

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday August 25, 2021

We had a wonderful cruise around Iceland on Crystal Cruises new ship, the Endeavor. However, we also learned that traveling outside the United States is a big gamble. The Endeavor sailed a series of cruises around Iceland. On the cruise before ours, four people, two couples, tested positive for Covid in Iceland. Every passenger had to be tested before boarding the ship. Fortunately, everyone on our cruise tested negative. But the four on the previous cruise could not board the ship and could not go home. You have to have negative Covid test in order to fly to the United States. The poor four folks had to stay in Reykjavik at a Red Cross sponsored hotel for two weeks at their expense. And, they did not get a refund for the cruise. I don't know the details but obviously they suffered a large financial loss. I asked if they might have gotten a false positive. They were tested twice to be sure. How can you be negative in the United States and positive a few days later in Iceland? No one knows the answer to that. We will travel again later this year and take the gamble. At some point the United States should drop the testing requirement for vaccinated Americans. That would substantially reduce the traveling gamble.

The internet was slow at times. We have seen that on previous cruises to the Arctic and seen it in Antarctica as well. At the poles the satellite that cruise ships use to get the internet is in an awkward position. But, I was able to follow the news and markets all through the cruise. The political news was and still is bizarre. The governor of New York resigned! The southern border is completely broken with thousands of illegal

immigrants pouring in. And now we have to watch the Afghanistan disaster. Fortunately, corporate profits keep coming in better than expected and interest rates have only edged up. This has provided fundamental support for stocks.

No wonder Democrats in Washington want to stop competition among the states. A wide economic gap has opened up between states run by Democrats and states run by Republicans. The national unemployment rate fell to 5.4% in July. But in Nevada the unemployment rate was 7.7%, in California 7.6%, New Mexico 7.6%, New York 7.6%, Connecticut 7.3%, New Jersey 7.3% and Illinois 7.1%. All have Democrat governors.

These high unemployment rates are in sharp contrast with Nebraska 2.3%, Utah 2.6%, and South Dakota 2.9%, where unemployment is back down to pre-pandemic levels. And unemployment rates in New Hampshire 2.9%, Idaho 3.0%, Alabama 3.2%, Oklahoma 3.5%, Georgia 3.7% and Indiana 4.1% aren't far off from pre-pandemic levels. All of these low unemployment states have Republican governors.

The differences are all about policies. States with Republican governors stopped the \$300 unemployment bonus in June or July and they did not impose excessive lockdowns during the pandemic peak. In addition, the Republican run states tend to have lower taxes and better overall state finances. The recent census showed that people are moving out of high tax states. And businesses also are reacting to the differing state policies. The better financed lower tax states are enjoying an inflow of businesses and new jobs. The answer among Democrats should be to change policies and cut taxes. For reasons known only to politicians they are not doing that. Instead, they turn to Democrats in Washington to adopt rules and regulations that will stop the Republicans from cutting

taxes and encouraging businesses. The United States is a Republic and states are free to impose taxes and regulations as they see fit. Hopefully, the anti-competition Democrats will be stopped by the constitution and the courts.

As if the Covid-19 virus by itself was not enough we now face a delta variant that is even more contagious. The vaccines are effective against the variant but are not 100%. Some vaccinated individuals have contracted the delta variant. This has raised worries that we might face a new pandemic wave, forcing the reopening of the economy to be delayed. James Bullard, president of the St. Louis Federal Reserve Bank says “The economy has clearly adapted to the pandemic situation. Businesses have found ways to produce their products and services and households have found ways to continue consumption. I don’t see the delta variant stopping that process.”

He added: “We’ve made a lot of progress. Every indication is that labor markets are about as tight as they ever get. We should get going on the taper.” The taper refers to the Federal Reserve’s monthly bond buying program. Some Fed members, such as Bullard, think the Fed should start cutting back on the bond buying. Others, including Fed chair Powell think they should wait a while to be sure the recovery is solid.

There has been some recent news that suggests the reluctant taperers might be right. For example, retail sales fell 1.1% in July compared with June. And U.S. homebuilding fell more than expected in July. Rising home prices offset the benefit from low mortgage rates. Home affordability is softening. Because there is so much uncertainty, I expect the Fed to wait and keep buying bonds at \$120 billion a month until it becomes clear that tapering will not dampen the recovery.

James Bullard thinks we will see the first interest rate hike in the fourth quarter of this year. He doesn't have a lot of company among Fed members and I think rates will not be going up until later in 2022.

It is important to distinguish Federal Reserve tapering from outright selling of bonds. Tapering is cutting back on the extraordinary stimulus called quantitative easing. Selling bonds would have a much more severe impact on financial markets and the economy. There is no talk at the Fed about selling bonds. Yes, at some point the Fed will have to reduce its balance sheet. But that can be done by simply letting bonds mature. And that is not likely to start until the economy has fully recovered and is on a sustainable growth path.

I will have the next market review and update one week from today on September 1, 2021.

All the best,

John Dessauer

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