



Basis Points – April 5, 2022

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Above the Fold

Inflation Cuts Into Our Daily Necessities

As consumer sentiment (University of Michigan survey index) continued to fall to an 11-year low, Americans are now scaling back spending on basic staples from laundry detergent and toothpaste to baby formula and even diapers. There are a multitude of factors dragging on consumers' wallets and psyche, with quickly rising costs at the top of the list. Recent data from the Bureau of Labor Statistics revealed a four-decade-high inflation rate of nearly 8% as commodity market disruptions from the Russia-Ukraine war are expected to add cost pressures. To help offset these higher costs, shoppers are shifting their spending patterns, turning to generic and white-label products, removing items from their "must-have" list or even changing where they shop altogether.

According to the [Wall Street Journal](#), these trends could add pressure to companies like Procter & Gamble Co., Clorox Co., Kraft Heinz Co. and other large consumer staple names that produce name-brand, higher-cost items. Large consumer staple companies have enjoyed profits as they were able to raise prices over the last year or so, but may be reaching a tipping point where consumers simply become unwilling to pay the higher cost and either choose another brand or simply avoid the purchase. These same trends could benefit discount stores and chains like Aldi, Walmart and others, as well as manufacturers of white-label product variants sold under store-brand names.

Three Things

1. *Elon Musk Gets Intimate With Twitter* – The outspoken Tesla CEO, who regularly uses Twitter as a platform, has taken a surprising 9% stake in the social media company worth roughly \$3 billion. The move came as a shock since Musk recently tweeted to his 80 million+ followers that he was thinking of launching a Twitter rival. Experts do not believe this is going to be a passive investment and that Mr. Musk is likely to make some real waves within the company.
2. *Howard Schultz Returns, and He's Halting Buybacks* – Starbucks co-founder and former CEO is returning as interim chief executive officer for the third time in his career. And while a replacement is expected by fall, Mr. Schultz will immediately refocus on the company's operations, store strategy and address a quickly-changing coffee business landscape. To cover the costs of retooling, Schultz immediately suspended Starbucks' \$20 billion share-repurchase program put into place last fall.
3. *Biden Releases More Emergency Crude Oil* – President Biden made a contentious move last week by announcing the largest-ever release (180 million barrels) of crude oil supply from America's strategic oil reserve. Stubbornly high oil prices have challenged the President's green agenda, and some pundits argue that the release will do little to bring down the price of fuel, while at the same time could create further discontent within the Democratic Party. After falling from a high of \$107.80 last week, West Texas Intermediate crude was trading around \$101.50 on Monday.

Did You Know?

You Could Have Been Driving a Google Model S

In 2013, only a year after the launch of the Model S, Tesla was facing a severe cash crunch. The revolutionary new electric car was full of bugs, glitches and problems that spread like wildfire through the public domain. As Tesla failed to convert car reservations into sales, its factories were shuttered, left with just two weeks' worth of operating cash. In desperation, Elon Musk contacted his old friend, Google Co-Founder Larry Page, to bail him out. A deal was drafted for Google to purchase Tesla for \$6 billion. Under the terms of the initial deal, Google would keep the company intact and allow Musk to run it for eight years. While negotiations continued, Tesla sales quickly (and surprisingly) picked up and the factories were restarted, averting the sale.

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