



Basis Points – January 31, 2019

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Above the Fold

The Fed fund futures market implied a 0 percent chance that the Fed would raise short-term rates at the committee meeting on Wednesday, and that prediction proved to be correct. The Federal Reserve opted not to raise interest rates during its policy meeting and pledged that future moves will be done patiently and with an eye toward how economic conditions unfold. The Fed stated that its current level of interest rates is appropriate, so the Fed now seems officially on hold for future rate hikes, unless conditions materially change.

The central bank voted unanimously to hold its policy rate in a range between 2.25 percent and 2.50 percent. The decision came with a separate statement on the Fed's balance sheet indicating that policymakers will consider adjusting the reduction of the central bank's bond portfolio if conditions warrant and that they expect to operate with "an ample supply" of bank reserves, indicating that the balance sheet will remain sizable once its reduction is complete.

In a move that represented a divergence from the policy of the past several years, the Fed dropped language that more rate hikes “likely would be warranted.” The Fed fund futures now indicate a 75 percent chance of no rate hikes in 2019. In Powell’s post-meeting press conference, the Fed chairman was asked what had changed in the last six weeks that had altered the Fed’s stance and language materially. Powell cited the negative effects of the government shutdown will filter into economic numbers in the upcoming months, the further weakening of global developed economies and China, and the diminished risk of rising inflation.

The Fed stated, “In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.”

Three Things

- Is there a perfect oil price for optimal health of the U.S. economy? It might be \$55 a barrel. Back in the olden days (pre-2010), the desired price would have been as low as possible, as the U.S. imported most of its oil from overseas. A large fall in energy prices was a net positive to the economy, as consumers paid a lower price at the gas pump. But in 2019, as the U.S. becomes energy independent, the effect of oil prices on our economy is more complicated. A large fall in oil prices to \$42 as we saw in December surely helps the average consumer but hurts domestic energy companies to a greater extent. A much lower oil price causes energy exploration and production companies to curtail capital expenditure budgets in the face of less profitable end-market prices. In fact, energy spending is now a net positive for the U.S. economy, while it was a net negative for the past 100 years. Most domestic energy companies have based capex plans for 2019 on oil selling between \$50 and \$60, so oil prices in that range could allow capex spending to remain robust and be an aid to U.S. economic growth. A \$55 per barrel oil price translates to gasoline prices in the \$2.00 to \$2.50 a gallon range, which the average consumer can handle. The current oil price of \$53.10 may be a level that benefits all sides of the energy equation.
- Shares of aircraft manufacturer Boeing popped 7 percent yesterday after a positive earnings report and a strong production outlook for the full year. Boeing stock has risen 21 percent in January, after gaining 10 percent in 2018. Boeing said it expects sales to rise as much as 10 percent this year as the aerospace giant ramps up production to meet global demand for air travel. Boeing expects to send as many as 905 new jetliners to customers around the world in 2019, up from the record 806 planes delivered last year. Boeing plans to increase production of the Dreamliner as well as its workhorse narrow-body 737 airliners after prodding suppliers to catch up with its own factories.

- Railroad shipping is often used as a gauge of economic activity, as shipments provide a useful signal about the direction of the economy. Rail shipments show a broad view of the movement of products, from raw materials to finished goods, and are often seen as leading indicators for the stock market. The WSJ spoke with top railroad executives who played down concerns about a cooling U.S. economy, which they said remains on solid footing as growing shipments of grain, oil and e-commerce packages offset broader worries over trade policy and volatile stock markets. The chief executives of CSX and Union Pacific said conversations with their shippers, which represent a broad cross-section of industries from agriculture to chemicals, generally show optimism about the coming year.

Did You Know

Marie Kondo is Japan's "tidier-in-chief" and the 30-year-old author of the global bestseller, "The Life-Changing Magic of Tidying Up," which has sold 2 million copies worldwide since its release last October. The book has also been followed up by a Netflix original series "Tidying Up With Maria Kondo," which has seen strong global bouts of binge-watching since its release.

Kondo was raised in Tokyo, and as a child was drawn to organizing. She cleaned her siblings' bedrooms and in grade school was the assigned class organizer. She launched a home-organizing consulting business at age 19 and discovered that many of her clients had a hard time deciding what to keep and what to discard. She discovered that clients found it easier to part with unused items if they realized their clutter did not bring them happiness.

"The Life-Changing Magic of Tidying Up" focuses consumers on letting go of the stuff they don't need. Marie visits the houses of the perennially messy and teaches them how and why to throw away any item "that does not bring them joy." Marie instructs her guest to pick each item up and asks her signature question, "Does it spark joy?" — if not, into the trash or recycle bin it goes.

The tidying trend has tapped into the consciousness of people with a desire to reduce clutter, who want to spend money on experiences and not things, and who desire to repurpose and donate items to charity. The trend of folks young and old moving from the suburbs to smaller spaces in the city has also increased the popularity of decluttering our spaces.

Fans also now use Marie's name as a verb that can refer either to the purging of clutter or meticulous folding, as in "I have way too much stuff, so I Kondo'd my condo." One Twitter follower mused, "If I threw out anything in my life that did not bring me joy, I would be standing by the side of the road with my dog and my coffee maker."

More books with a similar theme will be released soon, including "Stuffocation" and "New Order," so in a few years, many consumers may have to declutter their library of anti-clutter books.

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