



Basis Points – November 2, 2021

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Above the Fold

Fed Likely to Wind Down Bond-Buying Stimulus

As central banks from Canada, the United Kingdom and others across the globe shift from hyper-stimulative policies to more “inflationary control” tactics, America is now likely to follow suit. The Federal Reserve begins its two-day meeting today and is widely expected to announce the start of tapering its \$120 billion per month bond purchasing program tomorrow. We believe that the Fed will likely follow telegraphed reductions of \$10 billion per month in Treasury bonds and \$5 billion in mortgage-backed securities. This strategy would end the purchases fully by June of next year and is not likely to spook markets. However, the Bank of Canada did surprise investors last week by ending its government-bond-buying program, while at the same time shortening the time frame for initial rate hikes. European Central Bank (ECB) President Christine Lagarde acknowledged rising

inflation in the Bloc, but still (lightly) held the position that the ECB wouldn't begin raising rates until next year. Markets didn't fully believe that Europe's easy-money policies would continue untouched for that much longer and moved lower after her comments.

The world will be listening closely to any comments and/or changes in guidance and language from the Fed tomorrow. It will no doubt be a challenge for Federal Reserve Chairman Jerome Powell to dance around the increasingly stubborn inflationary pressures being felt at home and abroad. Any hawkish (rate hike) signals are likely to lead to selling pressure in equities and bonds as well.

Three Things

1. *It's Déjà Vu for American Airlines* – American canceled nearly 2,000 flights over the weekend after ultra-high winds plagued the central U.S. and its hub in Dallas, Texas, last week. The major snafu occurred not long after weather and understaffing previously triggered mass cancellations for the major airline on Father's Day (and a few other times throughout the summer). The crux of the issue is reportedly due to a lack of staff and overworked crews who can't legally or safely fly. Southwest Airlines and others are also struggling to deal with increasing travel demands imposed on less-than-adequate staffing.
2. *World Leaders Formally "Endorse" Minimum Global Tax Rate* – The Organization for Economic Cooperation and Development (OECD) has announced that 136 countries, accounting for 94% of global gross domestic product, agree to impose a new 15% minimum corporate tax rate. The Inclusive Framework is expected to increase tax revenues by \$150 billion annually and includes rules that would tax a company based on where its services are sold.
3. *Microsoft Once Again Overtakes Apple as Most Valuable* – After reporting better-than-expected earnings last week, Microsoft overtook its long-time rival Apple as the most valuable company in America. The "Windows" maker has actually realized its greatest benefit from investments in cloud computing; while hardware-heavy Apple is feeling supply chain pressures across its lineup, especially its flagship iPhone. Microsoft now controls 20% of the global cloud market, second only to Amazon.com Inc.

Did You Know?

Howard Hughes Gets Vindication (Sort Of)

The eight-engine, H-4 Hercules was originally designed to carry more than 700 men into battle during World War II. Unfortunately for its designer Howard Hughes, the complex engineering and astronomical costs (\$23 million in 1946 dollars) delayed its maiden voyage until well after the war had ended. Nicknamed the Spruce Goose for its construction material of laminated birch and spruce, the plane made its first and only flight on this date back in 1947. The enormous aircraft

flew roughly 70 feet above the waters off Long Beach Harbor for only a minute or so. The Goose would spend years in Hughes' climate-controlled hangar at a cost of \$1 million annually, until the lease was up in 1980. After a few temporary homes, it was finally moved to its current home at the Evergreen Aviation Museum in Oregon in 1993.

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