



Basis Points – September 1, 2022

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Above the Fold

Russia, Western Allies Now Playing a Game of Chicken

Crude oil and fuel prices have been on the way back up as tensions rise in Eastern Europe and OPEC+ is simultaneously threatening cuts in production. In an effort to weaken Russia's grip and war machine funding, Western countries, led by the U.S., have been working to band together and cap (limit) the price paid for Russian oil. The goal is to target Russian oil purchases between \$40 and \$60 per barrel, which is roughly half the current market price. Experts determined this price range as it limits Russia's excess oil profits but still covers extraction and delivery costs, with enough vig (profit) to keep Moscow from shutting down exports altogether.

Obviously, this strategy only works if the vast majority agree to the cap, while this newly formed “cartel” would also implement and enforce restrictions on the insurance of oil tankers, as well as crude acceptance into global ports. As huge importers of oil, both India and China may be unlikely, and perhaps even unable, to fully comply with all the monitoring and logistics required. But talks with India reportedly have been productive.

Russia is not going down without a fight, though. The country has been slowly throttling back natural gas deliveries through the Nord Stream pipeline to Europe to roughly 20% of its maximum capacity. And yesterday, state-owned Gazprom PJSC completely stopped the flow of natural gas, citing necessary maintenance.

While there are many moving parts to this volatile situation, there’s no doubt that Europe and other global players need Russian oil and natural gas to both keep prices stable and prevent possible rationing of resources in Europe, especially with winter approaching. On the flip side, investors are taking stock of just how strong demand will remain in the coming months. But there’s no doubt the world is wondering who will blink first.

Three Things

Royal Caribbean Taps SpaceX to Improve Its Customer Experience

One of the two largest cruise lines, Royal Caribbean, will install the Starlink system across its entire fleet starting Sept. 5 on the ship named Celebrity Beyond. Internet connections, Wi-Fi or otherwise tend to be expensive, unreliable and/or slow across the industry. And though SpaceX’s Starlink satellite-based system is new for maritime applications, it could see wide adoption if successful with Royal Caribbean. Starlink is limited as it only covers coastal waters in parts of North and South America, Europe, and even those around Australia and New Zealand, but the company says it should have near full coverage of global oceans by Q1 of 2023.

Bed Bath & Beyond Taking More Drastic Steps to Restructure

The struggling home goods retailer announced it will close 150 of its flagship stores, slash its workforce by 20% and sell additional shares to raise capital. The move comes on the heels of a 26% quarterly decline in sales and a continued shakeup in management as the company ousted CEO Mark Tritton in June. Bed Bath & Beyond also happens to be a popular “meme stock” that’s been subject to increased volatility as these viral momentum investors buy and sell shares. The company has secured more than \$500 million in new financing, which includes the expansion of an existing credit line.

PC Sales Continue to Drop, HP Warns of Slowing Business

HP Inc. saw a drop in sales during the most recent quarter as consumers continued to cut back on their spending. Revenue for its latest quarter shrank 4.1% to \$14.66 billion, with the company citing a 20% decline in consumer spending. On the commercial side, revenues increased 7%, but CEO Enrique Lores noted that while corporate business deals appeared stable, “[corporate customers] are slowing down the translation between those deals ... into orders.” HP also cut its fiscal 2022 outlook to between \$4.02 and \$4.12 per share. Last week, Dell Technologies Inc. also posted lower profits and a weaker-than-expected outlook.

In the Know

Credit Cards and Debt

Carrying some debt/leverage can actually be a good thing. Aside from earning rewards, smartly used debt instruments may smooth out volatility in your bank accounts, allowing you to spend regularly and pay back at your leisure. The critical bit here is obviously to keep balances low and repay as quickly as possible to minimize interest costs. Here in America, the average adult has between eight and 10 credit cards. Most typically don’t use two or three at any given time, and only tap into the others for specific rewards, sales or in an emergency. Walter Cavanagh is the exception as he is the Guinness World Record holder with more than 13,000 active credit cards he’s been amassing since the 1970s.

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