



## Basis Points – September 27, 2018

 [westwoodgroup.com/weeklyblog/basis-points-september-27-2018/](https://westwoodgroup.com/weeklyblog/basis-points-september-27-2018/)

### Above the Fold

- The Federal Reserve board met yesterday and raised the discount rate by 25 bps to a range of 2 percent to 2.25 percent, as was widely expected. The Fed board also reconfirmed its plan to raise the rate again in December, and three times in 2019. The Fed sees GDP growth of 3.1 percent in 2018, and 2.5 percent in 2019. While the economy is very strong, and unemployment is very low, the Fed regards the inflation rate as very modest and at its target rate.

- The Sonic Drive-In chain announced an agreement to be acquired by Inspire Brands for \$2.3 billion. The transaction values the company at a very hefty 15.5x EV/EBITDA based on 2019 estimates. Inspire Brands is a private restaurant company whose portfolio includes Arby's, Buffalo Wild Wings and Rusty Taco. Inspire has seen a strong turnaround in their Arby's chain after acquiring it and hopes to do the same for the weakening Sonic chain. Sonic has seen declines in same-store-sales for eight quarters in a row, as it has struggled against larger competitors such as McDonald's and Wendy's.

#### 4<sup>th</sup> Quarter Fun Facts

- In the last 91 years, there have been 364 quarters of S&P 500 performance. Of those quarters, 228 were up, or 63 percent.
- Over that long period, the fourth quarter of a calendar year has seen positive market gains 73 percent of the time.
- In the last 21 midterm election years dating back to 1934, the market has seen gains in the fourth quarter in 19 of those years, or 91 percent of the time.
- The average midterm election year fourth quarter gain is 9 percent, while the average loss was 3 percent.

#### Three Things

- Bloomberg reports that millennials are causing the divorce rate to plummet. This generation is being pickier about who they marry and are tying the knot at older ages, when education, careers and finances are more developed and on track. The married population is also getting older and more highly educated. Marriage is more of an achievement of status now, rather than something that people do regardless of how well off they are. Many poorer and less-educated Americans are opting not to get married at all. Marriage may be becoming a more durable, but far more exclusive club than in days past.
- Americans seem to be paying their bills on time these days, as consumers in general are now scoring well on their credit ratings. For the first time, the average national credit score has reached 704, according to FICO. FICO scores range from 300 to 850, and a credit score is very important as it plays a big role in daily life. It can determine the interest rate a consumer is going to pay for credit cards, car loans and mortgages, and even whether they will get a loan at all. Average credit scores most recently bottomed at 686 during the housing crisis about a decade ago when foreclosures rose sharply. Throughout this economic recovery, scores have steadily ticked higher to today's all-time high. That average score of 704 is good, and consumers will qualify for most credit that they apply for. Scores have risen in part because people are more aware of the importance of a credit score and are checking their score online far more often.
- In 1982, the total market value of the entire S&P 500 was worth \$1 trillion. The market value of Apple Corp. is now worth a little more than \$1 trillion.

#### Did You Know

The *WSJ* highlights the potential difficulties in bringing back industrial production that has moved overseas, and the problems have to do much more with logistics than the price of the final product for the consumer. Consider the iPhone. While final assembly takes place in Chinese factories, its many parts are made all over the world. The iPhone's camera is Japanese. The memory chip is South Korean. The power management chip is British, and the wireless circuits are made in Taiwan. The processor is Dutch, and the radio frequency chip is American. The factory workers in China who assemble the final product contribute just 1 percent of the finished product's value. If Apple decided to move final assembly of their phones back to the U.S., they would need to hire about 60,000 workers. However, in such a low unemployment environment, it would be extremely difficult to fill that many basic, low-paying manufacturing jobs. And if they could find that many workers, they would be just hiring them away from other domestic companies, so the net benefit to the economy overall would be nil. Domestic assembly of an iPhone would only add about \$30 to the cost of the phone, but when a new series of phones are released, Apple requires hundreds of thousands of new temporary workers to build inventory in anticipation of the launch. China can provide this flexibility of workers for the temporary ramp up in production, but the U.S. cannot. So, while it is a nice idea to consider building iPhones in the U.S., it is logistically impossible and would not enhance our economy's health anyway.

The information contained herein represents the views of Westwood Wealth Management at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.