



## Basis Points – January 5, 2023

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### Above the Fold

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#### Muni Market Tricky to Navigate in 2023

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Municipal bonds, known for their relative safety and price stability, suffered atypical volatility in 2022. In the worst correction since 1981, the muni market lost around 8.5% last year, with total market value dropping below \$4 trillion, a level not seen since 2014. The selloff seems exaggerated and almost odd since most public coffers grew with increases in taxes driven heavily by real estate appreciation. In a normal market environment, growing municipal revenues and quality should have driven prices higher or at least supported them. But despite deep discounts for these bonds, a sort of herd-like selling wave swept the sector and drove prices lower. Historically, large corrections in munis are followed by huge rebounds — but 2023 could be an exception.

It's likely that 2022's muni-swoon is, at minimum, a price reset for these assets. But with the threat of continued interest rate hikes and potential declines in tax and fee revenue (which affect credit quality/ratings), a massive rebound isn't assured. Another risk for munis is pensions that have suffered deep losses but will still have to pay out increased benefits due to inflation. Regardless, municipal bonds can still offer a tax-advantaged return that is more stable than most other investment vehicles. A more strategic approach to muni investing, targeting outright bonds themselves, as opposed to ETFs (exchange traded funds) and funds, may be a smarter plan in the coming year. It might be worth a chat with your financial professional to learn more.

## Three Things

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### Car Shopping Should Get Much Easier

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The pandemic drove car prices sharply higher, while logistical snarls and outsized demand over the last couple years reduced availability and selection ... that's all starting to change. The auto industry is expected to show an 8% decline in overall sales in 2022 compared to the prior year, with just 13.7 million vehicles sold, a more than 10-year low. With supply chain stresses easing, automakers are seeing inventory levels increase just as rising rates and a slowing economy are tempering consumer demand. With auto prices still stubbornly high, there's likely to be further inventory buildup in 2023 — and that's good news for car shoppers. Unfortunately, experts don't see automakers offering big discounts just yet, at least not for new vehicles. The used car market, however, has seen sharp price declines over the last six months or so.

### Good News for Your Heating Bill

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Warm weather and growing inventories are providing much-needed relief for users of natural gas. Natural gas futures for February were down below \$4 per million British thermal units, a 50% decline from summer (August) highs, pricing this heavily used energy source back at 2021 prices. The drop in prices is a welcome gift for the European bloc, which was facing shortages and rolling blackouts as Putin's continued war against Ukraine strains markets. The pullback should also help reduce inflationary pressures domestically, benefiting the average consumer and perhaps motivating the Federal Reserve to slow its economically damaging rate hike plan. Bear in mind that the downside in natural gas could be limited, as weather is unpredictable and natural gas storage facilities domestically and abroad will need to be restocked.

### Twitter Advertising Model to Change Dramatically

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In the coming weeks, CEO Elon Musk will reverse Twitter's political ad ban that's been in place since November 2019. Former Chief Jack Dorsey imposed the ban to promote organic political messaging and hopefully avoid slander by deep-pocketed advertisers. The move makes fiscal sense for the social messaging giant as nearly 90% of 2021 revenue was generated through ad

sales. Twitter will also immediately relax its policy for domestic cause-based ads that promote positive awareness of certain issues. While the moves seem like a win for free speech, the monetary benefits remain unclear. According to research firm Pathmatics, 70% of Twitter's [top 100 ad spenders](#) before the takeover weren't spending on the platform as of Dec. 18, 2022.

## In the Know

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### The Quietest Place on Earth

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Buried under six layers of concrete and steel, the world's quietest room is located in the depths of building 87 at Microsoft headquarters in Redmond, Washington. The room, known as an anechoic chamber, was designed to research and test new equipment. It is lined with 4-foot-long sound-absorbing foam wedges and set the official world record back in 2015 with its ear-straining silence of -20.6 decibels. For context, gentle breathing is 10 decibels, and the sound of air molecules colliding at room temperature is -24 decibels. Even though zero decibels is what's humanly discernable, there are obviously quieter sounds in the universe. And while this seems like a peaceful place to relax, the silence can be maddening, as you can even hear the blood pump through your veins. No person has lasted more than 55 minutes in the room with the door closed.

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