



Basis Points – September 6, 2022

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Above the Fold

China's Struggles Are Having a Favorable Impact on Global Inflation

We've recently [addressed](#) China's growing economic challenges and how its fiscal health is being impacted by domestic consumer [stressors](#) like falling real estate prices as well as general economic malaise with many of its trading partners. The lack of demand from its commercial and industrial core is playing in concert with similar themes outside China's borders, and the result is something many of us have been hoping for — slowing inflation.

While most would not want to see someone suffer in order to gain, the events that are transpiring globally are, essentially, a part of a normal economic process that's taken place over and over again since the dawn of the industrial age. China, and the world for that matter, have seen unprecedented expansion since the Great Recession. More recently, the expansion was abnormally fueled by enormous government stimulus, which combined with a pandemic and major disturbances to supply chains, also fueled the greatest inflation seen since the early 1980s. High prices are often the cure for high prices as businesses and consumers have no choice but to moderate spending and redirect funds to less discretionary purchases — and that seems to be working.

China's slowdown is especially impacting commodity and key consumer imports such as electronics, furnishings and recreational equipment. In July, global inflation slowed to just 0.3% on a monthly basis, down from an average of 0.7% in the previous six months. And prices for all sorts of commodities have been trending lower off their highs for many reasons, but falling Chinese demand has certainly had a standout impact on certain markets. In 2021 alone, the country consumed 72% of the world's iron-ore imports, 55% of refined copper and more than 15% of oil globally. And as Chinese manufacturers struggle to sell goods domestically, it's likely they will lower prices further in order to increase foreign exports. Whether this translates to price relief in America is yet to be seen, but global trends are pointing to a normalization of inflation rates.

Three Things

Domestic Federal Oil Drilling Leases Near 70-Year Low

According to a recent Wall Street Journal [study](#), the amount of federal land leased to oil and gas drillers has reached a low not seen since WWII. Under President Biden, the Interior Department has leased out just 128,228 acres of land and off-shore property for drilling. The program has been in slow decline since peaking under President Reagan when more than 47.5 million acres were leased out. The Biden administration has been very vocal about stopping drilling on federal lands as he pushes for a transition to clean energy.

Why It “Matters” that Apple, Google and Other Smart Devices Should Work Together

Apple's HomeKit, Amazon's Alexa and Google Home are just a few of the hardware and software platforms that help us automate our lives. From lights and outlets to security, appliances and more, everyone seems to “have an app for that.” The problem has been that consumers often end up with multiple apps controlling multiple devices; but that's about to end (hopefully). Something called the “Matter” specification, just months from being released, promises to interconnect

previously incompatible devices. From an investor's perspective, a universal language for all smart things should stimulate growth and help smaller companies like Eve Home and many others flourish.

Could We Be Headed for Pound Parity?

Falling from a recent peak of \$1.235 in January 2021, the euro reached U.S. Dollar parity (when both currencies are worth the same amount) in July of this year, a 20-year low for the currency. It now appears that the British Pound may also be headed for dollar parity as the country's economic struggles deepen. As the country transitions to a new prime minister, she will have her work cut out, especially as it relates to soaring energy costs for Britons. Some inflation projections are greater than 20% in 2023 if the current trajectory holds. Currency watchers believe that the pound, which once held the influence the U.S. Dollar, could drop to equal the dollar in the coming months. The pound has always held a premium over the greenback in the 200-year+ history of the pair.

In the Know

When Was the First Modern Economic Cycle Realized?

Historically, we've seen the rise and fall of empires through war, wealth and social shifts. In more modern times with the growth of consumerism and industrialization, societies began to experience a more rhythmic pattern between boom and bust periods. The first man to study and identify these cycles was French statistician Clément Juglar, who in 1860 identified cycles using a periodicity of roughly eight to 11 years. Juglar broke down the periods of a typical cycle into three phases: prosperity, crisis and liquidation. The Juglar cycle, as it's called, has been regarded as the true "major cycle," but other, smaller cycles have been identified within it.

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