



Basis Points – February 23, 2021

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Above the Fold

Small Caps Getting Some Unusual Love From Investors

While the economy has experienced a theoretical “end” to the longest period of expansion in history, investors see this downturn a bit differently. What’s normally a tough period for small cap stocks has been anything but. Since the beginning of the year, the Russell 2000, a popular index of smaller companies, has leapt 15%, outpacing the 4% gains in the S&P 500 Index (which is more heavily weighted by larger corporations) by a factor of more than 3. In fact, the outperformance of smaller domestic companies is the greatest it has been in more than two decades — and investor confidence in these smaller firms suggests continued recovery in our economy and perhaps a continued broader rally in equities.

Ironically, small caps trailed the major benchmarks for several years, but have led the larger market cap indexes for the last six months, even as the pandemic ravaged local businesses. Why is this? Hyperaccommodative monetary policy, coupled with arguably prodigal White House and Congressional agendas, are all lending to the small cap excitement. Americans’ growing savings and revolving debt reductions could make for a spending spree as we make our way out of what’s been a dark economic period. The rise in Treasury yields and large inflows into small cap ETFs (exchange-traded funds) and mutual funds also suggest small cap appreciation could be a longer-term event.

Three Things

1. Ready for a \$7,000 Home Electric Bill? – As the Texas electrical grid was strained last week, some consumers were hit with astronomical energy bills. As a deregulated state, Texans can choose who they purchase power from. For some, selecting a wholesale

variable energy rate can offer substantial savings if electrical prices are low and usage is predictable. But as temperatures plummeted, supply couldn't meet demand and prices surged to more than \$1,000 per day for some on the wrong plan. One Dallas homeowner, who used electricity provider Griddy, received a \$7,000 bill for a few days' power. The state is expected to step in and assist residents who received unusually high bills.

2. Chipotle Ready to Break Out the Presses – Just in time for spring, the Tex-Mex cult favorite is preparing a secret weapon — quesadillas. As the most highly anticipated and requested menu addition, analysts expect the chain's new offering to substantially boost the company's digital growth. The quesadillas are coming in March and will be offered exclusively through digital ordering. Analysts also see the hot tortillas and cheese as a boon for Chipotle's 19.5 million person strong rewards member base. Digital ordering accounted for 49% of sales in fourth quarter 2020.

3. Ironic Relocation Bonuses for Remote Workers – According to the Wall Street Journal, small cities and towns across the nation are offering cold, hard cash (and other incentives) to workers who relocate to their areas. An area in Northwest Arkansas promised \$10,000 to new residents who stay for at least a year. The programs are attracting middle-class families and individuals who may be getting priced out of some major metros or those seeking a less-hecktic and improved quality of life.

Did You Know?

Housing Facts for 2021

The housing landscape has evolved considerably since the 2008 crisis, but that doesn't mean all Americans are benefiting. Home prices and rent rates are both at all-time highs in most metro areas. There more than 44 million renter-occupied homes versus 75 million owner-occupied, and individual home investors make up nearly 75% of the marketplace. More than 32% of those investors are focused solely in the short-term rental market (think VRBO and AirBNB), where nightly rent rates average \$217. Experts believe that short-term rentals have driven prices abnormally higher in many areas just as millennials pick up their home-buying momentum — they are expected to form 20 million new households by 2025.

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