Basis Points

Weekly Market Commentary

Basis Points – April 12, 2022

westwoodgroup.com/weeklyblog/basis-points-april-12-2022/

Above the Fold

Rate Hikes Begin to Bite

The Federal Reserve's monetary actions are making their way through the economy. But as much as interest rates are discussed in the media, most don't realize just how far-reaching the Fed's policies can be. Mortgage loan rates have already leapt more than 56% from around 3% at the start of the year to 4.72% at the end of last week. To put that in perspective, the monthly payment on a $300,000 loan (30-year) has jumped $344 from $1,475 to $1,819 — that's more than $4,128 per year. And remember, the mortgage loan is only one of many debts that most households carry. Car loans, credit cards, personal loans and other forms of debt are all seeing rates (and costs) increase. Higher monthly payments means that consumers will now have to either spend less on more discretionary items or choose to save less (and that's if there's anything left over).

There's also a sort of compounding tax occurring on Americans' income as all these rising borrowing costs come on top of inflationary pressures that have driven the price of homes, goods and services up already. Even before rates began to skyrocket, the median American household needed 34.2% of its gross income to cover just its mortgage payments on an average-priced home in January, up from 29% a year earlier. Most credit cards and a fair amount of mortgages also have floating rates, which means that consumers could see rising payments even if their debt load remains fixed. The bottom line is that our inflationary problems could indeed come to an end sooner than some fear as Americans reach their spending limits and opt to forego even more "extras." The Fed and Washington may soon have to contend with recessionary risks that could swing the rate pendulum the opposite way. Investors are already shying away from debt issued to more risky consumers, a sign of caution for the economy.

Three Things

1. *“Right-to-Repair” Legislation Could Fuel New Vertical* – Several countries around the world have signed laws forcing large electronics makers such as Motorola, Google, Samsung and Apple to make spare parts for their devices more readily available and allow third parties to repair them. Companies like iFixit stand to benefit from these laws and others are likely to follow suit. Original equipment manufacturers could actually benefit, both in profit from parts and offering consumers expanded support for legacy products.
2. *Who’s Actually Footing the Bill for Rising Fuel Costs?* – Fuel surcharges are being tacked onto a myriad of different services. From Uber and Lyft rides to FedEx and UPS package delivery costs, consumers are being forced to shell out extra for these conveniences. But according to the Wall Street Journal, these surcharges aren’t enough and employees and subcontractors are actually paying up as well due to miscalculations in the actual fuel costs. Experts say that something has to give and Americans may see more permanent rate increases, further taxing an already financially stressed consumer.
3. *Can Virtual Sports Games Bring Employees Closer?* – In a world where many workers are spread out over larger geographic areas, employers are looking for ways to create a more cohesive and collaborative environment. One of the more promising solutions for splintered workforces would be to meet in a virtual world to socialize, solidify bonds and create a more inviting workplace overall. Some companies, like Accenture, are giving new employees a Meta Oculus Quest 2 VR headset. The new hires are then onboarded in a virtual workspace called the Nth Floor.

Did You Know?

The Space Shuttle Is Born!

It was on this date in 1981 that NASA launched its ground-breaking Space Shuttle Program, sending Shuttle Columbia into orbit. The Shuttle was the first reusable spacecraft and included six different ships that conducted a total of 135 missions. The program was retired in 2011.