Hello Everyone,

"Memories make us rich." Vic Ketchman, Veteran NFL Sportswriter.

Mr. Ketchman, like most sports writers, spent his career writing about millionaires. He, himself, is not a wealthy man. Yet, you can tell by his quote above, he is content. But what about the elite athletes he covered? For many…not so much.

But the economic statistics don't care much about contentment. And since our beat here at Zanetti Financial is finance, we must look at the stats.

According to Wall Street, sportswriters are considered contributors to the ***Consumer Staples*** sector.

The NFL players they cover fall into the ***Consumer Discretionary*** sector.

Today's missive will look at the difference---- and try to discern what "consumption" is telling us about the Covid-economy.

Signed, Your Has-Appropriated-Vic-Ketchman's-Philosophy-Of-Riches Financial Advisor,

Greg

KKOB 08.24.2020 Covid and Consumers

Bob: So, Greg, I see what you're doing here. You are breaking down the stock market sector-by-sector. Then you are explaining how Covid has affected each area.

So far, we've determined energy, finance, and real estate haven't fared so well. So, where are we going today?

Greg: Well, let's look at consumers. And all consumers are not the same according to the stock market.

First, we have the sector called **consumer staples.** Staples are things we use every day. So, stock-wise, think companies like

Procter & Gamble, Campbell's Soup, Tyson Foods, and Target Stores.

Bob, that index is as flat as a board since Covid slammed us six months ago. Well, better said, after a bunch of ups-and-downs, that index is within 1% of where we were back in early March.

And, looking a little further back, the consumer staples sector has lagged for quite a while. Since January of 2018, it is up only 12%. During that same period, the overall market is up 36%. So, staples have badly under-performed.

Bob: I can see the reason for that though. I mean buying the day-to-day stuff would stay pretty consistent regardless of what happens in an economy. You've got to eat ---and you got to buy soap and deodorant.

Greg: Right. Even with social distancing, we still use deodorant. And you make a good point. Consumer staples are considered a defensive sector. Good times or bad, we buy the products, which means steady, but uninspiring growth.

But there is another (more exciting) type of consumer the stock market follows. And that is the person we call the ***discretionary consumer***. And as the name implies, discretionary spending follows people who buy stuff they want…but don't necessarily need. Think stocks like MGM Resorts, E-Bay, Starbucks, and yes, Amazon.

And, as you might guess, that index has done far better since Covid hit…in large part because of Amazon. Since Covid, that sector is up 30%! And, since 2018, it's up 49%. Not bad.

So, Bob, what does the difference in performance between staples & discretionary spending tell you?

Bob: Before I answer that. Since Amazon is part of the calculation, how much is Amazon up?

Greg: Great question. In the last six months, Amazon is up 70%. And since January of '18, it's up 124%.

Bob: So, I guess I would say that Amazon has skewed the discretionary index. But still, it's only one stock. So, my guess is, the other reason for the gap would be that ***those with money vs. those who don't have money*** **is** getting wider.

Greg: I think you could defend that reasoning; and it conforms to what most of your listeners are likely seeing in real life.

Bob: So, what I am beginning to understand is that the S & P 500 Index seems smooth because we report an overall number each day. But inside the index, it's pretty lumpy.

I mean, since Covid, financial stocks, energy stocks, real estate, and consumer staples have either struggled--- or done just OK. Meanwhile, upper-end consumers are spending like Covid never happened.

Greg: Right. The well-to-do just shifted their buying habits from the mall to online. Which brings us back to the theme we hit on last week. Many of these trends were in place before we all had to wear masks. Covid was just the thing that put the pedal to the metal.

Bob: Except for real estate. People liked living in cities before Covid. They were willing to put up with the taxes and the traffic in exchange for nice restaurants, theaters, and shopping. Now, they want out.
Greg: And the riots didn't help much either.

Real estate is really a study in migration patterns. And Covid (plus bad policies) is sparking a consumer migration from big cities to rural areas. And, what many people really underestimate is….it wasn't that long ago that high-speed tech was only available in metro areas. Not anymore.

Anyway, historians will have a ball studying the great Covid migration—and the great consumer shifts---of 2020.

Bob: Great stuff as always. How do people reach you?

Greg: My number is 250-3754. Or, go to my website at zanettifinancial.com.

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