



Basis Points – December 18, 2018

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Above the Fold

- The Fed board meets on Wednesday, and bond futures still suggest a better than 70 percent chance that the Fed will raise interest rates for the fourth time this year. The commentary around this rate increase will be very important, given the volatility in the stock and bond markets recently.
- It has certainly been an abnormal year for the stock market. The S&P 500 was up 3.2 percent year-to-date at the end of November but is now down 3.6 percent. In the last 100 years, the S&P 500 has never been up 3 percent at the end of November and ended the year down.
- U.S. retail: ISI Research publishes an annual survey of 400 teens and young adults (20-25 years old) and they noted some interesting trends. For the first time in eight years, clothing was the #1 “must have” item for teens and not the iPhone. Jackets and accessories were popular choices. Seventy-two percent of teens and young adults planned to do most of their holiday shopping online. Amazon.com was the #1 website for 64 percent of respondents. Hot Apparel Brands: Lululemon, Nike, Patagonia, Urban Outfitters and Nordstrom. Hot Footwear Brands: Nike, Adidas, Vans and Converse. Hot Tech Items: Apple AirPods, iPhone (X Series). Top Social Media Channels: Instagram, Snap Chat and YouTube.

Three Things

- The term “ghosting” first appeared on Dictionary.com in 2016. At the time, the term referred to a person in the dating arena who seemed interested or had started a relationship with someone but then ceased all contact, gave no explanation and was never heard from again. In 2018’s extremely tight job market, the term has now been extended to include rogue employees or job-seekers. The Federal Reserve Bank of Chicago even used the term in its December report, which tracks employment trends. The Fed noted that “a number of contacts said that they had been ‘ghosted,’ a situation in which a worker stops coming to work without notice and then is impossible to contact.” Analysts blame America’s increasingly tight labor market, as job openings have surpassed the number of seekers for eight straight months, and the unemployment rate has dropped to 3.7 percent, a 49-year low. Workers in all areas are in high demand, and more people are choosing to skip tough conversations and move right into their next job.
- Apple announced that it would invest \$1 billion to expand its operations in Austin by constructing a new employee campus in the area, with enough space to house 15,000 additional employees. Other new facilities will also be established in Culver City, Seattle and San Diego, and existing sites in Pittsburgh and Boulder will be expanded over the next three years. The company said the second Austin building would add to its capabilities in R&D, sales, customer support and engineering. Austin is already the largest home for Apple employees other than its California headquarters, with about 6,200 people working at the existing site about a mile from the location of the new facility.
- NASA spacecraft Voyager 2, launched in 1977, has traveled 11 billion miles at 34,000 miles per hour. The craft is still well within our Solar System but is far enough away from the sun to be considered in interstellar space. The craft is still sending back data to NASA, even 40 years after its launch. The craft is heading toward the edge of the Solar System, which is delineated by the Oort Cloud, a collection of objects, including comets, that orbits the Sun. NASA estimates that Voyager 2 will reach the nearest edge of the Oort Cloud in about 300 years, and it could take up to 30,000 years for it to exit the Solar System completely. In addition to carrying a fleet of scientific instruments, the spacecraft carries a Golden Record, which contains sounds, images and information about life on Earth. If there are aliens out there, the Golden Record could give them a look at what life on Earth is like, or at least a glimpse of what life was like in 1977. I suspect the aliens will be very confused and frightened by bell bottoms, El Caminos, clogs and The Bee Gees, and will cancel any plans to visit Earth.

Did You Know

Rochester, New York, was a Kodak company town for over a century. The city was once home to more than 60,000 tech workers when it was one of the most valuable companies in the world. Workers mortgaged their homes through ESL Federal Credit Union, the bank that Kodak founder George Eastman established in 1920 to help Kodak employees buy their homes. “Kodak had such an impact in almost every aspect of civic life,” said Bob Duffy, mayor of Rochester from 2006 to 2010, in a report published by The Ringer earlier this year. “If you needed something done, Kodak was there to help you.”

Kodak declared bankruptcy in 2012 after a long and steady decline in its core business, which was continually eroded by the public affection for digital cameras and the eventual ubiquity of cellphone cameras. The era of the “company town” such as Rochester, Detroit, Syracuse and many other midsize non-coastal cities seems to have also come to an end. As we saw when Amazon ran its 18-month beauty pageant for its new headquarters HQ2, municipalities in the middle of the country may try to turn around their economies and fortunes with corporate relocations to their cities, but the effort proved futile and may in the future as well. Companies don’t need or want to become the central employer of a town any longer, they just want smart people to work for them. And young, smart folks these days want to live and work in cities.

While large companies 50 years ago, such as Kodak, required large spaces for manufacturing plants, product design centers, research laboratories and distribution centers, high-tech companies these days are far more based on brain cells than manufacturing brawn. Apple employs only 800 dedicated engineers to design and upgrade the iPhone camera, all of whom are based in Apple’s Silicon Valley headquarters. The actual manufacturing and assembly for iPhones is performed in Asian factories. Due to the efficiencies of technology, companies these days need much less physical space in which to operate, so they can focus their headquarters and brainpower-based expansion on the largest cities like the New York and Washington, D.C., locales that Amazon eventually chose for their new sites.

The expansion of technology over the past 30 years gave rise to the notion that employees could work anywhere, so there would be a great expansion of employees and businesses over the entire country, as technology would allow workers a thousand miles away to be as effective and present as those in the next office. The opposite effect has proven true, however. High-tech companies now prefer to be in large cities, where a large, educated pool of workers is readily available and willing to work. Digital skills are now prized, and manufacturing is outsourced to other countries where costs are cheaper. While the growth of technology was supposed to bring the country together with large companies able

to locate anywhere, we may be moving into an era where smaller cities will be permanently left behind, while already populated and powerful cities continue to grow their people and power.

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