ECONOMY

Living in a Brave New World

THINK STRATEGICALLY:

Consumer Behavior in State of Flux; Companies Will Suffer

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Ever since the pandemic began, consumers have been forced to adapt and adopt new ways to eat, exercise, entertain themselves, study, work, communicate and live life as best they could under such dire circumstances. While convenient for many, these forced habit changes meant complete modifications to the daily lives of most people. For example, working remotely and using Teams, Meet, Webex, Zoom and a host of other meeting platforms have taken a toll on most of us.

None of us could have imagined the tradeoffs we would have to accept to continue our daily lives while creating new routines. It takes the human mind 166 days to convert a chore into a habit, and while we have been living more than 20 months now with the pandemic, it is safe to say that imposed changes will not become long-lasting habits, although some will.

Allow me to elaborate. How many of you have had the flu or a bad cold in the last 20 months?

Recently, I asked this very question to a group of executives from one of the largest companies in Puerto Rico; not one raised their hand. The answer is simply that using face masks, alcohol, sanitizer, constant hand washing and social distancing is the very reason that people who protect themselves are not getting sick. In my view, the use of face masks for airplane travel, alcohol and sanitizing methods are likely to remain a habit for many.

Consumers have been in a state of variability well before the onset of the pandemic. The consumers' drive for empowerment has been quite apparent in seemingly random behaviors and demands as they sought the hyper-adoption and hyper-abandonment of emerging technologies as most adopt value-based consumption. With value-based consumers, their decisions are made beyond brand, functionality or price when deciding what to buy or use.

Some of the trends that will continue following the pandemic include:

– The expanded use of food delivery and eating at home, preferably instead of restaurants, will likely continue to be as much as 85 percent of the clientele.

– Online grocery shopping has become and will continue to be used by as much as 40 percent of consumers.

– Communications with others have changed forever, with FaceTime and Zoom being used more than actual visiting.

– Work travel will remain a lesser part of the job.

Peloton vs. Planet Fitness

Some changes may be permanent and many others will not be. A fantastic example of one of these trends suffering a market rotation can be found in the recent quarterly reports from Peloton and Planet Fitness. In essence, the two companies offer the same fitness service in terms of physical equipment and trainer guidance, but with two significant differences. With Peloton, you must fork over thousands of dollars for the equipment and pay a monthly fee. In contrast, with Planet Fitness, you only pay a membership.

– Peloton Interactive (PTON) reported its earnings for fiscal first quarter (Q1) 2022: $805.2 million in revenue, up 6 percent, and net income (loss) of ($376 million) versus $69 million in the year-ago quarter. Peloton reported weak sales growth and a much wider loss than expected. In addition, the company froze hiring and reduced its full-year sales forecast as demand for its equipment and services was much lower than estimated. When the pandemic hit, Peloton's stock had risen from $19.72 on March 13, 2020, to $167.42 on Jan. 21, 2021. The stock closed at $55.64, a drop of $33.88 or 37.84 percent.

Also, Peloton's Connected Fitness Subscription Workouts grew 55 percent, to 120.5 million; however, their average dropped to 16.6 monthly workouts per Connected Fitness Subscription, versus 20.7 a year ago. It is worth mentioning that before the pandemic, the average monthly workouts per Connected Fitness Subscription was 17.7, and it went as high as 26 at the height of the pandemic. The transition clearly shows that similar to Zoom fatigue, people are experiencing Peloton fatigue and want to venture outside and go to gyms again.

– Planet Fitness (PLNT) reported its 2021 Q3 results, with total revenue rising from the prior year by 46.4 percent, to $154.3 million. Net income increased by $21.9 million compared to a net loss of $3.3 million in the prior-year period. When the pandemic hit, Planet Fitness' stock went from $87.94 to its low of $27.54 on March 18, 2020, and then to $80.94 on Jan. 21, 2021. The stock closed at $95.73, rising $13.12, or 16.6 percent. Lastly, Planet Fitness had 15.5 million members before the pandemic hit; it reported during its 3Q21 call that it had 15 million members, or 96.77 percent of the customers it had when the pandemic began.

Not all changes brought by the pandemic will remain in place; we believe that people have house fatigue and are ready to return to some semblance of normalcy in their lives, including many areas of the economy, from work to entertainment. Old habits are pretty hard to get rid of, and venturing out is always tempting.

Week in Markets: Fed, Jobs Growth, $1.2T Infrastructure Bill Passed

November began breaking most market records. The Dow Jones, S&P 500, Nasdaq and the Birling Capital Puerto Rico Stock Index all saw all-time highs, while the month's closing delivered the best weekly return since August.

The combination of the Federal Reserve being in no hurry to raise rates, jobs growing 70.19 percent, allowing children from 5 to 11 years old to get the vaccine and, for good measure, stronger than expected corporate earnings, are providing a positive change in investor sentiment.

The Fed's reducing asset purchases was expected; however, investors were concerned that it might raise rates due to high inflation levels. It quieted those concerns following the Federal Open Market Committee meeting.

Late Friday, the U.S. House of Representatives surprised many by, in a 228-206 vote, passing the president's $1.2 trillion infrastructure bill. The Progressive Caucus was holding up the bill, which the Senate passed months ago. The results of the recent elections gave the progressives the scare they needed to let go of their petty requests in favor of advancing meaningful legislation that will significantly benefit the United States.

Finally, the House was also able to pass a procedural vote along party lines, 221-213, for the Build Back Better Act, Biden's $1.75 trillion social safety and climate change bill. Converting these two pieces of legislation into law would be a massive victory for the Biden administration and a giant leap for progress.

In our view, we have a divided Congress that votes on crucial economic bills along party lines. Choosing what is best for the United States is problematic enough, but allowing the parties to fracture themselves into sub-parties creates havoc amid an already tricky congressional process.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.

Weekly Market Close Comparison	11/5/21	10/29/21	Return	YTD
Dow Jones Industrial Average	36,327.95	35,819.56	1.42%	18.69%
Standard & Poor's 500	4,697.53	4,605.38	2.00%	25.06%
Nasdaq Composite	15,971.59	15,498.39	3.05%	23.92%
Birling Puerto Rico Stock Index	3,000.19	2,944.78	1.88%	46.71%
U.S. Treasury 10-Year Note	1.45%	1.55%	-6.45%	0.50%
U.S. Treasury 2-Year Note	0.39%	0.48%	-18.75%	0.50%