



Basis Points – November 3, 2022

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Above the Fold

Fed Offers Just a Touch of (Nuanced) Hope

The Federal Reserve took its key federal funds rate up another 75 basis points, which was widely expected. What was less anticipated was the direct acknowledgment that rate increases have a lagging impact on the economy. A major change to recent press releases was the addition of the following sentence:

“In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.”

So while the Fed stood prepared to continue its upward rate march, it seems there's a higher likelihood that future increases will be smaller and perhaps plateau or even pivot back to accommodative levels sooner than expected. Equity markets rallied on the initial decision, while yields on most Treasury bonds fell. That said, inflationary pressures remain stubbornly high and Fed Chair Jerome Powell continued to beat the same hawkish drum, albeit maybe slightly more nuanced concluding its most recent meeting. The Fed has already rocketed rates 3.75% higher since the start of the year, and Mr. Powell also said the terminal (highest) rate needed may be higher than was initially expected. And the committee still has one more meeting in December, during which market participants widely expect only a 25 to 50 basis point hike ... at least at the moment.

Three Things

J&J Bets Big on Cardiac Pump

Looking to bolster its slow-growing medical device segment, Johnson & Johnson is set to acquire heart-pump producer Abiomed Inc. for a cool \$16.6 billion. Abiomed's pumps, the most popular in the industry, are typically used to mimic the heart's pumping action while heart-disease patients undergo procedures. The "Impella" pump line is expected to fit well with J&J's current offerings and with its large international reach, analysts believe that there's real growth opportunity for Johnson & Johnson in this deal. The company built aggressive growth targets for the Impella line that would reward shareholders of Abiomed with additional payments only if these levels are achieved.

Amazon Really Wants to Win More Prime Members

As competition grows, Amazon is looking for ways to entice current and would-be members to keep paying for Prime. In its latest move, the company is expanding its Amazon Music suite from 2 million free songs to 100 million — the same full catalog offered on paid streaming audio services such as Spotify. This means that users can now craft nearly any playlist they want with just about any song or (Amazon) podcast desired. The move could obviously have repercussions for the likes of Pandora and Spotify, but was really intended to sweeten the Prime pot as competitors such as Walmart and Costco build their shopping and media bundle packages.

Get Your Cheap(er) Netflix Starting This Week

Seven months after announcing the idea, Netflix will roll out its “Basic with Ads” access tier in 12 countries. Netflix has already locked down some big advertisers and brought in industry ad specialists to help run the new business, which could be a huge (much-needed) win for both revenue and subscriber growth. There are still some deals to be ironed out with some large studios over what content will be available and how they will share in advertising profits. This means that there’s a fair amount of content absent at this lower tier at the moment. Advertisements are said to cost roughly \$65 for a 1,000-viewer reach, but some advertisers have ended up paying between roughly \$45 to \$55 for similar ad time. The new service will cost \$6.99 in the U.S.

In the Know

One Student Shut One-Tenth of the Internet

On this day back in 1988, 22-year-old Robert Tappan Morris created the Morris worm while he was in grad school at Cornell University. The worm, which he disguised as being sent via MIT’s network, was designed to exploit several system vulnerabilities. Due to a code command that forced the worm to replicate itself 14% no matter what, the program ended up taking down 10% of the internet (an estimated 6,000 computers), shutting down machines or putting them into a catatonic state. Though his actions were said to be more of curiosity than malice, he ended up being the first person to be indicted under the recently enacted Computer Fraud and Abuse Act (CFAA). He was also an inspiration for the 1995 cult classic “Hackers.”

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