



Basis Points – October 5, 2021

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Above the Fold

Automotive Industry Likely to Experience Long-Lasting Changes

Prices for autos in America are setting records. The average listing price for a used car jumped to an all-time high of \$25,829 last month, while average new car values also reached a record of \$43,355 in August. September sales volume, however, was down 25% compared to 2020.

The near parabolic rise in values is being driven by a perfect storm of pent-up pandemic demand, consumer FOMO (fear of missing out) and a global shortage of microchips. The latter has culled the production of new cars and isn't likely to change anytime soon. Many chipmakers, including Japan's Rohm Co., are already operating at full capacity, but the sheer backlog of orders and

continued demand flow make this game of “catch-up” nearly impossible. Remember that many of these chip makers shifted their businesses away from autos during the pandemic to satisfy a wave of volume in consumer electronics.

The typical new car contains anywhere from a couple hundred to more than a thousand silicon chips that control everything from the entertainment system and power seats to engine monitoring and safety systems. Automakers are employing all sorts of strategies in the short term to cope with the shortage. The “build-shy” method is a popular one, where the manufacturer completes production of a vehicle, leaving out the unavailable components. The car is parked in a lot where it sits until the hardware arrives. Some are even shipping stripped down versions of cars, removing perks such as seat warmers or even deleting certain safety features so the car can be sold.

Most experts don't see an end to the shortage until late next year, with some expecting issues until 2023. In the meantime, expect major changes in the auto industry. Manufacturers are likely to focus on fewer models and feature sets that not only provide the best margins and sales, but also allow car makers to reduce supply chain risk.

Three Things

1. *One Asset's Rise Poses Additional Stress for Wall Street* – The Wall Street Journal Dollar Index hit a 12-month high last week, punctuating a steady climbing against most other currencies since June. While a strong dollar may sound like a good thing, it can reduce the amount of earnings for multinational companies in the S&P 500. And since 40% of S&P 500 is generated outside our borders, the impact could be severe. A rising dollar also is a signal that global investors are growing more cautious, diverting money to our “safer” currency.
2. *Whistleblower Outs Facebook in Latest Blow to Social Media Giant* – Frances Haugen dropped a bombshell on 60 Minutes Sunday, revealing herself as the source of thousands of internal documents leaked to the Wall Street Journal. Haugen, a former product manager at Facebook, accused the company of “paying for its profits with our safety,” and utilizing algorithms that actually amplified hate speech across the platform. The scathing interview raises even more questions and concerns around the company's ethos, intentions and impact on modern society. Haugen will testify before a Senate subcommittee today.
3. *Fed to Formally Open Cryptocurrency Discussions* – The Federal Reserve is expected to launch a formal risk-reward review this week on the issuance of a U.S. digital currency. As the global reserve currency and financial leader, it would make sense that America move forward with some sort of offering. That said, Fed Chair Jerome Powell cautioned that it's best for America to get a digital dollar right, than be the first to the marketplace. It's unlikely we will see a domestic crypto soon, as Fed officials remain split on its advantages.

Did You Know?

A Decade Without Steve Jobs...

It's been 10 years since the world lost the visionary co-founder of Apple to pancreatic cancer at just 56 years of age. Jobs, a college dropout, worked briefly at popular game-maker Atari before launching Apple Computer alongside engineering genius Stephen Wozniak. Ironically, Jobs had no formal technical or business training, but an appreciation for technology and a grandiose imagination around how it would impact our lives. Apple went public in 1980, but Steve left the company in 1985 after a power struggle with the board. In the years that followed, he acquired a then-small computer graphics studio (founded by George Lucas) that became Pixar Animation Studios. Jobs returned to a then-struggling Apple in 1996 and resumed his CEO role the following year.

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