John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday May 29, 2019

When it comes to left leaning, anti-capitalism politicians, the United States is not alone. There are so many scattered around the rich economies that *The Economist* made them the focus of its recent issue. Here is the issue's opening salvo: "The rich world is enjoying an unprecedented employment bonanza, which capitalism's critics have missed. Everyone says work is miserable. Today's workers, if they are lucky enough to escape the gig economy and have a real job, have lost control over their lives. They are underpaid and exploited by unscrupulous bosses…….

There is just one problem with this bleak picture: it is at odds with reality…….

Capitalism is improving worker's lot faster than it has in years, as tight labor markets enhance their bargaining power. The zeitgeist has lost touch with the data."

The recent election results in Australia say that while some politicians have lost touch, the voters are very much in touch with the data. Australia, like the United States, had a strong left-wing group of politicians running for high office. They proposed taxing the rich, spending heavily on going green and enlarging government's role in the economy. The polls before the election showed the left-wingers leading by a wide margin. The exit polls during the election showed the same. But when the votes were counted the left-wingers actually lost by a wide margin. All the polls were wrong. Voters completely rejected the left-wing ideas.

Next came elections in India where the incumbent Narendra Modi was challenged by Rahul Gandhi's left leaning Indian National Congress. Once again, the results came as a shock to pollsters and political pundits. Modi won in a landslide, securing 303 seats in Parliament, well above the 272 needed for a majority. The Gandhi group won just 51 seats, a disastrous showing for a once mighty Indian party.

Recently there have been elections in Europe to select members of the European Union parliament. The results again show resistance to the left's favorite policies. The far right surged in France. In other countries anti-immigration skewed results.

Britain's Prime Minister, Theresa May has resigned. Jeremy Corbyn, leader of Britain's Labor Party is a leading candidate to replace her. He says: "Our jobs market is being turned into a sea of insecurity." *The Economist* responded as follows: "Again, reality begs to differ…… The left needs to accept that many of the criticisms it levels against capitalism do not fit the facts."

Voters in the United States, like others, live in the world where facts are well known. They know who has a good job and that wages are rising faster than inflation. Like the Australians they are not likely to vote for a major change that could well upset the current low inflation and good jobs market.

First quarter earnings season is winding down. 450 of the 500 companies in the S&P 500 stock index have now reported. 77.1% of the companies reported earnings that beat estimates and 59.3% beat revenue estimates. Overall first quarter earnings are flat

(down -0.1%). Revenues rose 5.1%. The results are remarkable given the very strong earnings performance last year.

Mitch Zacks has this to say about coming quarters: “Those are reasonable levels of earnings beats, and I think we can expect an earnings recovery in the second half of the year (assuming the trade dispute is resolved by then, which I think it will be).”

Rhetoric from Beijing has toned down. Chinese leaders now say that the trade issues should be resolved by talks (as opposed to dueling tariffs). Some of the U.S. demands are difficult for the Chinese. While many state-owned enterprises have become private sector businesses, there still are marginally competitive state-owned enterprises providing jobs. Beijing does not want them to be beaten by incoming foreign owned competition. However, Beijing also knows those enterprises are not able to compete and are expensive to support. Sooner or later they will have to be closed. Allowing increased foreign competition would create replacement jobs that would be more secure. I am sure authorities in Beijing are studying this issue in depth. Odds are that Mitch Zacks will be right and a deal will be reached soon.

Investors have also been unnerved by escalating military tensions with Iran. According to news reports, Iran may be just weeks away from exceeding an internationally-agreed cap on stockpiles of low-enriched uranium. If true, this would make Iran closer to production of nuclear weapons. That has drawn scrutiny from the international community and led to the increase in military posturing by the United States and Iran. John Bolton, the U.S. National Security Advisor, made some remarks that appeared to say the U.S. would be ready to use military force against Iran if need be.

President Trump nixed that idea by saying he does not want war with Iran. I applaud President Trump's quick intervention. Iran is posturing. The sanctions are working. Iran is in economic distress and in no position to go to war with anyone. The cashflow in Teheran is so far down that Hamas is running out of funds. Sanctions and patience will do more than war ever could to contain an Iranian nuclear threat.

There is an age old saying that stocks climb a wall of worry. That is the classic way of pointing out that as long as investors are worried about issues and remain cautious, stocks can keep rising. The worries today from China trade and Iran to Venezuela are definitely keeping investors both worried and cautious. That means stocks are still climbing and our best strategy is to remain invested in stocks.

I will have the next market review and update for you one week from today on Wednesday, June 5, 2019.

All the best,

John Dessauer