



Basis Points – October 27, 2022

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Above the Fold

Health Insurance Price Methodology Could Help Our Inflation Problem

For the last couple of years, health insurance costs have been a major contributor to core inflation rates (the core strips out volatile food and energy prices). Health insurance prices were up an astonishing 28.2% from a year earlier in September, the largest increase since 2006. This meteoric rise in premium costs added roughly 0.4% to the overall core CPI (consumer price index) reading in September. But relief is on the way, at least mathematically, according to experts.

Starting in 2020, pandemic-related lockdowns, limited health care capacity, and a large reduction in normal care and treatments translated to lower health care spending overall and, in turn, reduced benefits paid by insurers. This raises net premium income and translates to a surge in health insurance prices. These 2020 data trends have been factored in starting in October 2021, fueling inflationary readings in CPI over the last 12 months. But since pandemic lockdowns have ended and consumers have gotten back to their normal health care regimens and elective procedures over the last year, there's going to be a shift in calculations.

Starting this month, inflation data will reflect the last year's relative spending and insurance costs, which is expected to swing the pendulum the other way and show up as a drop in health insurance prices in the CPI calculation. This trend is expected to last for months and could help reduce the overall inflation rate and slow the Federal Reserve's aggressive rate hike trajectory. It's a bit ironic as health care costs are rising overall, but in this case, it's all about relativity.

Three Things

Intel to Spin Off Mobileye Global

Despite a challenging IPO (initial public offering) market, Intel priced shares of its highly anticipated, self-driving car unit, Mobileye, at \$21 a share. The deal will infuse Mobileye with roughly \$861 million and values the company at \$7 billion, according to those close to the matter. Intel paid \$15.3 billion for the tech firm back in 2017, but the offering is far less than the targeted valuation of \$50 billion when Intel began plans and marketing for the IPO late last year. Mobileye revolutionized the industry with a simple, inexpensive camera solution and now offers several technologies that facilitate hands-free ADAS (advanced driver assistance) systems.

Megatech Shows Continued Weakness

Three large tech firms disappointed analyst expectations this week. Google parent Alphabet reported revenues that were lower than consensus estimates, marking five consecutive months of slowing sales growth. Google's YouTube also posted its first advertising revenue decline since its inception. Texas Instruments actually experienced increased profits through cost-cutting measures but warned of waning demand for personal electronics. Finally, Microsoft reported its weakest quarter of income growth in more than five years as it struggled to gain footing in the growing metaverse space with its HoloLens product.

America Still Loves Its Ketchup

Despite rising input costs, Pittsburgh's Kraft-Heinz Co. reported better-than-expected sales for the third quarter. The popular maker of Jell-O, Kool-Aid and condiments saw a 2.9% jump in sales in the quarter as it hiked prices at the consumer level by nearly 15.5% over the last year. Ironically, the company sold fewer products in the quarter compared to 2021 due to continued supply chain constraints and price increases. Stripping out one-time items, adjusted earnings were 63 cents a share, besting analyst expectations of 56 cents a share.

In the Know

Happy Birthday NYC Subway!

On this day 118 years ago, New York City Mayor George McClellan took control of the first official subway train to roll through the city's new underground rapid transit system. Though it was not the oldest subway system in the world (London's opened in 1863), it quickly grew to be the largest. The initial line was 9.1 miles in total with 28 different stations. That night, the system was open to the public, and more than 100,000 people paid a nickel to ride the trains. Today, the NYC subway has 26 lines and 472 stations that run 24 hours, serving 4.5 million riders each day.

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