

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday March 30, 2022

It is astounding, almost unbelievable. The Biden climate change warriors are suddenly trying to subsidize fossil fuel consumption. Three leading House Democrats - Mike Thompson, (California), John Larson (Connecticut), and Lauren Underwood (Illinois) - have introduced the Gas Rebate Act of 2022 to send Americans a \$100 check in any month this year when the national average gas price exceeds \$4.00 a gallon. The national average gas price has exceeded \$4.00 in recent weeks. The Rebate Act would also send a \$100 check to dependents. This would mean that the government is sending cash not only to support fossil fuel use but also sending government taxpayer money to help pay for higher gas prices that were mostly created by the same government's policies. Such a policy does nothing to help push inflation down and also is counter productive because it encourages demand for fossil fuels. Encouraging demand when supplies are falling short will actually make the gas price situation worse. What are these people thinking? The correct answer to high gas prices is to increase supply and reverse the anti-energy policies of the Biden Administration. That would cause a decline in oil prices, help American consumers, and reduce the oil revenue that helps finance Putin's brutal war on the people of the Ukraine.

Speaking of money to finance Putin's war, you won't believe what happened at the IMF as Putin was amassing his forces on the border with the Ukraine.

“As Mr. Putin prepared to invade a sovereign democracy, the Biden Administration continued pushing for more than \$17 billion in International Monetary Fund allocations for Moscow.

President Biden and Treasury Secretary Janet Yellen ultimately got what they wanted in August, when the IMF doled out more money in one general allocation than ever before. The \$650 billion outlay of IMF IOUs backed by the U.S. Treasury- called special drawing rights - sent money to Moscow while the world watched Mr. Biden abandon Bagram Air Base to the Taliban. Iran gained access to about \$4.5 billion through the IMF deal, and China had a windfall of \$40 billion.

Immediately after the White House finalized these subsidies, Russia’s foreign reserves hit a record high.

To further put that \$17 billion in perspective, Mr. Biden asked Congress for only \$10 billion in Ukraine aid after Russia’s violent invasion began leading every newscast.”
(The Wall Street Journal 3/23)

Special Drawing Rights from the IMF are complicated, making it difficult for the media to write soundbites for the evening newscasts. But they can be turned into hard currencies, including the U.S. dollar. The net result is that Russia was given \$17 billion to help finance the destruction of the Ukraine. That should not remain hidden from the American people. They need to know what our government actually has done. Instead, they are being told a fantasy about the Administration’s resolve to punish Putin.

The steep rise in gasoline prices is getting the attention of Americans as they see their household budgets diminished. And, from what I read, they are not buying the blame Putin rhetoric from the Democrats. They want action that will bring the gas price back down. Instead, 12 leading Democrats, including Elizabeth Warren, are proposing a windfall tax on American big oil companies. While that may sound attractive at first, it has been tried and has failed in the past. The last time we had an oil crisis that pushed gasoline prices up was in the 1970s. Then Senator Teddy Kennedy succeeded in passing a windfall profit tax on American big oil companies. The result was a decline in American oil production that pushed gasoline prices even higher. The Kennedy windfall profits tax was repealed after the damage had been done. Apparently, Elizabeth Warren, also a Senator from Massachusetts, has forgotten about the Kennedy windfall profits tax. Senator Bernie Sanders has also forgotten. The Kennedy tax was 70%. Bernie Sanders wants to raise that to 95%, which would do even more damage.

What these windfall tax proponents ignore is that the energy business is cyclical, going from boom to bust and back again. Profits during the boom replace the losses during the bust. Politicians do not rush to the aid of big oil during the busts. They only attack during booms. And those attacks discourage investment. So, during a boom when oil companies are flush with cash that can be used to increase production, they are faced with an added cost in the form of the windfall profits tax. That makes them reluctant to invest in new production. In the long run increased production tends to bring the gasoline price down. However, with windfall profit taxes in place, increasing production in the short run means lower profit margins because of the windfall profits taxes.

“Hiving off the rewards that are on offer for supplying energy during today’s shortage will only make the next supply crunch all the worse.” (*The Economist*, 3/19)

The U.S. stock market has done quite well given the circumstances and uncertainty. There are concerns that the Fed may be behind the curve and that it may take a recession to bring inflation down. The Ukraine is called the breadbasket of Europe. The war will likely mean higher food prices in Europe and that could spill over to the United States. However, Fed Chair Powell had made it clear that the Fed will do what it takes to bring inflation down. He has recently said that if it takes half point rate increases to do the job, that is what the Fed will do.

In my opinion it is too soon to prepare for a recession. The better strategy is to be patient. Corporate profits are still growing. That provides fundamental support for stocks. In addition, the dividend yields on stocks are more attractive than yields on bonds. And, when interest rates go up bond prices go down. Hold on to your stock positions.

I will have the next market review and update for you one week from today on
Wednesday April 6, 2022

All the best,

John Dessauer

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