



Basis Points – July 27, 2021

 westwoodgroup.com/weeklyblog/basis-points-july-27-2021/

Above the Fold

What Are Record Low Bond Yield Spreads Telling Us About Economic Confidence (If Anything)?

We use statistics or typical correlations between assets to discover when something is out of balance or as an early signal for better or worse times ahead. Investors have often looked to the yield spread between ultra-safe Treasury bonds and lower-rated corporate bonds as a means of gauging just how risk-hungry the public is, and just how confident we are in future economic conditions. When the spread widens, it typically means that investors need to receive more interest in order to take on the risk of lower-rated companies (typically this is a warning sign).

Early in July, the spread (extra yield) in the Barclays U.S. High Yield Corporate Bond Index fell to a record of 2.62%, the lowest since June 2007 and close to the all-time low of 2.33%. In other words, investors are perfectly fine gobbling up the debt of lesser-rated companies for less compensation. At first blush, this seems like a very good thing — but the devil may be in the details. During the pandemic, many companies like Ford Motor Co., and even Kraft Heinz Co., slipped into speculative grade territory, meaning that “junk bonds” may not be so junky. It’s also important to note that many bond indexes and exchange traded funds blend in higher-graded bonds, which reduce the indexed rate.

At the end of the day, these low spreads we are seeing are generally positive, but there are concrete reasons why the spreads are dropping and why the phenomenon might not have as much credence now as it did in the past. It’s also important to note that euphoric purchases of lower-grade bonds could also be attributed to the simple fact that investors are willing to do *almost* anything to capture inflation-beating yields.

Three Things

1. *Scientists Making It Rain in Dubai* – With temperatures rocketing above 110 degrees Fahrenheit in the desert that is Dubai, scientists have successfully created rain by electrically charging clouds with drones. This new method of cloud seeding is giving hope to other drought (or monsoon)-stricken areas globally. For years, humans have tried everything from dynamite and salt rockets to create or stop rainfall, with mixed and sometimes scary results. The process has also been limited and extremely expensive.
2. *China (Kind of) Cracks Down on Its Big Tech* – China’s tech-sector regulator just ordered a six-month recertification of the country’s internet giants. The program is reportedly aimed at fixing anti-competitive practices, mishandling of user data, infringing on users’ rights and even addressing data security threats. Ironically, regulators are especially concerned about the “malicious blocking of website links,” even though the country as a whole is well-known for disallowing a great deal of information into consumers’ devices. At a minimum, it may be the start to a more collaborative and fair environment for Chinese tech companies and the people who subscribe or buy their services.
3. *Amazon Watches Us, Listens to Us and May Even Have a Key to Our Home* – Amazon launched its “Key” service a few years ago. Initially, the internet giant used software to integrate existing smart garage openers and door locks, allowing delivery people to drop off packages when you weren’t home. As the service grew, Amazon expanded operations, installing its own locks in thousands of buildings, apartment complexes and warehouses across the country. The hardware creates a true barrier for would-be delivery competitors, but questions about liability obviously linger.

Did You Know?

Cloud Seeding Disaster in Russia

Back in 2008, over the skies of Moscow, the Russian Air Force was attempting to clear some potentially rain-filled clouds ahead of Russia Day. The “routine” method they used was to drop a mixture of silver iodide, liquid nitrogen and cement powder into the forming cloud. Unfortunately, the cement failed to pulverize. Instead, it gathered water weight, hardened and fell through a house, leaving a 3-foot diameter hole. Fortunately, no one was injured.

The information contained herein represents the views of Westwood Wealth Management at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.