



Basis Points – May 11, 2023

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Above the Fold

Inflation Continues to Ebb, Earnings Mixed

A quick glance at the stock market would infer that investors are still confident that recession will be avoided, inflation will continue to fall, and consumer/corporate health will remain intact. Recent data from the Labor Department showed the CPI (consumer price index) continued to decline modestly to 4.9% in the month of April. This new data was collected before last week's 10th consecutive hike in the federal funds rate to a range between 5% and 5.25%, a 16-year high. What's interesting is that stubbornly high housing costs are a major contributor to these inflationary data. America's economy is slowing, but homeowners are holding out as many have ultra-low mortgage rates and a lack of alternatives for affordable housing — for the moment anyway.

From a corporate earnings perspective, the overall landscape appears to be relatively stable, with a fair number of corporate results beating analyst estimates and offering somewhat reassuring outlooks on average. For now, earnings are defying the bears' biggest concerns and even though lower (-2.2% as of May 5, S&P 500), there still doesn't appear to be massive concern for a deep earnings recession. Of course, many of these optimists also see the rates **dropping** by the end of summer, which may be a slightly aggressive outlook, in our opinion.

Three Things

Bed Bath & Beyond's Real Estate Impact

The liquidation of the long-troubled home goods store means lots of deals for consumers and wholesales alike as big sales and auctions move inventory on the cheap as its doors set to close for good. Store leases and those of its Buy, Buy Baby stores are also hitting the auction block, as well as warehouses and data center locations. Experts say that a fair number of these well-located facilities boast below-market, fixed-rent leases with one or more renewal options, but will likely be bought back from landlords who want to either revive their properties with large format tenants or subdivide into smaller spaces for a more diverse mix.

Junk Bonds Shrug Off Recession Chances

Junk or lower-quality bonds typically will see their prices drop and yields increase as investors' sentiment turns more cautious, as they demand to be paid more for perceived marketplace risks. But since the initial banking stress shocks felt in March, junk-bond yields have come in and the spread between junk bonds and ultra-safe U.S. treasuries has also shrunk from its peak of more than 5.2% in March. Also, those spreads can rise to 8% or more during periods of recession, and at the moment, investors don't seem to be "baking in" any recession premium. Like the stock market, junk-bond investors expect a quick pivot from the Federal Reserve to a more accommodative trajectory before our economy potentially spirals into a deep recession.

Smart(er) Implants Are Here ... and Improving

Back in 2021, Zimmer Biomet Holdings introduced a "smart knee" that wirelessly transmitted a myriad of data to your doctor, including things like range of motion, number of steps and more. The unit could transmit data for years after implementation, and it's just the beginning. The Wall Street Journal is reporting that several orthopedic companies (and others) are developing smart implants such as a surgical trauma plate from Johnson & Johnson that updates surgeons on the status of a bone healing or even sensors that warn of an impending aneurysm burst. Smart knee implants, for example, could help improve success rates and reduce in-office visits. More than 1 million knee implants are performed annually in the U.S. alone.

In the Know

War, Roaring 20s and the Dust Bowl

It was America's entry into WWI that triggered a huge demand for wheat, forcing farmers to uproot the existing prairie grasses across the Great Plains to make room for those crops. As the war came to an end and the economic boom of the 1920s ensued, bigger machines, consumer spending and steady demand further increased wheat production by 300%, resulting in a glut in 1931 as our country was in the throes of the Great Recession and unfortunately, a massive drought as well. As the crops died, storms began to swirl up dust and increase in intensity over the next few years, triggering the dust bowl. On May 11, 1934, a massive dust storm kicked up that carried an estimated 350 million tons of silt across the country over a two-day period. It's effects and another large storm that occurred almost a year later, would draw attention to the problem, which was eventually addressed by Franklin D. Roosevelt's [New Deal](#) program.

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