John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday June 2, 2021

Last Saturday Marilynn and I went out to dinner at a favorite restaurant. On arrival we were stunned at how busy it was. It is a very good French restaurant and has always been popular. But this time it was over-the-top. The hostess, wife of the Chef and co-owner confided in us that the number of diners in recent weeks is higher than two years ago, before the pandemic. Two of the waiters who know us, stopped by to confirm that they have been straight-out for weeks. Both of us got the same feeling. Something has changed. People are reacting to the long threat of the virus. They are relieved to be alive and healthy. Our experience is anecdotal, but recent Commerce Department reports on consumer spending point to similar changes in the broad economy. For example, while overall consumer spending was up in April, the biggest gain was in spending on services. Spending on goods actually fell slightly. More and more it looks like those economists who say that while the recovery is strong it is also unpredictable are right. We are just beginning to see how consumer spending patterns are changing and we don't know if they are temporary or permanent. From our recent experience I expect that the rise in spending on services, restaurants, hotels and travel will be permanent.

The editors of *The Wall Street Journal* highlighted the faults in the Biden corporate tax proposals in a recent article titled: Ireland's Tax Lesson for Biden.

The basic lesson is that consistent low corporate tax rates are positive for employment, economic growth, and tax revenue. That's right - Ireland's tax revenue has soared under the 12.5% tax on businesses. Tax revenue from corporations accounts for 13% of total tax revenue and 3% of GDP, except during the 2008-2009 global recession.

That's up from 5% of tax revenue and 2% of GDP before the 12.5% tax became effective. Between 1986 and 2006 Irish employment nearly doubled to 2 million and the brain drain of the 1970s and early 1980s reversed. Ireland became a destination for global capital.

"The other ingredient in Ireland's tax success had little to do with the rate and everything to do with politics. To wit: Politicians across the ideological spectrum refused to play games with tax policy. The 12.5% corporate tax rate has endured for more than 20 years, through left and right. Even Sinn Fein, the furthest left major party in Ireland, declares it won't change the corporate rate.

Irish politicians know that businesses value certainty, and that Ireland's low-tax policy has become emblematic of a commitment to consistency. The political class promises not to change the rules on a whim to favor some businesses or punish others. Global companies are eager to take up this offer.

That's a lesson for Washington and other capitols. As damaging as the high rates the Biden Democrats are proposing is the signal to businesses that tax policy remains a political football, even after a once-in-a-generation overhaul like the 2017 Tax Cuts and Jobs Act. Let's hope Ireland and a few other tax stalwarts hold out and kill the Biden global tax scheme." (*The Wall Street Journal,* May 28)

Last week Ireland's Finance Minister, Paschal Donohoe said: "I absolutely support and will be making the case for our 12.5% tax rate." He added that he has "significant reservations" about setting a higher minimum rate.

Biden Democrats want a high (21%) minimum corporate tax rate that would end international tax competition and reduce the harm from their huge tax increases on U.S.

businesses. Ireland is a clear example that the Biden Democrats are on the wrong track. A high corporate tax rate hurts the economy, jobs and could reduce tax revenue. Thankfully, Ireland and a few other EU members understand this and will most likely refuse to support a minimum corporate tax rate above 12.5%. Faced with ongoing tax rate competition the Biden Democrats will have to think twice about hurting U.S. business' ability to compete in the global Marketplace.

I wish more American voters would know about Ireland's economic success. The United States needs to keep domestic growth alive and well in order to finance the huge and growing national debt. Our left leaning politicians pose a very real long-term threat when they play political games with tax policy.

Last week I wrote about Liz Ann Sonders' take on the inflation outlook. She pointed out that the U.S. Money Velocity rate plunged when the pandemic hit. Unless and until that changes and Money Velocity starts rising there is little chance for inflation to take hold. I keep checking. As we entered the second quarter the U.S. Money Velocity rate continued to decline. The inflation hawks are wrong. There is no current inflation threat. Interest rates will remain low and stocks remain our best investment.

The Dow Jones Industrial Average is 125 years old. It was created by Charles Dow in 1896. Over time it has been modified in an effort to make it more accurate. Initially Charles Dow simply added up the prices of the 12 original stocks. Today the prices of the 30 stocks in the Dow are divided by a divisor. But the criticism remains the same. The higher a stock's price is, the more weight it carries in the index. United Health Group's stock price is $413.05 and accounts for 2,718 points of the Dow's 34,312 points. Apple's stock price at $126.90 counts for just 835 Dow points.

The S&P 500 stock index tries to better the Dow by taking market capitalization into account. But over time the two have had strikingly similar trajectories. Over the past 30 years, for example, each has returned, with dividends reinvested, about 11% annually.

No wonder most Americans measure the stock market's performance using the Dow Jones Industrial Average. Happy birthday Dow…. Long may you live.

I will have the next market review and update one week from today on June 9, 2021.

All the best,

John Dessauer