

## **John Dessauer Investments, Inc.**

### **John Dessauer's market review and update as of Wednesday July 8, 2020**

It was another shock. The U.S. economy created a whopping, record setting, 4.8 million jobs in June. That was the best monthly jobs number since the government started keeping records in 1939. A second shock was that CNN did not mention the June jobs news. I found that to be unbelievable. CNN describes itself as a leading news provider. How could a record month of new jobs not be news? Fortunately, other news providers such as Reuters found the June job numbers to be headline news.

A month ago, when we learned of 2.8 million new jobs being created in May we thought that was about as good as it could get. We were wrong. It got a whole lot better in June.

The unemployment rate was still high, 11.1%, in June, but that was better than the 13.3% jobless rate in May. And the number of new filings for state unemployment benefits has been slowly declining.

Federal Reserve Chair Jerome Powell says the economy has “entered an important new phase and done so sooner than expected.” He also cautioned that the outlook “is extraordinarily uncertain and dependent on our success in containing the virus.”

Morgan Stanley agrees. In their June issue of “On the Markets” they answer the question: what are the risks to the outlook? “The key variables are the virus and vaccine developments.”

“Right now, the first question for our 12-month outlook is: How can we produce one? The global economy has seen a collapse of activity, an expansion of fiscal and

monetary policy and a level of medical uncertainty without precedent in the modern era. Add to that a US presidential election, simmering US-China trade tensions and wild swings in commodity markets and it would seem reasonable to throw up one's hands and say the old rules no longer apply.

We disagree. While the past four months have been exceptional, we think that this cycle has been, and will be more “normal” than appreciated.

We also think that the economic recovery will look more normal than abnormal. This might sound odd, given the scale of the economic devastation, record job losses and significant medical uncertainty. Still, based on our economic forecasts, we think growth in the developed markets could recover to prerecession levels by the end of 2021. This eight-quarter “time to recovery” would be about twice as fast as what followed the financial crisis and is similar to the US recessions of 1973 and 1981.” (Andrew Sheets, Chief Cross-Asset Strategist, Morgan Stanley.)

Morgan Stanley also thinks we have already made significant progress in dealing with the virus and that medical authorities are better positioned to manage a potential second wave of infections. They expect a vaccine to become broadly available by the second quarter of 2021. And they believe the US will reach herd immunity by the summer of 2021.

I also pay close attention to what other leading organizations think about the virus and the economic outlook. I have been impressed how teams of financial analysts have been expanded to include experts in biotechnology. These are people who closely follow all the bio-tech and big pharma companies and interact with their scientists. So when Morgan Stanley says they see a vaccine coming by early 2021, that is not guess work or

an opinion based on media reporting. That is a well-informed view that will likely be very close to the coming reality.

Investor sentiment among individual investors is outright bearish. There is widespread fear that stocks are headed for a big decline. The usual pessimists are preying on those investors, promising solutions, but only after you buy their publications. Institutional investors on the other hand are largely neutral, waiting for news of a vaccine. A few, including Morgan Stanley, are optimistic and for good reasons.

“One thing investors may be overlooking is how fast earnings often rebound after a recession. The main feature of any recession is that unemployment rises sharply. In the current case, US unemployment shot up to nearly 15% from a record low of 3.5% in just two months. Typically, it takes one to two years for unemployment to reach its cycle peak. Furthermore, the increase in unemployment was twice as large as usual, leaving companies’ cost structures even leaner than normal coming out of a recession. As a result, we think operating leverage could be explosive as the economy recovers. From an investment perspective, this means earnings will return to prior highs faster than most analysts forecast.” (Morgan Stanley, *On the Markets* June 2020)

Stocks climb a “wall of worry.” This time, for many investors, the wall seems high and near impossible. But once there is a vaccine or herd immunity this wall will be scaled quickly.

What about the violence, rioting and looting over racism in the United States? On that subject I turn to Thomas Sowell, a brilliant economist who happens to be black. He is over 80 and retired. But the widespread violence brought him back for an interview on

Fox News. Here are a few of Sowell's words: "I have no idea what proponents of the existence of institutional racism mean and they themselves do not know.

In a sense that you can't ask them a factual question and get a factual answer. For example, one of the things I came across in writing a previous book was the poverty rate between blacks and whites. If I remember the numbers correctly, something like 22 percent of blacks were in poverty, 11 percent of whites were in poverty. They're like "well that shows the racism.""

Sowell added that the poverty rate was 7.5% among black married couples.

"In other words, they not only have a poverty rate lower than blacks as a whole, they have a lower poverty rate than whites as a whole."

He also said that much of the left's ideology "falls apart like a house of cards" under scrutiny. "I think many, if not most, of the people who were in the movement that created the Soviet Union were probably idealists wanting a better world. They had no idea what kind of world they were in fact creating."

I am afraid that describes today's left that hope to gain strength in the coming elections. Hopefully they will be asked the right questions and their house of cards will be exposed.

I will have the next market review and update one week from today on Wednesday July 15, 2020.

All the best,

John Dessauer

© July 2020