John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday July 7, 2021

"Over the past year, the primary risk faced by companies centered on how to survive the sharpest economic downturn in 90 years. On reflection, what companies were able to do was an economic miracle." (Morgan Stanley, July 2021)

Yes, the U.S. economy created 850,000 new jobs in June, up from 583,000 in May and 269,000 in April. And workers' average hourly earnings rose 3.6% in June. The recovery is in full bloom. A year ago, while the pandemic was devastating businesses and workers, such a robust jobs report was not even regarded as possible. Pharmaceutical companies were working on vaccines, but we thought that would take years. Even optimists expected a long-lasting recession followed by a slow and shallow recovery. The idea of a V shaped recovery was considered, but generally regarded as unlikely.

Now here we are with a major investment firm, Morgan Stanley, describing the recovery as an 'economic miracle.'

To be sure, we have not yet fully recovered. The country still has 6.8 million fewer jobs than in February 2020, the month before the pandemic shut down much of the economy. As of the end of April there were 9.3 million job openings. Once those openings are filled labor market conditions will be well above pre-pandemic levels. The 'economic miracle' is likely to continue.

Company mangers complain that they are having trouble hiring workers. Some argue that the unemployment bonuses handed out by the federal government mean that many can make more money staying home than going back to work. Others say the problem is the school closings and the high cost of childcare which is keeping women busy at home rather than going back to work. More than likely, both are weighing on the job market. A job-search site called Indeed recently dd a survey of unemployed workers and found that the biggest hurdle was continued worries about Covid-19.

Harvard University economist Lawrence Katz says: “It’s a mismatch of expectations and aspirations.” Employers want things to go back the way they were before the pandemic, while many workers might have something else in mind.

Several states have already cancelled the unemployment bonuses. The rest are scheduled to expire in September. Schools should be open again this fall. That will free up women to go back to work. Millions have already been vaccinated. Millions more will be vaccinated in the coming months.

Some may choose to retire or live off savings a while longer. But employers are likely to find it easier to find workers as schools open, unemployment bonuses fade away, and vaccinations multiply.

Meanwhile, business managers can complain about difficulties hiring, but the positive is that they complain because demand is so strong, and they need more workers to keep up. Struggling to keep up with demand is a good problem and far better than the alternative - a sharp decline in demand.

Demand from consumers is strong because of the huge build up in personal savings and rising wages. However, there is another source of cash to fuel demand in coming months and years. Older Americans (70 and above) have stockpiled a record $35 trillion in assets. That is 27% of all U.S. wealth, up from 20% a decade ago and equal to 157% of GDP - more than twice the proportion 30 years ago.

That wealth passes on to the younger generation through gifts and inheritance. The average inheritance was $212,854 in 2019. Older Americans are not waiting until they die to hand out cash. Annual gifts subject to gift tax reporting rose to $75 billion in 2016. Americans can give each individual $15,000 a year and need not tell the IRS. They can also pay for medical care and education without filing a gift tax return. So, odds are that annual gifting from one generation to another is far in excess of $75 billion. The recipients of these gifts use the money to buy homes, start businesses and generally improve their lifestyle.

"At no time in modern history has so much wealth been in the hands of older people." (*The Wall Street Journal*, 07-02)

And that wealth is a long-term source of strong consumer demand. Given the additional huge personal savings, demand is likely to remain strong for a long time. This is more evidence in support of the Federal Reserve's analysis that the economy will continue to grow this year, next and into 2023.

Of course, there are risks, there always are. But the greatest risk today is political - made in Washington DC.

The following is from the editorial board of *The Wall Street Journal* 6/29)

"It's the Entitlements, Stupid.

The guaranteed nature of Biden's spending is the real threat to America's economic future.

The entitlements are by far the biggest long-term economic threat from the Biden agenda. Tax increases can be repealed by a future Congress. Spending on infrastructure will slow as funding falls. The courts may block his racial preferences. But entitlements that spend automatically based on eligibility are nearly impossible to repeal, or even reform, and they represent a huge tax-and-spend wedge far into the future.

These programs aren't intended as a "safety net" for the poor or those temporarily down on their luck. They are explicitly designed to make the middle class dependent on government handouts.

Taxes on the rich will not be nearly enough to pay for it all. Tax increases on the middle class are an eventual certainty, probably a value-added or carbon tax or both.

Most remarkable is that Democrats are attempting this economic, social and fiscal transformation without a mandate from voters."

Hopefully, Republicans, with support from voters, will be able to block the worst of the Biden agenda. If not, then the outlook beyond 2022 and 2023 becomes a good deal cloudier. Meanwhile stocks remain our best investment choice.

I will have the next market review and update one week from today on July 14, 2021.

All the best,

John Dessauer