



Basis Points – June 13, 2019

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Above the Fold

Gauging the cut — With the second calendar quarter nearly behind us, it seems the focal point for the markets remains centered around if, when and how much of an interest rate cut the Federal Open Market Committee (FOMC) will deliver in 2019. But based on the overall tone of economists and pundits, the question really is not an “if” at all, but rather how aggressive the FOMC will be in the back half of the year.

There are a few dissidents from the rate cut theory, including Goldman Sachs Chief Economist Jan Hatzius, who in a recent note said he doesn't see any rate change at all in 2019. But Hatzius is not the majority — the fed funds futures market on the Chicago Mercantile Exchange is pricing in a 70% chance of a cut in July, with a 60% probability of three cuts before year end.

Anecdotally, it seems that experts are constructing a scenario where the capital markets not only want, but need to see either a cut of at least 50 basis points (futures are pricing in a high probability of 75 bps), or some sort of magical solution of global trade disputes, with China topping that list. If one or both of these does not occur, it's feasible to assume stocks would likely throw a tantrum late in the year.

The good news is that our President is not the only one pushing for lower rates. Commentary from the FOMC supports the accommodative rate theory, and it seems like the most important decision makers in this process seem poised to do what it takes to keep the economy, and arguably, the stock market, growing.

Also keep in mind that Q2 earnings season officially starts in a few weeks, and expectations remain tempered — a good sign for the bulls.

What's Ahead

Retail sales data is set for release tomorrow morning. Analysts are looking for an increase of 0.7% at the top line, with a 0.5% rise at the core. Also due out later in the day is the preliminary reading on consumer sentiment, which is coming off a strong read of 100 last month. Expectations are for an index reading of 98.1, which is still extremely high.

Three Things

1. *Pricey "Meat"* – Vegetarian meat maker Beyond Meat recently went public to great fanfare. The meat alternative has gotten rave reviews from consumers and investors sent shares of Beyond skyrocketing from its IPO price, but analysts don't seem as excited. With many citing lofty valuations, the eight analysts who cover the stock all have a "hold" rating, with none listing it as a "buy," according to FactSet.
2. *Inflation at Bay* – Latest consumer price data showed low inflation prevails. The prices of goods in May barely budged as a small increase in food prices was offset by cheaper fuel costs. The Consumer Price Index has been trending lower since a small rise in March, and the data supports the argument for lower interest rates.
3. *Space Vacation* – NASA is opening up the International Space Station for private astronaut missions up to 30 days. The trip in a SpaceX capsule will cost you \$52 million, and NASA gets \$32,000 per night to provide food, energy, air and life support.

Did You Know?

In a sense, being a cash-hoarding capitalist is actually eco-friendly as U.S. banknotes contain zero wood pulp. The greenback comprises 75% cotton and 25% linen, both of which are biodegradable with neither contributing to deforestation. Linen is technically a vegetable that is made from the fibers of the Flax plant.

Around the globe, more than 20 countries use polymer-based currency that might not be biodegradable, but reportedly reduces the contributing effects of global warming and energy consumption by 32% and 30%, respectively, compared with paper notes.

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