



## Basis Points – August 4, 2020

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### Above the Fold

#### *Low Interest Rates Forever?*

OK, we all know that's probably not the case, but there are big changes [potentially] coming to how quickly rates rise from relatively low levels. For more than 30 years, the playbook of the Federal Reserve ("Fed") around recessionary times has been to aggressively drop rates and then preemptively lift interest rates slowly as the economy improves, often ahead of a full recovery. But the current seven voting members of the Federal Open Market Committee are rethinking this strategy in favor of a more protracted low-rate environment, even if inflation creeps above its magical target level of 2% annualized.

This all goes back to the dual (primary) mandates of the Fed — foster maximum employment, and keep prices *stable* (stability is obviously a relative and subjective term). The Federal Reserve Act of 1977 actually [amended](#) the mandate to “maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates.”

With the unemployment rate above [11%](#) (yet thankfully declining in most states), the Fed has quite a task ahead to get back to an “unemployment sweet spot” of around 5%, as this is considered “full employment.” To get there, the central bank may be more apt to allow inflation to run at or above its target for a period since inflation has remained relatively low throughout most low-rate environments. Low inflation issues in Japan and Europe over the last 20 and 10 years, respectively, are also being examined. A commitment to low rates over longer durations would likely help capital and real estate markets, but we aren’t likely to know the Fed’s decision on the matter until at least mid-September.

## Three Things

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1. *Microsoft’s Clock-Like Precision Could Reshape Global Tech Landscape* – The maker of Windows is proceeding with negotiations to purchase the U.S. operations of video sharing sensation TikTok. Microsoft CEO Satya Nadella has been in direct contact with President Trump and staff to reassure them that national security concerns will be addressed. The deal would mean that North American users’ data would be housed and controlled on domestic servers, allowing Microsoft to better ensure privacy and security, which have both been a concern for lawmakers.
2. *7-Eleven Agrees to Run a “Marathon”* – In the biggest energy-related deal of the year, fuel maker Marathon Petroleum will sell its “Speedway” gas stations to the owners of the 7-Eleven store chain for \$21 billion. The deal will include about 3,900 convenience stores and increase 7-Eleven’s North American footprint to about 14,000 locations.
3. *Your Face Could Replace Your Ticket at Stadiums Across America* – The pandemic could prove to be a major catalyst for the implementation of facial recognition. Several pro sports teams are testing facial recognition technology at several venues in an effort to reduce lines and contact points. The machines will automatically match your face to a valid ticket, take your temperature and warn you if your mask is being worn incorrectly.

## Did You Know?

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*Fun August Facts*

August, formerly known as Sextillis, was named in honor of Roman Emperor Augustus Caesar eight years after the birth of Christ. Caesar selected the month as it was a period in which many of his greatest victories occurred, including the defeat and eventual suicide of Antony and Cleopatra. Contrary to popular belief, the emperor *didn't* lengthen the month to 31 days to match July; it had been that way since the establishment of the Julian calendar more than 50 years prior. August also marked the start of the first World War, the end of World War II and the launch of the Model T Ford.

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