



Basis Points – July 30, 2019

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Above the Fold

Early GDP Reading Soft, but Inflation Picks Up Slightly – Initial readings on America's highly revisable Gross Domestic Product (GDP) health showed a modestly slowing economy, weighed down by trade tensions and economic struggles internationally both in Europe and Asia.

The data showed an increase of just 2.1% in U.S. GDP, which is considered by many to be the broadest accepted barometer of economic health. And while the increase was quite a bit lower than the first quarter's 3.1% jump and the administration's expectations for a 3% increase, the data is likely to be revised before economists accept it as the official second-quarter reading. That said, it's important to point out that the final GDP reading for all of 2018 was revised lower from 3% to 2.5%, stripping away at least some of the confidence many still have in the U.S. economic machine.

The good news is that we are not in a recession and Americans are still spending at an increasing rate. It's feasible to blame a volatile stock market, government shutdown and rising interest rate environment for what was a declining consumer spending pattern between late 2018 and early 2019, but that trend has shifted dramatically. Consumer spending rocketed higher in the spring, jumping 4.3% compared to the prior quarter, offering some solace to what was an overall disappointing GDP report.

The strength of the consumer, which is also considered by many to be the foundation and engine of our economy, has had enough gumption to drive prices higher as of late. Core inflation, measured by the Consumer Price Index (CPI), posted its biggest gain in nearly 1.5 years of 0.3% last month, or 2.1% over the last 12 months.

The greater than 2% reading of core CPI might scare you into thinking that the Federal Reserve might be rethinking its all-but-assured rate cut this week, but the fact that the Personal Consumption Expenditures Price Index (PCE) has been tracking closer to 1.5% and the weaker readings on GDP both negate the strength we saw in the Consumer Price Index, which could also be transitory in this late-stage recovery.

At the end of the day, a hike is all but assured at the end of its two-day meeting Wednesday afternoon — whether there's one, two or three cuts in total for 2019 may be a little tougher to call.

What's Ahead

With a new month starting this week, we will not only get the Federal Open Market Committee's (FOMC) decision on interest rates, but also details on the latest national employment situation. Automatic Data Processing, Inc. (ADP) data is due out tomorrow, with economists forecasting a gain of 150,000 jobs for the month. The Bureau of Labor Statistics (BLS) reports its data Friday; expectations are for that report to show a gain of 160,000 new jobs in the month of July.

Three Things

1. *Shanghai Showdown* – Negotiators from the U.S. and China will meet this week to progress the latest round of trade talks. While a major breakthrough is not expected, experts are looking for the global powers to accomplish several smaller achievements that will eventually equate to a sweeping deal that relieves the global economic stress this stalemate has caused.

2. *Crypto Warning* – The IRS is distributing warning letters to more than 10,000 cryptocurrency holders who may have violated federal laws. The recipients could be subject to several types of potential tax liabilities, including capital gains. The Internal Revenue Service (IRS) advised consumers that these letters should be taken seriously and any virtual currency holders should be aware of potential tax implications when filing.
3. *Apple's Latest Release* – The maker of the iPhone is set to release earnings data today after the close. Apple's revenue has declined for the last two quarters and analysts aren't expecting a blowout quarter this time around as year-over-year sales are expected to be flat. The company may lack a major catalyst at the moment, unless it surprises investors with a breakthrough in its wearables or subscription business. 5G-enabled devices may provide a boost, but it may be more than a year before those are rolled out.

Did You Know?

The second quarter marks the 10th anniversary of the end of the Great Recession. The period between December 2007 and June 2009 was the deepest recession since World War II. The severity of the downturn was greatly exacerbated by systematic failures within the banking system, which simply wasn't prepared for the major price drops seen in housing and commodity prices that created an unstoppable domino effect.

The major culprit was the massive amounts of failing subprime loans that were woven into so many investments called mortgage-backed securities. These toxic assets were like a trojan horse infecting a large swath of the global economic system, which buckled quickly under the pressure.

Despite its negative effects, the Great Recession did create a plethora of opportunities for investors who took advantage of the risk and stayed the course. Stock and housing investors who bought in when things still seemed bleak in March 2009 have enjoyed one of the strongest rebounds ever, with stocks up hundreds of percentage points since then and housing prices at their highest-ever levels in many areas.

The world has hopefully learned enough from the Great Recession to prevent its recurrence, but if you have the patience, the means and perhaps a little guidance, economic slowdowns can present opportunities if you know where to look.

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