



Basis Points – October 11, 2022

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Above the Fold

Build Back Better Has Another Problem: The Surging Dollar

Washington has promised to reinvigorate a slowing domestic economy. One of the bigger presidential agendas was to bring more jobs to American factories and decrease our dependence on imports that could be subject to supply chain disruptions or political saber rattling such as our ongoing tussle with our “frenemy” China. And while the Biden administration and legislative branch have enacted some stimulative measures, they have a new foe in the U.S. dollar. And it’s expected to dent our manufacturing profits.

With interest rates skyrocketing and global economies faltering, a sharp divergence in monetary policy and currency values between America and its trading partners is forming. The dollar's meteoric rise makes domestic raw and finished goods extremely costly for foreign buyers and is even motivating stateside buyers to shop overseas. This phenomenon gives non-U.S. companies a pricing advantage and will negatively impact the earnings of a wide swath of American companies like General Electric, 3M, Carrier Global, Cummins and others over the short and intermediate time frame. And those companies with heavy European sales exposure could see an even deeper effect as much of the euro bloc struggles on the brink of recession.

Unfortunately for these companies, there's likely to be little relief until the Federal Reserve changes course or foreign economies turn around — and both scenarios could take some time to be realized. The good news is that investors are already “baking in” these effects, sending many of these stocks lower. Of course, for longer-term value investors who've done their homework, the selling could present buying opportunities.

Three Things

Meta Warns Hundreds of Apps Are Stealing Your Login Information

The next time you download an app from the Apple Store or Google Play, you might want to think twice about “connecting” your Facebook account until you're sure the app is safe. Last Friday, Facebook parent Meta Platforms warned that there are more than 400 malicious Android and Apple apps that essentially steal your login data from the social media site. The attack typically takes place when a user is asked to “log in with Facebook,” at which point the nefarious software gains access to your data. According to Meta, roughly 1 million people may have already been affected by harmful apps.

The Chip Industry Now Facing a Different Issue Altogether

Forget the pandemic boom that brought memory chip shortages and surging prices. Chipmakers are now seeing a significant trend reversal. According to the Wall Street Journal, memory chipmakers such as Micron and Samsung are reporting substantial price declines in two major types of chips known as DRAM and NAND flash. Prices declined by 15% and 28%, respectively, for the quarter ending in September and are expected to continue trending lower. Memory chips represent roughly 27% of the entire chip industry, and their prices have been declining since late last year. Memory chip prices are often a leading indicator of industry trends and health.

Treasury Yields Soar, Inversion Steepens

A better-than-expected jobs report on Friday showed yet another drop in the unemployment rate to 3.5%. Though the jobs market can severely lag economic conditions, investors see the data as another reason for the Federal Reserve (Fed) to hike rates another 75 basis points in November. The new data combined with the Fed's aggressive actions has driven 10-year Treasury yields to 3.888% as of Monday, more than a 10-consecutive-week rally. Because of the potential short-term ramifications of the Fed's action, the 2-/10-year yield spread was nudged deeper into the inverted territory. A yield curve inversion is interpreted by many as a predictor of a coming recession.

In the Know

Can Regulation Drive “Innovation”?

Some are still frustrated that Apple removed its headphone jack from the iPhone 7, but a new set of seemingly smart regulations coming to pass in Europe might really help consumers globally ... and even force the world's most powerful hardware maker to make a major change at the same time.

The European Parliament voted last week to require all mobile phones use a USB-C port for wired charging (the amendment still has to be formally approved). Aimed at reducing waste and consumer costs, the legislation is likely to push Apple to ditch its venerable (proprietary) lighting cord and move to USB-C. Even if immediately enacted, Apple would still have a two-year grace period to comply, but the company is likely going to have to move in that direction (if it has not done so already) if it wants to sell any phones in Europe. Experts are forecasting the change to occur with the iPhone 17 in 2025.

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