



Basis Points – September 8, 2022

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Above the Fold

Bonds, Futures Point to Another 75-Basis-Point Hike

If you've wondered why equities have been struggling as of late, one major culprit has been a rise in the probability of a higher-than-expected increase in the federal funds rate. Just over a month ago, there was about a 50/50 split between investors who expected a 50-basis-point (bp) hike, and those who saw a 75bp jump. Today, the CME Group Fed Watch Tool, which uses interest rate futures to determine odds, is showing an 82% probability for the larger rate bump.

Another popular indicator is the bond market, namely the 2- and 10-year Treasury notes, which both have seen sharp increases in yield over the last month or so, since bottoming in late July. The 2-year Treasury has increased from 2.89% on July 29, to its current level of 3.48%, while also registering a high not seen since 2007. The 10-year Treasury yield has leapt from 2.64% to the current 3.30% in the period as well, while it's currently trading near 12-year highs. Bond yields rise when bond prices drop (investors are selling bonds). And while bond selling often means equity buying, the specter of rising rates and a slowing consumer are tempering stock values at the moment. For comparison, the S&P 500 has lost about 5% of its value since late July.

The Federal Reserve also seems to have been staunch in its view that aggressive monetary policy is still needed to fight inflation, offering little evidence or commentary to the contrary over the last month. Fed Chairman Jerome Powell's tone after their August meeting in Jackson Hole, Wyoming, also supported a sharp, parabolic rise in rates now in order to "shock" the system, rather than the slow, metered ramping of rates we've seen historically — he even used the phrase "bring some pain" when referencing their tactics. St. Louis Fed President James Bullard also vocalized a preference for this approach in an interview on Aug. 18. The next Fed meeting is Sept. 20-21.

Three Things

Chip Sales Are Way Down and May Stay That Way

After what's been a highly publicized boom in semiconductors (chips), the global market has abruptly slowed. Samsung, the world's largest chipmaker by revenue, warned that the sharp downturn in global chip sales is likely to extend into next year. Growth is still positive and global sales are expected to grow 13.9% to \$633 billion this year, according to trade group World Semiconductor Trade Statistics. But slowing sales also mean that many chipmakers are scaling back capacity expansion and shifting resources to research and development. Experts warn that the drop in chip demand is a canary in the coal mine for broader economic woes.

More Good News for Oil Prices

Brent crude oil prices fell (briefly) yesterday to the lowest levels since before Russia invaded Ukraine. The move lower flies in the face of OPEC's efforts to boost oil prices by cutting production, but traders seem more concerned about waning demand that OPEC threatens at the moment. While Brent prices tend to reflect Europe and Asian supply and demand, WTI (or West Texas Intermediate) oil prices also fell to levels not seen since January, dropping below \$85 a barrel. Experts expect bearish pressure to remain both in oil and gasoline in the coming months, but warn that volatility is also likely to stick around.

Amazon to Deliver Drugs in Japan

Nikkei is reporting that Amazon is considering partnerships with various small and medium-sized pharmacies in Japan to facilitate the ordering and delivery of prescriptions to patients. The operation is expected to launch in 2023 just as Japan is approving electronic prescriptions. Initially, the new entity will not own pharmacies or hold inventory, but will facilitate the logistics, software and delivery for its pharmacy partners. There are roughly 60,000 pharmacies dispensing prescription drugs in Japan, and this move could help Amazon expand its brand across the Asian nation.

In the Know

Google's Interesting History

Google founders Sergey Brin and Larry Page met by happenstance in 1995. The next year, they were already pioneering a “web crawler” that they aptly named “Backrub.” While it may sound creepy, the Backrub name was likely derived from the term backlink, which is still a critical part of the Google rank today. And yes, just like Apple and several other Silicon Valley icons, Google’s first workspace was in Susan Wojcicki’s garage. She was the company’s 16th employee and is now CEO of YouTube.

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