



## Basis Points – January 3, 2023

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### Above the Fold

#### **Recession Likely, but What Does That Really Mean for Consumers?**

We agree with the vast majority of economists that a recession is likely to begin in 2023. While the term recession tends to be a catch-all for economic decline, there are a plethora of activities that generally signal and fuel a recession. It's important to note that the looming recession is likely to look much different than what we experienced in 2008, and should not be as devastating. From 30,000 feet up, one of the more common indicators of a coming recession is the negative yield curve, specifically the rate when you subtract the 3-month Treasury yield from the 10-year note. This inversion has occurred, and in essence, predicted every economic downturn since WWII. It's

important to note that the last three recessions officially began months after the curve became inverted, and curves appeared to normalize by the time that happened — this leads to a bit of a lag in the indicator.

At the consumer level, fast-rising interest rates and inflation together are causing Americans to draw down their savings and take on more debt at even higher rates. These factors tend to reduce our “monetary safety cushions” and eventually reduce spending habits, slowing the flow of money into our economy. At the same time, most banks have also begun tightening their lending standards, making critical loans and credit cards harder to come by. More than 40% of institutions have already done this in 2022. Layoffs and cutbacks have also begun at many large and small businesses across the nation, but the diverse and modern labor market still looks resilient. Looking deeper, several research firms note that many of the available jobs are lower-paying, hourly type jobs that could make the labor market appear stronger than it really is.

The good news is that we also believe, along with the consensus, that a coming recession should remain shallow so long as the housing market stays relatively stable. Unemployment will rise, and millions could lose their jobs, but it is expected to remain low by historical standards. And there is the slight chance that inflation will ease and prompt the Federal Reserve to reverse course and move to a more stimulative approach that could help us avert recession entirely.

## Three Things

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### Meta Acquisition Supports Continued Push Into Metaverse

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Meta has confirmed that it has acquired Dutch smart eyewear maker Luxexcel. The Netherlands-based company was founded in 2009 as a prescription lens maker, but has since evolved into a niche tech firm specializing in 3D-printing lenses for use in smart glasses. Ironically, Luxexcel partnered with WaveOptics back in 2021. WaveOptics makes the displays for Snap Inc. and secured a \$500 million cash infusion from Snap that year. The details of the deal have not been released, but Meta intends to integrate Luxexcel’s elements to create glasses of all types as Meta pushes deeper into augmented and virtual reality. Meta also partnered with Ray-Ban in 2021 to launch Ray-Ban Stories, smart glasses with speakers, microphones and cameras ... but no user display.

### Tesla Sales Up, but Miss Expectations

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In what’s becoming a crowded space, the electric vehicle (EV) marketplace is being flooded by a slew of competitors. This fact, along with a slowing global economy, is taking its toll on Tesla’s sales growth. The company reported fewer vehicle sales last year than it had initially targeted,

delivering roughly 1.31 million units in 2022, up about 40% from 2021. The final numbers also fell short of FactSet's updated consensus estimate for 1.34 million units. Shares of the pioneer EV maker experienced their worst annual performance ever in 2022, and shareholders have expressed a general concern of Elon Musk's multiple chief executive positions at SpaceX, The Boring Company, Neuralink and Twitter.

## **Toyota Shifting Strategy AWAY From EVs**

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Toyota Motor Corp. President Akio Toyoda recently noted that a "silent majority" of automakers are doubting the fast and furious EV push. Mr. Toyoda sees more of a blended offering that includes varied powertrain technologies, including hybrids, plug-in hybrids, hydrogen power and battery-electric vehicles. His words come at a time when most automakers have committed to an all-, or mostly-electric future. Toyota will spend up to \$25 billion on its EV lineup, but will still develop and market other powertrains as EV and battery prices soar. Mr. Toyoda also believes that hybrids will be necessary for a long time to come as the world upgrades its energy infrastructure and develops an efficient charging station system.

## **In the Know**

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### **Happy New Year!**

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We wish you a very happy, healthy and prosperous 2023! Hopefully, all of you enjoyed your New Year's Eve celebrations, but have you ever wondered when (and where) humans first started celebrating "New Year's Day"? The first known record of a New Year's celebration can be traced back to 2000 B.C. in Mesopotamia (which was centered around modern-day Iraq). The Babylonian festival, called Akitu, would commence on the vernal equinox in late March and last for 11 days. It wasn't until 46 B.C. when Julius Caesar developed the solar-based Julian calendar that the New Year was moved to Jan. 1. Early Christians deemed the celebrations paganistic and initially moved the New Year festivities to December 25, the day Jesus was born.

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