

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday July 31, 2019

A week or ten days ago Senator Elizabeth Warren tried becoming a pessimistic economic pundit. She said the warning lights are flashing over the U.S. economy. She went on to say that she had correctly predicted the financial crisis of 2008-2009, but no one would listen to her. Elizabeth Warren wants to be the Democratic party nominee to run against President Trump next year. Clearly, she is having a hard time dealing with the strong economy, low inflation and low unemployment. Under these conditions it is hard to come up with plans and policies that would make things better. So she talks about the risks, suggesting that we need to elect her in order to avoid another economic mess like 2008-2009. That approach looked like good politics for the following week or so. Then came news from the IMF (International Monetary Fund), a non-partisan group. The IMF raised its 2019 forecast for the U.S. economy. The IMF now expects the U.S. economy to grow 2.6%, 13% better than their earlier forecast of 2.3% growth.

The IMF left its European Union forecast at 1.3%, downgraded China to 6.2% and boosted the UK from 1.2% to 1.3%.

“But those numbers in and of themselves, still point to growth. The key word being ‘growth.’ And it’s clear that the U.S. is still the best game in town. For the economy. And the markets.” (Zacks Investment Research)

After the IMF report, Senator Warren changed topics and began talking about plans to reduced students’ debts. But she did not cover the biggest debt issues, namely the

U.S. national debt and federal government deficits. Unfortunately, President Trump also has not had much to say about the growing debt and deficits. Hopefully when he gets past the China trade negotiations, he will turn his attention to reducing the rate of spending growth.

U.S. officials will be back in China this week for face-to-face meetings with their Chinese counterparts. With economic growth slowing in China there is pressure on their side to settle trade issues as soon as possible.

There is also growing pressure on President Trump to settle with China. The Commerce Department has issued revised calculations on U.S. economic growth. They marked down the growth rate for 2018 to 2.9%, just shy of the President's 3% goal. The pressure on the President comes from data showing the U.S. economy is slowing. For example, the Commerce Department now says the U.S. economy grew at a 2.1% rate in the second quarter. While that is better than the 1.8% rate forecasted by several economists, it is well below the 3.2% recorded in the first quarter and below the President's 3% target. Trade tensions and tariffs are part of the issue. But a slowing in business investment is also part of the problem. Whether the trade tensions are affecting business investment decisions is unknown. But some experts think the two are connected. Earlier this month Fed Chairman Jerome Powell said business investment appeared to have "slowed notably." He added that this might "reflect concerns about trade tensions and slower growth in the global economy."

France made the trade issues worse by imposing a 3% tax on the revenue of big technology companies, including Google, Twitter and Facebook. President Trump says

he will respond in kind and talks about a tax on French wine. France's Minister of Commerce says: "Please don't mix wine and a tax on digital transactions." However, a tax is a tax and targeting revenue rather than profits is a punishing tax. President Trump is correct to object. France already has suffered from an ill-conceived tax on fuel. Protests following that tax increase have devastated the French economy. You would think the French politicians would have learned something from that tax mistake.

The biggest recent economic news came from Europe. Mario Draghi, President of the European Central Bank, expressed concern over the eurozone's economic outlook, describing it as "getting worse and worse." For American politicians that should serve as a reminder that not everyone is enjoying a record economy like the U.S.

The U.S. Federal Reserve board meets this week and is expected to make the first cut in interest rates in a decade. A cut of 0.25%, perhaps a bit more, is what economists expect. A rate cut will signal that the U.S. Federal Reserve Board is committed to doing whatever it can to support continued U.S. economic growth. That is good news for jobs, stocks and all financial markets.

We are now two weeks into second quarter earnings season. The news has been better than generally expected. Of the 218 companies in the S&P 500 that have reported, 75% have beaten profits estimates. As a result, last week there were 31 new highs and 2 new lows among the S&P 500 stocks. The Nasdaq recorded 82 new highs and 52 new lows.

With the Federal Reserve likely to cut interest rates we should be prepared for more talk about the yield curve. Just a few weeks ago the yield curve technically inverted, bringing out a chorus of prognosticators forecasting an imminent U.S. recession. Now that we are in the peace before the next yield curve storm it is helpful to take a broader look at yield curve inversions outside the United States. After all, economics are supposed to work in every country and not be bound by national borders.

“In a dataset of 16 other rich countries, reaching as far back as 1960, 51 of the 95 recessions were not preceded by an inversion during the previous two years. Moreover, the curve seems prone to crying wolf. On 63 occasions, these non-American economies kept growing despite inverted yield curves.” (*The Economist* July 27, 2019)

No wonder there are doubts about the yield curve as a harbinger of future U.S. recessions.

I will have the next market review and update for you one week from today on Wednesday, August 7, 2019.

All the best,

John Dessauer

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