



## Basis Points – February 9, 2023

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### Above the Fold

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#### What's Going on With the Labor Market?

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President Biden touted the strength of the U.S. jobs market in his State of the Union address on Tuesday, but is it really still that hot? Official data from the Bureau of Labor Statistics showed an unexpected addition of 517,000 jobs in January, driving the unemployment rate to a 53-year low of 3.4%. This spike comes after nearly eight months of job-growth declines and contradicts a myriad of mass-layoff announcements from hundreds of large American companies but is certainly a strong headline for the jobs market. When we dig deeper into the data, it also seems that workers tend to be working more hours, another sign of strength, but wage growth is slowing.

The monthly survey is limited, but does cover 122,000 business and government agencies, so it is far from a narrow sample. That said, there are more than 20,000 large companies, and nearly 32 million small businesses in the U.S. alone. Small businesses have accounted for more than 65% of job creation since 2000 (SBA data), and many of them are not surveyed by official data, so there could be some skew there as they are usually the first to scale back during tough times. There is also evidence that higher-paid workers are being laid off, and a large number of open positions are much-lower-paying jobs. Unemployment rates can also rise quickly during recessionary periods. In April 2008, the unemployment rate was just 4.8% — it nearly doubled in just nine months.

## Three Things

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### CVS Deal to Further Consolidate Health Care System

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CVS Health Corporation will acquire primary care provider Oak Street Health Inc. for roughly \$10.6 billion in an all-cash deal. The purchase will further expand CVS' growing clinic network, adding about 600 physicians and nurse practitioners across Oak Street's 170 senior-focused clinics to its system. As the parent company of health insurer Aetna, and CVS Caremark, this acquisition deepens its ecosystem and further alters the way health insurance is delivered in America. By controlling nearly every part of patient care, CVS can increase efficiency, better manage care and obviously cut costs. As more of these types of deals take place, it's likely that Americans will align with a health care "system" like CVS, paying them directly for the majority of their regular care.

### Tensions High, Trade Still Booming

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After our military shot down a now-confirmed Chinese [spy balloon](#), U.S.-China tensions are reaching a boiling point. Despite the growing stress between the two largest global economies, bilateral trade reached a record \$690.6 billion in 2022, according to U.S. data. Exports to the communist nation rose \$2.4 billion to \$153.8 billion, while imports of Chinese products increased by \$31.8 billion to a massive \$536.8 billion. The data flies in the face of White House rhetoric and anecdotal comments from pundits who say we are reducing our reliance on China. Trump-era tariffs remain in place, and the Biden administration has even expanded new curbs to limit China's access to certain technologies that could feed its military might. But weaning ourselves off cheap Chinese goods may be tough as supply chains remain challenged and are "sticky" in nature. Shifting to different, and likely pricier options, is also a challenge as our country fights record inflation.

### Microsoft and Google Go Tit for Tat on AI

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Earlier this week, Microsoft announced it would integrate the technology behind the wildly popular AI (artificial intelligence) ChatGPT (which is also backed by Microsoft) into its Bing search engine. The new feature will enable users to "speak naturally" to their search engine and get customized,

AI-generated responses that will hopefully give users more concise and useful results. Google, which currently controls 85% of global search traffic, responded by announcing a rollout of its own AI-powered search and map features just a day later. At a minimum, this new “AI search war” is sure to bring some amazing new search features as the technology quickly develops.

## In the Know

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### The Evolution of the President’s “Annual Message”

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After President Biden’s address Tuesday, there have been a total of 98 (in-person) State of the Union speeches. The first was delivered by President George Washington in 1790, but its content was vastly different from what we hear today. The Annual Message, as it was originally named, is actually called out as a requirement in the Constitution as a means to give Congress a detailed, factual report on the state of our union. In its first 100 years or so, the message was a very lengthy, formal (non-public) report on various departments of the executive branch, along with a budget and economic update. In 1913, Woodrow Wilson’s in-person congressional address was more of a congressional rally to support his agendas, and most presidents since have followed that format. In 1947, the speech became formally known as the State of the Union, and technological innovations such as radio, TV, and now the internet have evolved the message into a forum for the President to talk (and tout) directly to Americans.

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