



Basis Points – May 10, 2022

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Above the Fold

The Selloff is Scary, but Panic Offers Light and Opportunity

Corrections are part of normal market behavior, but that does not make them any easier to handle. A broad selloff is sweeping U.S. stocks, led by technology and energy stocks. By midday yesterday, the S&P 500 was down another 2.6%, adding to weakness after closing out its longest streak of weekly declines since 2011. The Nasdaq Composite was off another 3.4% and the Dow Jones Industrial Average was down more than 500 points. Even Bitcoin and other cryptos are feeling the bearish pressure.

Investors tend to adopt a herd mentality when markets are screaming higher, and even more so when stocks are falling, as is evident right now. Markets have been shaken this year by several new risks that have added an overabundance of doubt in corporate America's ability to continue to profit. The primary risk is inflation, which is running at its fastest pace in decades, forcing the Federal Reserve to kick off what could be its most aggressive monetary policy tightening campaign since the 1980s. To make matters worse, these policy changes are coming at a time when the economy is already showing recessionary warnings. Compound that with a stronger U.S. dollar (which reduces foreign-generated earnings for larger companies) and an ongoing crisis in Ukraine, and it's hard to get optimistic.

The good news is that the S&P 500 has already corrected 17% from its high, while the Nasdaq is down 28%. During the Fed's last tightening campaign in 2018, the S&P 500 only corrected 20% before resuming its run. The heavy selling is also dragging quality companies down with the rest, creating immense value for investors willing to do their homework and have patience as elevated volatility is expected to remain for the rest of 2022. The most important thing to remember is that corrections happen, but history has demonstrated they can also yield tremendous opportunities.

Three Things

Teens Are a Critical Part of Today's Economy

With businesses struggling to find workers, teens are taking the stage. Teens are now working more than they have since before the 2008 financial crisis. After 2008, many part-time positions were filled by adults seeking to make ends meet, while others were automated to save businesses time and money. Since the pandemic, adults have largely left these positions and teens are filling the void. Teens are showing great enthusiasm in taking part-time jobs as employers make them more accessible for youths with flexible schedules and resume-building opportunities.

Some Chinese Companies Begin Russian Retreat

Chinese tech companies are silently retreating from the Russian market as U.S. sanctions take effect. Despite the Chinese government urging companies to resist foreign coercion, companies like Lenovo Group Ltd. and phone company Xiaomi Corp. are (quietly) pulling back on shipments to Russia. The U.S. and its allies have put a number of financial sanctions on Russia following the invasion of Ukraine. The U.S. has even threatened to punish Chinese companies that try to circumvent the sanctions. From February to March, laptop shipments were down more than 40%, smartphones dropped nearly 66% and telecom base stations dropped 98%.

Why Isn't There a Drilling Boom for Natural Gas?

Natural gas prices have doubled in 2022, but instead of spending these profits on ramping up drilling operations, companies are paying debts and dividends back to investors. Thomas Jordan, Coterra chief executive officer, said, "Our investors have been clear: They want us to be disciplined in both high and low commodity price environments and be proactive in returning cash to our shareholders." With war in Ukraine, gas companies are working 24/7 to supply the U.S. and its allies with gas formerly supplied by Russia.

In the Know

First Transcontinental Rail Completed More Than 150 Years Ago

On May 10, 1869, Union Pacific and Central Pacific railroads met in Utah to drive the last spike into the connection of their two railroads. This created the first transcontinental railroad in the history of the United States. This allowed people to travel the country without taking the long and dangerous trek by wagon train.

Despite pioneers expressing the need for a safer mode of travel since 1832, Congress didn't approve the funds until 1853 to survey potential routes for the railway. In 1862, the Pacific Railroad Act was passed, ensuring land grants and loans to Union Pacific and Central Pacific as the two companies selected to build the railroad in 1866. Despite countless obstacles and setbacks, the railway was completed in just three years.

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