

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday July 20, 2022

The Consumer Price Index or CPI was up 9.1% year over year in June. Surveys show that Americans see inflation as the biggest problem facing the economy. They are right. Inflation punishes people and has long lasting consequences.

I graduated law school in 1962. After passing the New York bar exam I was hired by a law firm at the outstanding salary of \$5,200 a year. In the 1960s an annual income of \$10,000 was enough to support a family. Then came the inflation of the 1970s and everything changed. Elderly people living on a fixed income were devastated. People in the lower income brackets could not keep up with soaring costs for the basics. Even people with cash were whipsawed as interest rates first soared and then collapsed. Friends of Marilynn came to me looking for financial help. They had been relying on interest income from bank CDs. When interest rates came down their income declined so much that they couldn't pay their normal bills. I persuaded them to invest in stocks. They were reluctant to do that because they saw stocks as risky. I said that while stock prices can be volatile the dividends are solid and can grow. They took my advice and it worked for them. They were comfortable for the rest of their lives.

But look at the long-term damage. For the most part we have adjusted, but today you need a substantially larger income to survive. Ten thousand dollars a year is well below the poverty level. And the financial transition from the 1960s to the 1990s was very difficult for most Americans. Unless today's soaring inflation is brought down soon there will be long lasting consequences. The Biden attack on American energy

production is very wrong. Trying to blame Putin's Ukraine war is also wrong. Putin made things worse, but Biden's policies are at the core of today's inflation numbers.

Natural gas is a fossil fuel, but it is far cleaner than oil or coal. The United States has lots of natural gas. Senator Warren and the Biden administration have attacked natural gas production as well as oil. There is no affordable alternative to fossil fuels. Solar panels installed years ago are starting to fail. They only last about 20 years. The problem is that they are now a source of highly toxic waste that can ruin underground water supplies. Wind turbines also are a problem when they stop working. For example, wind turbine blades are not bio degradable and can ruin a degradable waste facility. The bottom line is that currently there are really no good alternative sources of energy to fossil fuels. The best climate strategy is to urge the use of natural gas rather than oil or coal. Russia is punishing Europe by refusing to keep selling natural gas. The U.S. could step in and help if we had not attacked our natural gas production. Now Germany is turning to coal because they do not have a choice. China is also planning to use more coal. That is a huge negative for carbon emissions and climate change.

No wonder American voters are so disturbed. They understand that Biden's policies have created an inflation monster and are going in the wrong direction when it comes to climate change.

It looks as if the other fear bothering voters - recession - is at least technically happening. The economy contracted at a revised 1.6% rate in the first quarter. The latest GDP growth estimate from the Atlanta Federal Reserve Bank is that the economy contracted again the second quarter at a 2.1% rate. The Atlanta Fed isn't always right but

at this point they have enough data to at least be very close. That means the U.S. economy contracted two quarters in a row, which is the definition of a recession.

In past recessions the Fed cut interest rates. But this time the slowing economy is not going to hold the Fed back. Interest rates are going up until inflation comes down. And this recession looks very different from past recessions. In the past 12 post war recessions unemployment went up. In the last six months unemployment has fallen from 4% to 3.6%. In addition, American households are in a strong financial position. At the end of the first quarter American households had \$18.5 trillion in cash in checking accounts, savings accounts, and money market funds. Before the pandemic that figure was \$13.3 trillion.

And in my opinion there is one other major difference this time: in the 1970s, as inflation soared, the dollar collapsed. This time the dollar is soaring. For the first time in 20 years the dollar and the euro are at par. The dollar is up 12% versus the euro since the start of this year. The dollar is also up versus the Japanese yen and the Chinese yuan. China, by the way, is also in a recession. That economy contracted in the first quarter and is down again in the second. China's problem is lockdowns because of an ongoing challenge to contain the spread of the Covid virus.

As far as the stock market is concerned, I was pleasantly surprised at the market's reaction to the news of inflation at 9.1%. I thought the market would fall, but at the end of the day the Dow was down only 180 points. And the Dow was up nicely the next two days. This is a sign that Morningstar is correct that we are at or near the bottom for this cycle.

I will have the next market review and update for you one week from today on
Wednesday July 27, 2022

All the best,

John Dessauer

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