



Basis Points – August 15, 2019

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Above the Fold

Making “Cents” Out of the Latest Trade Developments

First let's be clear, no new tariffs on Chinese goods have gone into effect yet, and this trade dispute (or war, if you will), that's escalating volatility, has been going on for 405 days. The “America First” initiative was the first formal volley that imposed varying tariffs on washing machines, solar panels, steel and aluminum coming from several countries in early 2018. China immediately responded with tariffs on 128 products including fruit, wine, pork and recycled aluminum.

During the summer of 2018, the Trump administration levied \$200 billion in Chinese goods with a 10% tariff, and in May of this year, those tariffs were increased to 25%, and expanded to include \$250 billion worth of consumer goods, including luggage, baseball gloves, some household electrical items and even bamboo furniture; watercraft and parking meters were also targeted. China then retaliated with taxes on roughly \$110 billion worth of American goods, with a focus on agriculture.

Trade talks have been sporadic since the first tariffs went into effect, but fell apart when China reportedly walked back earlier promises. And while Chinese officials have renewed negotiations, they seem to be dragging their feet, frustrating U.S. negotiators.

Two weeks ago, President Trump tweeted a 10% levy would be placed on an additional \$300 billion worth of goods. The new duties were set to begin Sept. 1, but some now have been delayed until Dec. 15, with others temporarily removed from the tariff list altogether. Items delayed include cell phones, laptops, video game consoles, along with some clothing products, shoes and toys. The goal here is to limit the impact on American shoppers during a critical back to school and holiday shopping season that's underway now. Talks are set to resume in early September.

Three Things

1. *Yield Curve Inversion or Reversion?* – For the first time in more than a decade, the U.S. 2-year Treasury note yield traded above the 10-year, sparking cautionary concerns. The negative yield inversion is very small at 1 basis point, and while an inversion can precede a recession, a quick dip into negative territory followed by a reversion to normal doesn't usually spell danger.
 2. *FACEoff at the Airport* – The good news is that you may get to keep your ID and boarding pass in your pocket; the bad news is that big brother may be watching as your face is scanned at airport security. JetBlue and Delta are already using (optional) facial recognition at a few airports across the country as an alternative means of identification before boarding.
 3. *Going CASHierless* – Pioneered by Amazon and its "Go" stores, retailers around the country may soon eliminate cashiers, and hopefully lines, altogether. Relying on hundreds of cameras and sensors, shoppers will "scan in" to the store, stuff their bags and leave. Sam's Club is launching its first artificial intelligence-powered store in Dallas in September.
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Did You Know?

Old, Expensive Bread is a Thing– While Dr. Atkins might have cringed at the thought of it, the developer of the Xbox, Seamus Blackley, managed to bake a loaf of bread using 4,500-year-old yeast. The yeast was delicately recovered from the microscopic crevices of ancient Egyptian pottery housed at Harvard University's Peabody Museum in Cambridge, then mixed with flour, water and ancient grains in an extremely sterile environment.

The goal, Blackley explained, was to “make a dough with identical ingredients to what the yeast ate 4,500 years ago.” And apparently it worked out as he emotionally tweeted, “The crumb is light and airy, especially for a 100% ancient grain loaf. The aroma and flavor are incredible. I’m emotional.” And like any ancient Egyptian would (they actually preferred dates, honey or figs), he smeared on a healthy portion of butter to complete the experience.

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