John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday August 11, 2021

We are in Iceland on Crystal's new expedition ship the Endeavor. This our first trip since the pandemic shut everything down. We have internet on the ship so I will be watching the markets, but I decided to take a week off from writing. So, my next market review and update will be on August 25.

All I can say about the July jobs number is, WOW. The U.S. created 943,000 new jobs last month, well ahead of expectations around 840,000. And the unemployment rate went down to 5.4%. The V shaped recovery rolls on. Zacks added more good news:

"In the first half of 2021, investors across the globe poured over $900 billion into U.S.-based mutual funds and exchange-traded funds (ETFs). It was a record-setting start for fund flows in the first six months, and the U.S. was by far the biggest beneficiary. In a world still beset by the pandemic and uneven responses and recoveries, the U.S. has been a refuge of sorts for global investors. Foreign investors alone added $712 billion into U.S. equities in 2020 and are expected to add another $200 billion this year.

Similar trends are playing out in the bond markets. According to Bloomberg data, close to $16 trillion of global debt had a negative yield as of the end of July, which means investors would have to pay money to hold the bonds (assuming they held to maturity). At the end of 2019, there was $11 trillion in negative-yielding debt, which underscores how global central banks pushed rates lower in response to the pandemic.

The picture in the United States looks different. U.S. Treasury bond yields are positive, and we expect them to move higher over time as the Federal Reserve eventually pulls back QE and as the economy continues to grow. When global investors are looking for positive yielding, safe debt, the U.S. is the place to go – approximately 70% of positive-yielding bonds from G10 countries were U.S. Treasuries."

An economy that is creating monthly records for new jobs and record amounts of foreign capital flowing into U.S. stock and bond markets; it is hard to imagine better news for U.S. investors.

According to the Tax Foundation the drop in state tax revenue from 2019 to 2020 was a mere 0.2%. Members of Congress thought states would suffer huge tax revenue losses. In response to those expectations states were awarded $500 billion. As of the end of July $210 billion of that money remains unspent. New York and California recently passed record budgets while tapping only a portion of their federal aid.

States are not the only ones sitting on billions of dollars of unspent federal aid. The Department of Health and Human Services has spent only half of the $324 billion awarded. Never-the-less, President Biden added another $160 billion this year and only $3 billion has actually been spent.

Obviously, the economy does not need any more federal government aid. As the editors of *The Wall Street Journal* have said, Congress should just leave the economy alone. But Congress is never-the-less working on a massive infrastructure bill that includes spending on far more than roads and bridges. That bill is still a work in progress. Hopefully, it will be narrowed down to what is actually needed.

I found that Andy Kessler writing for *The Wall Street Journal* hit the economic nail on the head:

“Washington today ignores that saving and investing must precede consumption. Reagan-era supply-side economics has been badmouthed for so long, and given monikers like voodoo and trickle-down, it has more or less been discarded. Why? Probably because it worked, taking power away from Keynesian big-government power mongers and their cheerleading economists. Let’s call it Produce First or, if you insist, Supply First.

Here's how capitalism works—pay attention if you took the social-justice version of Econ 101, SIPPC: Save. Invest. Produce. Profit. Consume. Save means postponing consumption, money and time. Only then can you invest, especially your human capital, in something productive. Usually this means doing more with less, being efficient and effective. This is when innovation happens.

Wealth comes only from productivity, not from giving money away. And despite the Federal Reserve’s printing, profit is the only way real money is created. There are no shortcuts. You can’t induce demand without supply. Didn’t the lockdowns prove that? Stimulus checks did little good given that there were few places to spend them until businesses were allowed to reopen. We’re now perversely sitting on almost $3 trillion in excess savings and even more in government debt. Yet the government stimulus mentality continues in Congress.”

I believe that too many of our politicians have a ‘let’s buy votes’ mentality. And that is as old as politics itself. Fortunately, our government has never gone so far as to shut down the wealth building process. Still, I find today’s socialist thinking to be frightening. Fortunately, so far, the situation remains very favorable for investors like us.

Iceland is a small but very interesting country. Physically it is the size of the state of Kentucky. It has its own language and its own currency. The cruise we are on will circumnavigate Iceland, allowing us to see the countryside and wildlife of this remarkable volcanic island.

I will have the next market review and update two weeks from today on August 25, 2021.

All the best,

John Dessauer