



## Basis Points – August 8, 2019

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### Above the Fold

#### *Living in the World of Upside-Down Rates*

Some American home buyers might have balked at the thought of paying a 5% mortgage, but the reality is that home borrowing rates have been far below that mark for much of the last decade — and even a 5% loan is a relative steal when you look at where rates have been historically. Sure the average mortgage rate hit a near 8-year high of 4.94% back in November 2018, but has since plummeted to 3.75% as of August 1, approaching lows not seen since Freddie Mac was created in 1970. What's more, the Federal Reserve may be just getting started with its latest round of rate cuts, which will affect more than mortgages.

The ECB (European Central Bank) started moving its rates toward zero back in 2009, and rates have been basically 0% since 2016. And if you're lucky enough to have a stable economy, like Germany, investors are willing to do something unthinking not too long ago, and *pay* interest (60 basis points in Germany's case) for the pleasure of owning your bonds. Central Banks around the world are following suit as the race to zero (and below) continues globally. According to Deutsche Bank, \$15 trillion worth of government bonds, about 25% of the total marketplace, now trade at a negative yield — and the U.S. seems to be joining the party or at least moving in the same direction as our yields continue to fall.

There are several forces driving this seemingly backwards trend, from economic uncertainty and changes in lifespan, to evolving savings goals and even the liquidity of pension funds. Regardless of the catalysts, it doesn't seem as though the trend will be reversing any time soon.

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## Three Things

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1. *Tackling Digital Drugs, A Tale of Two Pharmacies* – CVS' earnings handily beat expectations, driven by strength in pharmacy and in healthcare after its acquisition of Aetna. CVS is also targeting online shoppers with an Amazon-like program called CarePass. Meanwhile, Walgreens announced it will be closing another 200 stores in the U.S., following plans to close 200 stores in the U.K. as it struggles to stay relevant as competitors, like Amazon, offer more online healthcare options.
2. *Ba Ba(Refi)Boom* – With interest rates falling, homeowners are taking advantage in a big way. Mortgage Bankers Association data showed a 12% jump in refinance (refis) applications last week compared to the week before. Versus last year, refis leapt a whopping 116%! Refis are more sensitive to rate changes as regular mortgage applications, which were up 5.3% compared to last week and 46.5% higher than a year ago.
3. *In Theaters Now ... A Blockbuster Surprise* – With a recent \$8 billion string of blockbuster movies from Disney's brands, including Pixar and Marvel, the company's recent earnings *miss* surprised investors. But the creator of Avengers: Endgame is currently absorbing purchase costs of 21st Century Fox and Hulu, along with a major investment in Disney+, which will allow the company to profit from direct-to-consumer content to rival Netflix and Amazon Prime. Disney+ is set to launch on Nov. 12, and could be a game-changer according to some.

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## Did You Know?

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Drones Taking Off (In Europe)

Switzerland is pushing to become the global-leader in unmanned aircraft. While the Federal Aviation Administration scrambles to create rules and regulations to control the rise of drones stateside, Switzerland is pioneering methods and means of communication, tracking and control that may give them a major leg-up in the race to launch drones en masse. The government will be working with local operators, Swiss Air Traffic Controllers and U.S. startup, AirMap, to provide real-time instructions for guidance and collision avoidance. Some experts see this trend spreading quickly across Europe, which could provide us a glimpse at just how Amazon, Walmart and others might be delivering your next package. Unfortunately, we might have to wait a little longer here in the United States.

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