



## Basis Points – November 17, 2022

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### Above the Fold

#### Improving Inflation Readings Come at a Cost

Equities have been rising as of late due to reassuring inflation data first at the consumer level and this week at the wholesale level as well. On Tuesday, the Bureau of Labor Statistics announced the producer price index (PPI) rose just 0.2% in October, below the 0.4% consensus estimate. On a year-over-year basis, PPI jumped 8% compared to an 8.4% increase in September and while still elevated, was down from the all-time peak of 11.7% in March. A significant contributor to the slowdown in PPI was a 0.1% decline in the services component of the index, the first decline in that metric since November 2020. This is a sign that labor costs could be coming in and may be less “sticky” than many feared.

The question now is whether the Fed will respond quickly by stopping or dramatically slowing its rate hike trajectory as seemingly durable consumers are starting to show some potential weakness. Though the readings still remain mixed, Target reported lower-than-expected earnings Wednesday and cut its forecasts for the holiday period due to a slowdown in consumer spending. There's also been a 15% jump in household credit card balances nationwide during the July-September quarter versus a year ago, the largest year-over-year increase in two decades. But government retail sales data released yesterday still shows a relatively resilient consumer as sales rose 1.3% in October from September, up from a flat reading in September from August. Car sales and rising fuel costs helped drive the retail sales number and some economists are attributing a good portion of the increase to an October Amazon Prime Day event, as well as state of California stimulus checks (middle-class tax refund) ranging from \$200 to \$1,050. As it stands now, the majority of market participants expect a 50 basis point hike from the Fed in December.

## Three Things

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### Amazon Joins Tech [Layoff] Boom

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The eCommerce and tech giant plans to lay off approximately 3% of its workforce or roughly 10,000 people. Amazon insiders confirmed the plan, but noted that the amount is fluid and subject to change. The firings are yet another blow to tech-sector workers who are feeling pressure from a large number of companies such as Meta, Twitter and others. Amazon employs more than 1.5 million people around the world, primarily hourly workers. This round of layoffs is said to be focused on its devices organization, as well as human resources and its retail division.

### Remote Work = Energy Savings ... for Some

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Across Europe, a fair number of employers are urging staff to work from home so companies and government entities can save money on energy bills. Some office buildings across the pond are being shuttered one day a week or more to save on energy costs, while other municipalities, like the city of Milan, are *forcing* thousands of employees to go remote. The trends, meant to address Europe's energy crisis, come at a time when managers across the globe are fighting to get workers back into the office to stimulate productivity. The flip side here is that workers will now be burdened financially when it comes to personal energy costs, which could be yet another blow to euro bloc economies. According to the Wall Street Journal, most companies invoking remote work mandates do not plan to share their energy savings with their employees.

### Don't Just Blame the Fed for High Mortgage Rates

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While it is true that the meteoric rise in the federal funds rate has helped drive mortgage rates to a 20-year high, there are a few other forces pushing on this critical consumer borrowing cost. First off, the Federal Reserve, which is the largest buyer of mortgage bonds (aka mortgage-backed

securities or MBS), has sharply curtailed its buying. When you compound this with the fact that many banks and investors have also stepped away from buying, you have a greatly reduced pool of purchasers. This means that sellers (lenders) must offer higher yields (rates) in order to get these buyers to invest, which in turn pushes rates higher than they would normally be. In fact, the gap between mortgage rates and their benchmark, Treasury yields, is the greatest it's been since the early 1980s.

## **In the Know**

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### **An iPhone 14 Feature You're Probably Not Aware of**

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There's been a lot of talk around the lack of new features and upgrades of the iPhone 14 compared to its predecessor. And while we won't get into a debate around all that, there's something about the phone that could be a lifesaver, especially for those who work, live and play in remote areas. The iPhone 14 offers a new satellite-based emergency SOS texting system that allows the phone to directly communicate with emergency services via a direct satellite connection. If your cell connection is lost, simply launch the Emergency SOS app and the phone's new hardware will direct you to point the phone in a specific direction and get help where you need it. Currently available in the U.S. and Canada, Apple plans to expand the service in France, Germany, Ireland and the U.K. starting next month.

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