



Basis Points – May 25, 2023

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Above the Fold

Banks to Americans: Pay Up if You Want a Mortgage

While many traders and investors have been celebrating a possible plateau and even decline in interest rates for 2023, the smart money (banks) are betting on rates staying higher for longer, and many even a hike. Firstly, the key mortgage rate benchmark, the 30-year, rose above 7% again, its highest level since March. The move up is critical as the rate has been trending lower (on average) since November of 2022. Mortgage lenders take their lending rates higher in anticipation of an increase in the federal funds rate. But the bigger story here is the 10-year Treasury yield, which is currently trading around 3.6%, not much higher than the 3.10% or so it was trading at in 2018 when mortgage rates were half (more than 3.5% lower) of what they are today. That spread has surged over the last year past its long-term average of about 1.69%.

There is a reason for all this. First off, investors are stuck with a glut of low-rate mortgage-backed securities that homeowners are unlikely to refinance. Given the dearth of mortgage activity, an increased risk of recession and still high inflation, banks are having to offer bigger incentives (yield premium) to get investors to buy. Lastly, there's obviously a growing belief that interest rates and inflation aren't going to come down as quickly as most hoped, which means the Federal Reserve is unlikely to drop rates this year ... something that investors now have to come to grips with.

Three Things

Netflix Clamps Down on Global Sharing

The warnings began last year as the streaming provider faced declines in user growth, and now that day has come. Netflix has begun sending emails and alerts to users in more than 100 countries about their new password-sharing policy: only one household per account. In the U.S., "shared" account holders will get a discount of \$7.99 per month, which is \$2 less than the basic Netflix account. Users will have to set a primary, geographical (and IP-based) location, and all other related locations will likely have to buck up. Netflix says that mobile devices linked to a household can still enjoy the service while outside the home.

Apple Renews Agreement With Broadcom, for Now

Apple recently announced it was extending its multi-year, multi-billion-dollar chip-supply agreement with Broadcom. The extension comes at a time when Apple has been focused on bringing chip design in-house, but obviously the company sees value with Broadcom, as the agreement is likely to last until at least 2026. Apple will actually expand its agreement to include 5G radio-frequency components and wireless-connectivity components, which will be produced in America.

Europe Now Faces Rampant Food Inflation

Despite an energy price crash, Europeans are now having to deal with huge surges in food prices. The prices are forcing households to change and reduce what and when they eat. In France, a country known for its love of good food, has seen a 10% reduction in food purchases since the Russian invasion of Ukraine. The problem is not a lack of food production per se, but more of an "entitlement" crisis, according to the United Nations. The jump in prices is not only affecting consumers but also food wholesalers and retailers, who are seeing their margins shrink. Local governments are also taking a hit as they reduce taxes to help with affordability.

In the Know

A Westwood Thank You

We know Memorial Day is a time when Americans tend to kick off summer with a three-day weekend and some barbeque, but the holiday's meaning should not be forgotten. We wanted to take a moment and honor all the men and women who served in America's military and gave the ultimate sacrifice for our country. We are thankful for your bravery, and for the freedom you fought hard to protect.

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