



Basis Points – February 16, 2023

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Above the Fold

Retail Sales Data Adds Another Layer of Complexity to Fed's Strategy

The future of both the equity and debt markets are hinged on the health of the domestic economy as well as the subsequent trajectory of interest rates ... and yesterday's retail data threw a bit of a curve ball at most economists' models.

The U.S. Census Bureau reported a (seasonally adjusted) +3% leap in retail sales for January. This was a sharp reversal from the prior two months' contractions and was the biggest increase since March 2021. On paper, the data showed what seemed to be a resilient consumer with sales at restaurants, car dealerships, department stores, furniture outlets and appliance sellers all

getting a boost. Keep in mind that this report is limited when compared to the comprehensive monthly Commerce Department report due out later this month, which may give us a more detailed view of strengths, weaknesses and reasoning.

The boost in spending could be the fact that Americans are still enjoying record unemployment, as the labor market continues to remain relatively tight (at least on the surface). Retirees also received the biggest inflation adjustment to their income in decades as Social Security checks increased 8.7% at the start of the year, benefiting roughly 70 million recipients. Ultra-fast filing of taxes and refunds could have also added to consumers' willingness to spend. So, while the data is encouraging, the Federal Reserve will be looking for follow-through in future reports when it makes its next decision on interest rates in March. Consumer price increases are slowing, but remain far above the Fed's 2% inflation target as they registered a 6.4% year-over-year increase in January.

Three Things

America's FICO Score Needs Some Work

Okay, the country really doesn't have an actual FICO score, but the national debt has surged by more than \$8 trillion since late January 2020, pushing our total debt over \$31 trillion. What's more, America's debt topped 100.3% of its gross national product in 2020, which means that we are spending way more money than we are bringing in. To be clear, it's been 22 years (2001) since the country's income actually exceeded its debt. The main reasons it's hard for our nation to get its fiscal house in order are both the fact that two-thirds of our expenditures are mandatory fixed costs such as Social Security, Medicaid and Medicare, while the other 33% is discretionary spending that requires congressional approval (and cooperation) via appropriation bills.

Tesla to Open Supercharger Network to Other EVs

Tesla operates the largest charging network in the world, with more than 1,650 supercharging stations (17,700 fast chargers) in the U.S. alone. According to the White House, the company will open some of its network for use by other electric vehicle (EV) manufacturers in order to tap into billions of federal dollars. The White House/Tesla charger deal is expected to open 3,500 new and existing 250-kilowatt chargers to a myriad of EV drivers by the end of 2024. The move is also likely to help standardize Tesla's EV chargers and connectors in the states — another win for the company that could mean even more funding. Tesla has already released detailed blueprints and schematics for its competition to adopt its "North American Charging Standard."

Amazon Squeezes Sellers and Buyers

As it struggles to deal with slowing sales growth and increasing costs all around, Amazon continues to raise fees on third-party sellers using its platform. The retail giant took an average 51.8% cut of each sale on amazon.com in 2022, an all-time record. This big commission is up

from just over 35% in 2016, but does cover all logistics for sellers, who are highly dependent on Amazon's lucrative marketplace. For Prime members, there are increasing reports that Amazon is now charging for return pickups (currently offered by UPS) and buyers in many areas are facing limited return options as many Amazon lockers are full. We wouldn't be surprised if a large announcement around returns is made by the company soon to address this growing issue, and it could come at a cost for shoppers.

In the Know

Shooting Down Balloons (and Other Objects) is Not Cheap

Aside from the alleged Chinese spy balloon downed just off the coast of South Carolina, American military forces also shot down three other unidentified flying crafts across North America — all within about a week's time. While the search for debris, origin and purpose is still being conducted, we do know that all four objects were knocked out of the sky by a Raytheon [AIM-9X](#) Sidewinder missile. The decades-old design was originally created for air-to-air combat ("dogfighting"). The 190-pound projectile can travel faster than the speed of sound with a range of over 20 miles. But it does not come cheap, with a per-unit cost of nearly \$440,000.

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