John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday February 12, 2020

You'll never guess which European country recently earned a credit-rating upgrade: Greece. Yes, *that* Greece. The eurozone's perennial laggard suddenly finds itself six months into a remarkable economic turnaround.

Last Monday the yield on Greek government debt fell to 1.15%, an all-time low. That compares favorably with the Italian government bond yield of 1.04%.

Investors now think Athens's goal of 2.8% GDP growth this year and 3%-4% growth beyond that is obtainable. The stock market surged 49% in 2019, mostly in the second half of the year. Business confidence is higher than in the eurozone overall, and unemployment of 16.6% in October was the lowest since 2011.

Credit Kyriakos Mitsotakis, the former McKinsey consultant whom fed-up voters elected prime minister in July after a decade of failed experiments with radical leftism, the same ideas now being proposed for the United States by left wing Democrats. Mr. Mitsotakis, leader of the center-right New Democracy party, is trying something else: supply-side reforms, in other words good old Capitalism.

Mr. Mitsotakis has cut the top tax rate on corporate profits to 24% from 28%, and some individuals have seen their tax rate fall to 9% from 22% and their property taxes cut. He aims to introduce a flat tax of €100,000 for wealthy foreigners who move to Greece to invest. He's also dusting off privatization plans shelved by left-wing predecessor Alexis Tsipras.

The IMF (International Monetary Fund) thinks Mr. Mitsotakis is too optimistic and that actual growth this year will fall short of the 2.8% goal. However, the IMF understands that socialist policies of the past are what dragged the Greek economy to the brink of bankruptcy.

American voters have the economic catastrophe in Venezuela as a clear example of the consequences of socialism. Now they have the Greek example showing not only the ugly consequences of socialism but also that capitalism is the answer. Hopefully, enough from these examples will sink-in and counter the left-wing pull from Bernie Sanders, Elizabeth Warren, the Squad and their supporters.

Meanwhile trade tensions between the United States and China are fading. Last month the U.S. Treasury Department announced that it is dropping its designation of Beijing as a “currency manipulator,” an important move to deescalate trade tensions.

For more than a decade, protectionists, including New York Senator Chuck Schumer and White House aide Peter Navarro had demanded designating Beijing as a “currency manipulator.” They argued that Beijing kept the Chinese yuan artificially low to boost Chinese exports at America’s expense. All along I felt they were wrong. In my view the yuan was being held down by market forces, which in turn were caused by China’s emerging market status. Right or wrong, Beijing today is clearly not a competitive devaluer. Beijing welcomes a stronger yuan because that relieves financial stress on the growing number of Chinese businesses that have borrowed dollars abroad and must repay those debts using yuan earned at home. A strong yuan also boosts the purchasing power of Chinese households whose well-being is crucial to Communist Party rule.

Beijing’s primary exchange-rate concern is now stability vis-à-vis the U.S. dollar. This is in America’s interest too.

But our political protectionists won't admit any of this. Senator Schumer denounced Treasury's move as "caving" to Chinese President Xi Jinping, although he may be more worried that President Trump's trade truce will boost the U.S. economy and the President's reelection chances.

Earlier this month Beijing responded by cutting tariffs on $75 billion worth of American imports including soybeans, pork and auto parts. A Chinese Minister of finance added that "the next steps depend on the development of the Chinese-U.S. economic and trade situation. We hope to work with the United States toward the final elimination of all tariff increases."

Trade tensions have taken a toll on the U.S. economy, especially business investment. Reducing those tensions is bound to have a positive impact on the U.S. economy. The January jobs report is an early sign that the U.S. economy's underlying strength is improving. U.S. hiring jumped last month. Employers added 225,000 new jobs, far better than the 158,000 expected. The January strength lifted the three-month job creation average to 211,000 well above the 175,000 monthly job creation average for all of last year. The unemployment rate ticked up to 3.6% in January from 3.5% in December. That is another positive because it means that more Americans are back in the market looking for jobs.

Job growth is outpacing population growth, which means that millions of Americans are coming off the sidelines and going directly to work. The labor participation rate is back up to 83.1%, short of the record high of 84.6%, but the highest since 2008.

Another remarkable positive is that, in spite of surging job creation, wages are rising. Hourly pay is up 3.1% over last year and wages for the bottom level workers are rising faster than wages for their bosses.

The coronavirus is still worrying governments and investors. China has pumped 1.7 trillion yuan into its economy to counter the downward pull of the quarantines and other effects from the virus. Investors are finding some relief in the work being done to create a vaccine and medical progress in how to treat the victims of the virus.

Fourth quarter 2019 S&P 500 earnings are coming in better than expected. A month ago, earnings were expected to be down 0.3% compared with last year. We now have actual reports from 193 companies and estimates for the rest. Analysts now expect when all have reported that S&P 500 earnings will be up 0.7%. The big technology companies have reported earnings much better than expected, that is a major factor behind the improving earnings outlook.

Fading trade tensions and the unexpected boost in technology earnings are lifting analysts' expectations for this year. There now is a good chance that S&P 500 earnings will be up again in 2020. Stocks remain our best investment choice.

I will have the next market review and update one week from today on Wednesday February 19, 2020.

All the best,

John Dessauer