



Basis Points – July 11, 2019

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Above the Fold

Powell Takes the Stage – After a three-day slide in major stock indexes, Federal Reserve (Fed) Chair Jerome Powell began two days of testimony before Congress. His early comments continue to support the Fed’s willingness to “do what is necessary to sustain the expansion,” while at the same time leaving market participants to wonder just how far they will go to keep the economic engine running. In essence, Powell offered a metered, balanced testimony, almost Goldilocks-ish, that offered a positive outlook, yet included enough warning to justify modest intervention.

Chairman Powell noted a slowdown in the U.S. economy in the second quarter, attributed to trade tensions and concerns about economic stability, which in turn reduced confidence and spending from businesses and consumers alike. That said, the Fed’s “baseline” forecast continued to be for “solid” economic growth, strong labor markets and firmer inflation, but “uncertainties about the outlook have increased in recent months,” he said. It’s fair to say not much has changed since we last heard from Powell, and that the Fed’s rate course remains unaltered.

His comments so far did not mention the strong June jobs data or the Trump/Jinping trade truce at the G20, as both may turn out to be transitory events (we all hope that’s not the case).

As it stands now, traders are extremely confident that the Fed will reduce its Federal Funds Rate target by 25 basis points, as futures are predicting a 100% probability of a cut after the Federal Open Market Committee’s (FOMC) next meeting that ends on July 31.

What’s Ahead

June data from the Producer Price Index, which measures price inflation at the wholesale level, is set for release tomorrow morning. Economists are expecting a top-line increase of just 0.1% and 0.2% at the core. The latest retail sales data from the Census Bureau is due out next Tuesday at 8:30 a.m. Eastern time.

Three Things

1. *Not American's Way* – Has your flight on American Airlines been delayed or cancelled this summer? Well you're not alone! The world's largest airline has experienced a rash of cancellations recently due to abnormally frequent thunderstorms and a maintenance slowdown stemming from an ongoing contract feud. All told, American cancelled more than 7,500 flights in June or about 4% of its total schedule — 18 times more cancellations than Delta.
2. *Leather Losing Its Luster* – Back in the 90s, having leather seats in your car was a premium option, but today brands like Land Rover, Volvo, Porsche and Audi are bringing back the cloth, only now with new materials, patterns and colors that are both cool (literally and figuratively), as well as Earth conscious. Range Rover is offering a eucalyptus-based material that's more comfortable than wool, easier to stitch and offers a conforming stretch for increased durability.
3. *Superman Paying More for His Moniker* – Iron-ore, a chief component of steel, is one commodity that's seen its price skyrocket in 2019. Rising nearly 70% year-to-date, iron-ore is one of the best-performing assets around. The surge can be attributed to supply slowdowns and is hitting the Chinese economy especially hard as it continues to build new structures.

Did You Know?

Can the Tooth Fairy predict the economy's trajectory? Well, like the BigMac Index helps show the effects of inflation, Delta Dental's Tooth Fairy Index (TFI) might help gauge both inflation and consumers' fiscal health.

Starting in 1998, the annual index polls more than 1,000 parents from around the world on just how much money they leave their kids under the pillow. Ironically, the index has followed the S&P 500 for 14 of the past 17 years! Apparently, the size of our nest egg influences the going rate of a lost tooth.

The most generous "Tooth Fairies" were in Japan, where parents offered nearly \$3.80 per tooth on average. Canada and England were next most generous, followed by America at \$3.70. The TFI peaked in 2016, when the average child earned more than \$4.50 per tooth!

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