



## Basis Points – August 28, 2018

[westwoodgroup.com/weeklyblog/basis-points-august-28-2018/](https://westwoodgroup.com/weeklyblog/basis-points-august-28-2018/)

### Above the Fold

The Fed's yearly symposium at Jackson Hole took center stage last week, and Fed Chairman Powell stated in his keynote speech that he sees no clear signs that a sharp rise in inflation above the Fed's 2 percent target is on the horizon. In addition, he does not see an elevated risk of the economy overheating based on current economic data. Powell affirmed the Fed's plan to raise rates at least to a level that neither spurs nor slows economic growth and defended the Fed's plan for gradual rate hikes over the next 18 months. It is widely expected that the Fed will hike rates again on September 26, with possibly one more hike in December.

At the same conference, St. Louis Fed President Bullard said he does not want the Fed to raise rates again this year. Bullard commented on Friday, "If it was just me, I'd stand pat and I'd try to react to data as it comes in. I just don't see much inflation pressure. I'm an inflation hawk, but I just don't see that developing." Bullard is a nonvoting member of the Fed FOMC board, so he will advise the full board but does not get a vote on the path of interest rate hikes.

### Three Things

- The stock market rose strongly on Monday after President Trump said he reached an agreement with Mexico to rewrite portions of the NAFTA trade agreement and threatened to remove Canada from the three-country accord if Ottawa failed to make concessions as well. The White House immediately sought to use the agreement with Mexico to pressure Canada in future negotiations and added that negotiations with Canada would resume soon. The core of the deal with Mexico overhauls rules for building cars across the continent, aimed at ensuring a greater number of vehicles are built in the region, and more locally produced steel is used. The accord also has new provisions aimed at raising wages and offering new rights to Mexican labor unions.

- Although much attention has been focused this year on the strength in the large Tech stocks driving performance of the S&P 500, several other sectors have rallied sharply in the past two months as well. The Health Care sector, which had risen only 1.7 percent through June 30, is now up 12.1 percent year to date. The Consumer Discretionary sector, which was up 12.0 percent through June 30, is now the best-performing sector in the index, at up 18.1 percent. The Tech sector has continued its gains recently, and the sector has now gained 18.0 percent year to date vs. 9.9 percent on June 30. The only two sectors that have given up performance since June 30 are the Materials and Energy sectors.
- We are two-thirds through 2018, and the year is shaping up to be a record year for corporate mergers and acquisitions. The tax reform bill has given many profitable companies enough cash to fund anything they want, from capital investment to share repurchases to dividend payments. Cash and borrowing power are particularly being used to buy other companies, as global M&A activity is up 50 percent over last year. The deal value for 2018 could be \$2 trillion, the highest on record. Also, the M&A activity is not concentrated in a small number of sectors, as deals are being seen equally in many sectors such as Technology, Financial Services, Industrial, Health Care and Energy.

## **Did You Know**

Generation Z (Gen Z), those born after 2000, will soon outnumber the millennial generation, those born between 1980 and 2000. Gen Z will comprise 32 percent of the global population of 7.7 billion in 2019, surpassing the millennials who will account for a 31.5 percent share. Gen Zers will begin turning 18 years old next year, meaning they will begin to be a voice on college campuses and in the voting booth. Gen Zers have never known a non-digital world and have grown up in a time when a global recession and the war on terror were very formative events. The rise of the Gen Zers presents particular new challenges to the education, housing and retail industry, all of which will be affected by the different life and purchasing preferences of this large new group of consumers. The largest number of Gen Zers will be seen in India, which will have 472 million Gen Zers next year vs. its total 1.3 billion population.