeownership

A recent report from Lending Tree found that single women who live by themselves are making major strides in home ownership. Though women still generate 83.1 cents in income for every $1 a man makes (Bureau of Labor Statistics data), single women own nearly 11 million homes, compared to just over 8 million for single men. The analysis also found that single women were more likely to own a home in 48 states. Louisiana had the highest total share of homes owned solely by women at 15.16%, while in Florida, females own 4.55% more homes compared to males — the largest gap in the nation.