John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday February 24, 2021

Last Friday I was startled by an article on Yahoo Finance. The title was: "Fasten your seatbelts—The case for a roaring economic recovery." A senior reporter, Myles Udland wrote the article. His inspiration came from a note written last Thursday by Ethan Harris, an economist at Bank of America Global Research. Harris said: "We think most forecasters are not looking at the whole story for the last recovery. In a number of ways today looks entirely different from 2009."

Ethan Harris sees four features that distinguish today's recovery from the recovery in 2009 following the financial crisis.

1) The stimulus in 2009 was late, small and faded too fast. Today's stimulus has been timely, huge and very persistent.

2) In a COVID-19 world, much of the stimulus effect is deferred until the economy reopens.

3) The COVID-19 crisis should leave much smaller economic scars than the biggest banking and real estate crisis in modern history.

4) Household balance sheets were deeply damaged in the last cycle; they are in great shape today.

Harris concludes: "Putting it all together, we look for a much faster return to full employment. According to CBO (Congressional Budget Office) estimates the economy did not reach full employment in the last cycle until 2017, 31 quarters into the recovery. This time we expect full employment by 3Q 2022 or 9 quarters into the recovery. Fasten your seatbelts."

In support of Harris' conclusion, retail sales rose more than expected in January. Economists surveyed by *The Wall Street Journal* estimated a 1.2% increase in retail sales in January from a month earlier. The actual result was a whopping 5.3% January increase. The Commerce Department added that sales of furniture and electronics posted double digit gains in January over December. In addition, bars and restaurants saw a 6.9% increase in January. The stimulus is working. Consumers are strengthening their balance sheets and increasing spending. January's sales increases were the first in four months.

Sales of existing homes also rose in January. The National Association of Realtors said that existing home sales rose 0.6% to a seasonally adjusted annual rate of 6.69 million homes. Economists polled by Reuters had forecasted a 1.5% decline in January. Home sales are being boosted by historically low interest rates on home mortgages, and by demand for more space at home to allow for a home office and home schooling. About 23% of the labor force is now working from home. The real estate market is likely to remain tight for quite a while. At January's pace, it would take only 1.9 months to exhaust the current inventory. A six-to-seven-month supply is viewed as a healthy balance between supply and demand. Builders are stepping up construction of new homes, but they are limited by record high lumber prices and shortages of land and labor.

The solid economic fundamentals do provide support for stock prices. But the question is: have investors priced in all the good news. Are stocks at a market top, or is there still room for further gains?

Jeff Mortimer, senior equity strategist for BNY Mellon, addressed that question in a note last week.

Jeff wrote: “As we dig down into the structure of this bull market, we find that this one exhibits little resemblance to historical market highs when looked at through a monetary and economic lens. History teaches that both economic cycles and market cycles tend to end when the Federal Reserve begins raising interest rates in order to combat higher inflation. But a change in monetary policy doesn’t appear to be on the horizon. At his recent press conference Federal Reserve Chairman Jerome Powell said: “We’re not even thinking about thinking about raising rates.” During the pandemic, the Fed has also taken steps to stimulate our economy by increasing the size of its balance sheet by approximately $3 trillion, with plans to keep its bond purchasing pace through at least the end of 2021. These actions clearly illustrate that the central bank continues to be incredibly accommodative. The long-trusted mantra of “Don’t fight the Fed” seems to be very good advice for market participants. To say the least, Fed policy is not behaving like it traditionally has at market tops.”

Jeff concludes: “Overall, I am fairly optimistic about the stock market in light of the accommodative monetary backdrop and expectations for a broader reopening of the economy as Americans get vaccinated and progress is made toward a healthier labor market. The equity market’s internal signals are very positive, with over 90% of stocks above their long-term trend and a majority of sectors showing strong return patterns.”

Like Professor Robert Shiller, Jeff sees today’s very low interest rates and tame inflation as support for stock prices at these elevated valuations. Jeff adds: “While stocks always remain susceptible to a pullback, I continue to believe the path of least resistance remains higher."

James Bullard, president of the St. Louis Federal Reserve bank was recently asked about the market volatility associated with the GameStop et al short squeeze. He responded that it appeared to be normal trading and not a bubble. "You do see speculative frenzies from time to time in markets, and that's part of the process."

Jeff Mortimer summed it up this way: "Since I joined BNY Mellon Wealth Management in 2012, the No. 1 question by far, that I have been asked is: "When will this bull market end?" The S&P 500 has more than doubled during my tenure here."

In my view, the end of this bull market will not come as long as investors keep asking that question and continue favoring bond funds over equity funds. There is no sign of the investor euphoria that has marked the end of past bull markets.

I will have the next market review and update one week from today on Wednesday March 3, 2021.

All the best,

John Dessauer