



Basis Points – June 18, 2019

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Above the Fold

With markets seemingly paused awaiting the Federal Open Market Committee's (FOMC) decision on rates this Wednesday at 2:30 p.m. Eastern time, a rate cut is not as likely as many would hope — and this isn't necessarily a bad thing.

Futures markets are pricing in less than a 30% chance of a cut, even though more than 40% of economists polled by the Wall Street Journal last week expect a rate cut on June 19. At the very least, this indicates that a fair number of market participants are looking for a surprise (cut) tomorrow. And while Federal Reserve Chair Jerome Powell has assured us that he and his board stand at the ready to act to support expansion, the Fed has also proved itself to be more

methodical and patient, rather than aggressive and proactive when it comes to rate adjustments. Although, since the mid-1980s, rate cut trends tend to be more aggressive and happen over shorter durations compared to hikes.

An official cut in the Federal Funds Rate would be the first in more than 10 years and while economically stimulating, a string of cuts typically precedes an economic slowdown or recession. In other words, the FOMC has to walk a fine line between stimulating economic activity, and spooking investors with actions and commentary that suggests things may be worse than everyone believes. In a sense, the psychological aspect of rate management may be just as important as changes in actual value.

The good news is that we aren't likely on the precipice of a recession, nor does there seem to be a major financial crisis looming domestically — but there are certainly risks, such as increased political and fiscal instabilities that cannot be ignored. Rising tensions in the Middle East, unresolved trade disputes with China and others, and slowing economic trends domestically are all weighing on what seems to be a more proactive Federal Reserve board.

The majority is still betting that rate hikes will not begin until the July 30/31 meeting. From there, the FOMC meets three more times before year end.

What's Ahead

The most important domestic data release this week will come from the Federal Reserve. Not only will we get the decision on interest rates, but a statement, economic projections and press conference will accompany as well tomorrow afternoon. The Philly Fed Manufacturing Index is due for release Thursday a.m. — economists expect a drop down to 10.6 from 16.6 last month.

Three Things

1. *Prime Gaming* – Since 2014, tech and retail giant Amazon has been trying to break into the lucrative gaming industry with its then acquisition of live-streaming giant Twitch for \$980 million. While Twitch is thriving, Amazon's Game Studios unit has cancelled several planned games and is laying off several dozen workers. But its work is not done and Amazon is still pursuing gaming ventures on several fronts.
2. *Sobering Traders* – Across the pond, the 142-year-old LME Group (London Metals Exchange) is finally instituting a code of conduct banning drinking on the job. The new code also applies to third-party events and incorporates rules to foster a more diverse environment as the LME welcomes its first female chairwoman.

3. *Airbus Ups Boeing* – Taking advantage of Boeing's 737 MAX grounding, Airbus announced a new long-range, single-aisle jet set for release in 2023. The A321XLR is designed to fly 4,700 miles without refueling and fills a need for long-range routes with fewer passengers. The anticipated launch date is years before Boeing would be able to bring a similar plane to market, and that was before its MAX debacle.

Did You Know?

The origins of a central bank go all the way back to 1789 when Secretary of the Treasury Alexander Hamilton developed a controversial federal banking plan to solve credit problems after the War of Independence. Thomas Jefferson led the opposition to Hamilton's plan, but Hamilton won and the First Bank of the United States was chartered in 1791. Unfortunately, the charter failed in 1811. The Second Bank of the U.S. was chartered in 1816, until President Andrew Jackson declared it unconstitutional in 1836. This led to the Free Banking Era, where nearly 8,000 banks issued their own notes, not subject to federal regulation.

The Federal Reserve system and U.S. Central Bank was created in late 1913 in an effort to stabilize what was an erratic and fragmented banking and credit system. Bank failures, scarce credit and problems with redemption were common before the Federal Reserve Act was put into place.

Sweden's central bank, Sveriges Riksbank, was formed in 1668 and is reportedly the oldest in the world, 245 years older than ours.

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