



## Basis Points – October 18, 2022

 [westwoodgroup.com/weeklyblog/basis-points-october-18-2022/](https://westwoodgroup.com/weeklyblog/basis-points-october-18-2022/)

### Above the Fold

#### One Beneficiary to a Surging Dollar ... Small Caps

There's been a fair amount of talk around how a strong U.S. dollar (USD) is negatively impacting things like U.S. manufacturing, exports and the earnings of large, multinational companies who generate revenue outside America's borders. As investors, it's important to always follow the money and realize that just about every bit of news has a silver lining or beneficiary. And one group that benefited from the surge in the USD is small cap stocks.

Smaller American companies tend to be less sensitive to currency fluctuations as a larger part of their revenue is generated domestically. For example, companies in the S&P 600 (small-cap index) generate just 20% of their revenues outside our borders, compared with more than 40% for the S&P 500. And though America certainly has its risks, our economy is one of, if not the strongest in the world, for the moment. Stateside economic resilience has led investors to take another look at this group of businesses as currency imbalances and other global economic headwinds take their toll on bigger enterprises. As of Oct. 17, the S&P 600 had jumped 2.5%, while the S&P 500 declined 0.1%. Small-cap companies are also relatively cheap compared to their larger brethren as investors sold the group sharply earlier in the year on fears that economic recession could come hard and fast. It's important to note that investors tend to move in and out of smaller companies first and economies ebb and flow, but for those with a sound investment approach, some small caps may offer tremendous value.

## Three Things

---

### The Jones Act Could Make Winter Tougher in New England

---

It's no secret that America is shipping large amounts of LNG (liquefied natural gas) to Europe to help ease strains caused by the Russia-Ukraine war. What many don't realize is that a more than 100-year-old American law is making it extremely difficult for the New England region to get its share of domestically produced LNG and heating oil. The Jones Act (aka U.S. Merchant Marine Act of 1920) requires that cargo of any type shipped between two American ports meet three requirements: 1) The ship was made in America; 2) be 75% owned by Americans; and 3) be manned by a 75% American crew. And since it's rare that many ships meet these tests, and such a large amount of LNG is going to Europe, shipments to northeastern states are going to be less frequent and extremely pricey this winter.

### U.K. Cancels Tax Cuts

---

Britain's new administration announced a sweeping tax-cut and debt issuance program weeks ago initially intended to help spark an ailing economy. But after news of the cuts sent its currency and bond markets spiraling, the government just announced Monday that it will be reversing nearly all of the proposed tax cuts in an effort to restore order to what's been a chaotic situation. Prime Minister Liz Truss also fired newly appointed UK Treasury Chief Kwasi Kwarteng last week and appointed Mr. Jeremy Hunt to take his place. The original plan equaled around \$50 billion in total cuts, with the revised program, focused solely on payroll taxes and a portion of property taxes, now worth an estimated \$13 billion.

### China's Strange Information Delay

---

Global investors will have to wait to learn the latest gross domestic product (GDP) and housing data from the world's second-largest economy. The communist nation abruptly announced the delay of its third-quarter GDP data release just a day ahead of its scheduled dissemination. China also delayed data on home prices in 70 of its major cities. The government gave no estimated date of release for either dataset. The delay coincides with its twice-a-decade communist party congress where it's widely expected that leader Xi Jinping will break from tradition and secure a third five-year term.

## In the Know

---

### Alaska Sold for Less Than 2 Cents an Acre

---

Back on this day in 1867, America formally took possession of Alaska, an area of 586,412 square miles for a total price of \$7.2 million. President Andrew Johnson and Secretary of State William Henry Seward negotiated the purchase from Russia as the remote area was hard for the communist regime to defend. As good of a deal as it may seem, the acquisition was viewed by many as a huge mistake, calling it "Seward's Folly" and "Andrew Johnson's Polar Bear Garden," among other unmentionable names. The gold rush of 1899 changed public opinion about the state, and today the region accounts for a quarter of crude oil production and more than 50% of our seafood.

The information contained herein represents the views of Westwood Wealth Management at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.