

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday June 8, 2022

The data for the first quarter has been revised. The economy contracted at a 1.5% rate, slightly more than the 1.4% rate originally thought. While the difference isn't much, the direction tells us that the economic recovery is running its course. The rate of inflation also dipped but remained at a 40-year high. Inflation has become a serious issue, especially for the President and his fellow Democrats. In an effort to help endangered Democrats come the November elections, the President wrote an article titled: "My Plan for Fighting Inflation." The Wall Street Journal published the article, which I read carefully.

My initial reaction was that the Plan isn't a plan at all.

For example, the President wrote: "The price at the pump is elevated in large part because Russian oil, gas and refining capacity are off the market. We can't let up on our global effort to punish Mr. Putin for what he has done and we must mitigate these effects for American consumers. That is why I led the largest release from global oil reserves in history."

Releasing a million barrels of oil from our national reserves did nothing to mitigate the pain at the pump. Releasing a million barrels a day is what it would take to bring the price at the pump down. That of course would quickly deplete our reserves and leave the economy vulnerable to an oil market upset. So, what was the purpose of

releasing the million barrels? Obviously, it was an attempt at scoring a political point. It failed because prices at the pump kept going up.

His attempt at shifting the blame for high energy prices on Putin and his war also fails because the outbreak on inflation started just after the President took office. The inflation rate was 1.5% on the day he took office. His attack on American energy production and pipelines pushed the oil price up. Inflation was rampant before Putin's war. Sadly, news that Europe is taking steps to ban imports of oil from Russia is being praised as a way to diminish money for Putin to finance his war on Ukraine. That makes Biden's terminating the XL Pipeline and attacking American energy production look very bad. Those efforts pushed up the oil price, giving Putin billions of dollars, which he used to finance his war. All of this is not lost on American voters. They are well aware of the chain of events that led to high energy prices and high overall inflation. And it is obvious that the President is not willing to reverse course, allow the XL pipeline and stop his attack on American energy producers. Those reversals would bring the rate of inflation down.

The Wall Street Journal in its "Letters to the Editor," published a section called, "Readers Reply to President Biden on Inflation." Here is a typical response from a voter in Tennessee: "Regarding President Biden's "My Plan for Fighting Inflation." The first day Joe Biden took office, Vladimir Putin shut down the Keystone XL pipeline. Then he forced the U.S. to allow the completion of the Nord Stream 2 pipeline. Mr. Putin then announced that no more oil drilling leases would be allowed on U.S. land or water.

Mr. Putin is now attempting to raise U.S. taxes and spend trillions of U.S. taxpayer dollars, further fueling runaway U.S. inflation, the likes of which Americans haven't seen in decades.

How do I know this to be true? Mr. Biden told me.”

And another letter from a voter in Florida: First, inflation was already running hot at 7.9% before the invasion of Ukraine. Who's fault is that Mr. President? Second, record jobs you “created” are simply coming back from the pandemic. Labor force participation is still one percentage point below pre-pandemic levels and we are 1.2 million jobs short. Third, that pandemic-era spending, subsided does not mean you lowered the deficit.

A third letter writer had this to say: “Mr. Biden's op-ed is typical of his administration: take credit for everything and responsibility for nothing.”

Clearly these voters understand that Mr. Biden and his fellow Democrats are responsible for the inflation. Mr. Putin's contribution came long after the Biden - induced rise in oil, gas and food prices.

In describing his plan Mr. Biden also wrote: “First, the Federal Reserve has a primary responsibility to control inflation. My predecessor demeaned the Fed, and past presidents have sought to influence its decisions inappropriately during periods of elevated inflation. I won't do this. I have appointed highly qualified people from both parties to lead that institution. I agree with their assessment that fighting inflation is our top economic challenge right now.”

This statement of reliance on the Fed raised recession fears because he is saying that he won't do his part by reversing his energy policies, he will rely on the Fed to bring inflation down. The Fed controls monetary policy. Bringing inflation down means the Fed has to tighten monetary policy enough to cool off the economy. Before the President published his Plan, investors expected interest rates to be raised half of one percent at the Fed's June and July meetings. Now investors are worried that it will take higher interest rates to cool inflation and that could mean a recession. If fear of a recession persists, that will make it more difficult for Democrats come November.

Fortunately, the job market remains strong. There were 390,000 new jobs created in May. That was comfortably better than the 328,000 expected. The unemployment rate stayed at 3.6%. Creating 390,000 new jobs is very good news for a couple of reasons. First, it is less than the 400,000-500,000 new jobs created in recent months. The bottom line is that the jobs market is strong, but cooler than a few months ago. With a strong job market, the economy is well positioned to absorb the Fed's rising interest rates. And with the number of new jobs coming down there is less inflation pressure from the job market.

As Jamie Dimon, CEO of J.P. Morgan says, recession fears are warranted but it is still possible for the Fed to bring down inflation without causing a recession.

I have great confidence in our Fed and its chairman. I am sure they will do everything they can to orchestrate a soft landing.

I will have the next market review and update for you one week from today on
Wednesday June 15, 2022

All the best,

John Dessauer

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