



Basis Points – March 14, 2019

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Above the Fold

- Although the unemployment rate fell to 3.8%, last Friday's jobs report was much weaker than expected, showing that only 20,000 jobs were created in February. However, the three-month trend is much more indicative of the underlying trend of job growth, as the prior two months were strong and revised up by 12,000. Over the last three months, nonfarm payrolls have advanced 186,000 per month on average, which is a very solid rate of job growth. Wages ticked up also, as hourly earnings rose to a 3.4% annualized rate, so that is good news for workers.

- National Beverage Corp., maker of the LaCroix sparkling beverage line, dropped 16% after reporting disappointing earnings last week and has now lost 52% since the stock's peak in September. The brand's growth has been hurt by the negative media attention that called into doubt the company's claims that LaCroix sparkling water was made with "natural" ingredients, which led to a class action lawsuit. In a confusing statement by CEO Nick Caporella, he noted, "We are truly sorry for these results stated above. Negligence nor mismanagement nor woeful acts of God were not the reasons — much of this was the result of injustice!" He did not clarify what exactly the injustice was, but the sparkling beverage category has become far more competitive over the past year, with entries from Pepsi and Coca-Cola taking large chunks of market share.

Three Things

- Grocery chains have long awaited an economy like this to raise prices, with unemployment near historic lows, consumer confidence high and inflation inching upward. But companies are finding they're losing the power to hike prices. That's because Amazon and Walmart are engaged in a battle to the death on consumer spending, while new, low-cost chains Aldi and Lidl are pressuring brick-and-mortar stores. At the same time, shoppers are becoming less loyal to legacy brand names than ever before, so they'll go generic instead of paying up for traditional labels. Kroger and other grocery chains are keeping prices low to protect market share, as competition ramps up with the continued expansion of Aldi, which almost exclusively stocks private label items. The arrival of Lidl, a longtime Aldi rival in Germany, to the U.S. last June, has only added pressure. General Mills saw this effect acutely this month, as an attempt to raise prices on Progresso soup and Yoplait yogurt hurt sales, as shoppers moved to other brands.
- The U.S. national debt is a perennial worry for investors, who tend to think of debt as bad, and that by incurring debt we are living beyond our means. But our national debt is very different from personal debt. Some facts: Household debt has fallen in the aftermath of the Great Recession, and on a per capita basis, it's back to the same level as 14 years ago. Household debt relative to net worth is as low now as in 1985. Corporate leverage today is not materially different than it was in 1993 or 2003, early in two expansion cycles. The delinquency rate on corporate loans is lower than at any time during the prior three expansion cycles. High yield spreads are declining and default rates are well below average. And although the tax reform bill signed in 2017 is forecast to further expand the federal debt, there is not a strong correlation between federal debt and economic growth over the next five to 10 years. And our federal debt on an absolute basis may be high, but the interest cost of that debt is low relative to GDP, as low as during the good old days of Eisenhower and Elvis. Please see a more detailed analysis of the national debt issue at: <https://westwoodgroup.com/weeklyblog/should-we-fear-the-national-debt/>.

- There was an interesting study by the late John Bogle of Vanguard that he performed 25 years ago, and has updated it to the present day, that shows the source of return for bonds. While the sources of return from stocks come from corporate earnings growth, dividend payments and multiple expansion, the long-term returns on bonds are much easier to predict. Bogle studied 10-year periods going back to 1906 and found that all you need to know to predict the performance of bonds is the yield to maturity of a government or corporate bond on the day you buy it. He found that at least 91% of the subsequent return on a bond could be explained by their initial yield to maturity, so capital gains and losses barely register as a source of positive or negative performance over the long term. Today, the yield on the Barclays U.S. Aggregate Bond Index of government/corporate bonds is 3.21%, so that may be a very accurate prediction of performance over time if bought today.

Did You Know

New Orleans estimates that their yearly Mardi Gras festivities generate more than 2% of New Orleans's \$21 billion gross domestic product. The population of New Orleans swells to three times its normal size this time every year, when more than 1 million tourists converge for Fat Tuesday.

Bloomberg notes that the festivities bring in an estimated \$165 million to the city, as well as a huge amount of trash, which is why several dozen construction machines stand ready to clean up before the party even gets started. Cleanup-related expenses cost more than \$230,000 for workers, and about \$825,000 for equipment plus other expenses, for a total sanitation bill of almost \$1.5 million.

Since 1913, beaded necklaces have been the currency of the holiday. Dozens of parades are conducted every year by groups of revelers, and all of them toss millions of pounds of beads and other items to observers, who wear them, take them home, or just leave them on the streets of the French Quarter.

Some 45 million pounds of plastics make their way to New Orleans every year for Mardi Gras, more than half of which consists of beaded necklaces. In 2018, the city said it had pulled 93,000 pounds of beads from just five blocks of storm drains and more than 7 million pounds of debris overall. Much of the festive bead debris ends up in a landfill, and while recycling of beads is limited, the idea is drawing more attention these days.

Residents have taken notice of the problem, particularly after the city detailed the large volume of beads trapped in stormwater drains, that could also leach harmful chemicals into the water supply. The city now offers dozens of locations where people can drop off their beads for recycling and have installed storm drain covers to stop beads from entering the water system.

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