



Basis Points – April 20, 2023

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China's Frenemies Rethinking Relationships

The pandemic already triggered a massive rethink of global supply chains. But China's increasingly provocative behavior, and its recent affirmation of its Russian support, are putting serious strain on many Western nations' trust and faith in the Asian country. America, and many of our allies, depend heavily on China for cheap labor, efficient production, and critical goods and commodities, but the G-7 (Group of Seven) nations are quickly augmenting strategies to defray dependence we have on China and thus reduce the theoretical control it has over so many other nations.

This dance must be delicate as to avoid outright protectionism and/or shift dependency from China to a country like India, for example, which still would come with its own vulnerabilities. It's also important to remember that the flow of trade and investments into and out of China are both critical to global health. The U.S., in particular, is also facing currency-related threats from China and its closest allies as they seek to dethrone the American dollar from its status as the world's premier reserve currency (that's a tall order, by the way). Reducing the G-7 dependency is sure to be tricky, but it's critical if we are to secure our supply-chain resilience and further stabilize prices.

Three Things

Netflix Ending Its 25-Year-Old Business

Though most of us expected this day to eventually come, it does mark the end of an era that began the journey to today's on-demand streaming services. Digital giant Netflix will ship its last DVD in September, a quarter-century-old business that gave Netflix its start. It will also wind down its DVD.com website later this year. The move was announced just before the company's mixed earnings report on Tuesday, in which the company announced a gain of 1.75 million subscribers in the first quarter ... a lot less than the 2.41 million estimated by analysts. Netflix will also begin charging for password sharing this summer.

Lower Prices Were the Cure for Lower Prices in the Bond Market

As interest rates soared over the last year, the face value (what they would sell for in the current open market) of many high-quality bonds tumbled. Those unrealized losses were the main drivers of the banking liquidity crisis experienced last month. Ironically, the crisis drove investors into these quality securities, pushing rates lower. The crisis, among other data, has also had an impact on the Federal Reserve's rate hike regimen, which is likely just one more increase and then hold. Since early March, the yield on the 10-year Treasury note has fallen from a high of nearly 4.10% to just about 3.50%. This has massively reduced the number of unrealized losses held by a myriad of banks and is easing some stress in the sector, especially with Bank of America, which had the largest unrealized losses of any bank.

Apple Dives Deeper Into India

With tensions between China and the U.S. growing, tech giant Apple is looking to diversify its supply chain and capture market share in the South Asian nation. Apple opened its first brick-and-mortar store in Mumbai Tuesday, with CEO Tim Cook there in person to celebrate the launch. A second location is set to open today in New Delhi. The new stores signify the company's intentions to eventually scale India's iPhone production from around 10% to up to 45% of total phones produced. That said, Apple has struggled to increase production and sales in India due to government structures and cheap Chinese phone alternatives, respectively.

In the Know

The Whiskey Rebellion and Taxes

America was born as a tax-free country, largely because there wasn't a federal government in place to tax the early colonists (Britain obviously had its own unpopular tax system). The Constitution indeed gave Congress the authority to impose taxes and other levies on the public, but the first excise tax wasn't signed into law until 1791. The so-called "whiskey tax," which was actually a duty on all spirits, was intended to pay off debts incurred during the Revolutionary War. The unpopular levy triggered the Whiskey Rebellion, a bloody, violent protest that lasted three years. Income taxes wouldn't begin until the Civil War, and it was the 16th Amendment that provided for a federal income tax beginning in 1913.

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