Basis Points – October 16, 2018

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Above the Fold

- The equity market is seeing a rotation from growth to value so far this quarter. The volatility in the stock market over the past week has hit the former high-flying growth stocks much harder than value. In the fourth quarter, the large growth index is down -6.5 percent compared to large value, which has only dropped -4.1 percent. Growth is still besting value for the full year 2018, however, up 9.5 percent vs. value up 0.1 percent.

- Amazon’s recent increase in their base wage to $15 an hour made for great headlines, but many workers are furious. While Amazon did hike hourly wages, they eliminated stock grants and monthly bonuses, so for most employees this new compensation schedule will be a pay cut. Amazon has eliminated its Variable Compensation Plan (VCP) which paid monthly bonuses for attendance and productivity that typically amounted to thousands of dollars a year for most employees. These bonuses also doubled during the holiday season, so workers are upset. An early cheerleader for the hourly pay hikes, Bernie Sanders has asked Amazon to detail exactly how this compensation change will affect the average Amazon worker.

Three Things

- To put last Wednesday’s large market swoon into perspective, since 1928 the S&P 500 has seen 325 days with losses of 3 percent or worse. That means days like this happen roughly 3.5 times a year on average. And while it was the third worst Dow point loss day in history, it was only the 284th worst day since 1915 on a percentage loss basis.
- President Trump said last week that he does not like the Federal Reserve’s decision to continue to hike interest rates. He also said that the United States economy does not have an inflation problem and that the central bank is moving too quickly in trying to curb price increases. “I think we don’t have to go as fast,” the president said to reporters at the White House. “I don’t want to slow it down even a little bit,” the president added, referring to the economy. Trump added that he has not spoken to Federal Reserve Chair Jerome Powell about the central bank’s moves to raise rates. The historically rare criticism by a sitting president was taken on Capitol Hill and Wall Street as an assault on the central bank’s historic independence from political pressure.
- Bloomberg reports that 10,000 oilfield jobs are up for grabs in the booming Permian Basin and the squeeze is so bad that U.S. immigration restrictions may need to be eased, said the CEO of Parsley Energy. The worker shortage is just one item on the long list of problems oil companies need to address before the Permian can reach its full potential. Inadequate pipeline capacity, soaring wages, lack of housing and a school system that wasn’t built to handle such an influx of kids all threaten to stunt growth in North America’s busiest oil province. The labor shortage could delay new pipeline openings and starve drillers of rig hands. But hiring those workers will strain other fields that will then lose workers. As oil field jobs promise six-figure salaries, school teachers are leaving for the better wages in the Energy sector. The school system in Midland, the center of the Permian boom, lost 500 teachers last year.

Did You Know

Sears, Roebuck & Company got its start in 1892 as a mail order catalog for Midwest consumers who lived far from stores. Sears opened its first retail store in 1925 and grew its store base quickly through the 1970s. Sears was the largest retailer in the U.S. until 1989, when Walmart surpassed it. The rise of specialty stores, online shopping and a loss of focus while diversifying into unrelated businesses such as finance all combined to lead to Sears' downfall.

Sears Holding Corp. filed for bankruptcy protection yesterday. Some of Sears' biggest creditors are pushing for Sears to liquidate and shut down rather than try to reorganize through the bankruptcy process, as there seems to be no hope of reviving the Sears chain in a vastly different consumer world than it grew up in.

The prospect of Sears' imminent bankruptcy threatens to widen the gap between the more successful shopping centers and the struggling ones, but many of the owners of malls where Sears has stores could not be happier. Mall owners with newer retailers and popular restaurants have continued to prosper. Many of these landlords would welcome Sears' departure, as the store's exit would allow them to take over a big-box space and lease it to a more profitable tenant. In malls where leases were signed decades ago, Sears rents could be as low as $4 a square foot. Today, new tenants in the same space could bring as much as six times that amount.

The retail centers that would be most hurt are the small-town malls, stores in the U.S. heartland and in the lowest-quality shopping plazas. The lower the quality of the mall, the greater the financial risk of Sears leaving their property. The top 50 mall owners in the country are anxious for Sears to leave, so that group will be happy with the bankruptcy filing. But the lowest quality segment of the mall sector will be hurt by the fall in foot traffic which drives shoppers to nearby stores.

As of Oct. 1, the company operated 380 full-line Sears stores, fewer than half of the 919 stores in the chain in August 2008.