John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday September 4, 2019

First, I want to tell you about a wonderful encounter with nature. We have seen lots of whales over the last few years, including killer whales. But until two days ago we had never seen a killer whale breach. On Wednesday a killer whale breached right in front of our sightseeing boat and Marilynn got the picture, actually two pictures. They are prize winners. Then yesterday we went whale watching and came across several killer whales and one decided to breach. This time the whale was a hundred yards away, so it was my shot. The whale breached three times and I took nine photos. Killer whales in the Juneau Alaska area are doing well because the salmon are plentiful. In Puget Sound, near Seattle Washington they are not so fortunate and their numbers are declining. No one knows why the salmon runs are declining in Puget Sound and still bountiful in Alaska. I hope they find an explanation and can make changes to benefit the salmon and all the creatures that depend on them.

If you do Facebook you can go to Marilynn Dessauer's page and see the killer whale photos.

On August 28 I read an editorial in *The Wall Street Journal* that scared me. It should be clear that every nation's central bank needs to stay out of politics and be independent. History tells us that when central banks become political agencies the results are bad for the respective economies. Printing too much money has often resulted in galloping inflation, followed by nasty recessions. Over the last four decades our Federal Reserve has been independent and our economy has benefited.

William Dudley was formerly vice chairman of the Federal Reserve during the Obama administration. He recently wrote: “Officials could state explicitly that the central bank won’t bail out an administration that keeps making bad choices on trade policy, making it abundantly clear that Trump will own the consequences of his actions.”

That is a scary statement because it proposes that our central bank, the Federal Reserve, use its powers for political purposes. It gets worse.

“There’s even an argument that the election itself falls within the Fed’s purview. After all, Trump’s reelection arguably presents a threat to the U.S. and global economy, to the Fed’s independence and its ability to achieve its employment and inflation objectives. If the goal of monetary policy is to achieve the best long-term economic outcome, then Fed officials should consider how their decisions will affect the political outcome in 2020.”

Here is how the editors of *The Wall Street Journal* reacted to Mr. Dudley’s scary point of view:

“Wow. Talk about stripping he veil. These columns wonder if Mr. Dudley was politically motivated while he was at the Fed, favoring bond buying to finance Barak Obama’s deficit spending, urging the Fed to intervene in markets to boost housing and keeping interest rates low for as long as possible. And now here Mr. Dudley is confirming that he views the Fed as an agent of the Democratic Party.”

It is shocking that a person of Dudley’s experience would fall prey to the anti-Trump hysteria. Fortunately, Mr. Dudley is back in the private sector and no longer at the Fed. Perhaps he is angling for a return to the Fed in the event that Trump is not reelected. If so, then he is presenting a reason to support the opposite - a reelection of Trump to block Dudley's frightening proposals. Our economy needs a central bank that is focused on the economy, no matter who is in the White House.

On a more positive note, the Commerce Department has released data on the second quarter performance of the U.S. economy. Yes, the now ten-year old expansion has slowed a bit, but the U.S. still registered second quarter growth at an annual rate of 2%. While that is down from the first quarter's 3.1% pace and the 2.9% rate for all of 2018, it is still positive and relatively strong. The driving forces behind the second quarter growth were consumer spending and corporate profits.

Consumer spending rose at a 4.7% annual rate, the best since late 2014. And that was better than the 4.3% reported earlier. Consumer spending accounts for roughly two-thirds of the U.S. GDP. Recent data indicate that consumer spending continues at a robust pace.

The Commerce Department also keeps track of corporate profits. But they look at profits from every company, public and private, that files U.S. tax returns. This is the broadest measure of U.S. corporate profits and it rose 4.8% from the first quarter and 1.7% from last year's second quarter.

These numbers, in the face of trade tensions and uncertainty about growth in Europe, are remarkable. Weakness in trade and inventory investment weighed heavily on the second quarter. Still, we have now enjoyed ten years of economic growth and there is no sign of the end. On the contrary - if President Trump obtains more favorable trading terms with China and other nations, U.S. growth could very well improve.

The Commerce Department's broad measure of corporate profits is a long-term positive for the stock market. Profits from publicly held companies tend to follow the underlying trend in the Commerce Department's corporate profit measure. Pessimists who have been predicting an earnings recession for the companies in the S&P 500 are likely to be disappointed. The rate of growth in S&P 500 profits may well slow, but profits are likely to keep growing. Stocks were strong last week. Investors cheered positive news on trade talks between the U.S. and China. The Commerce Department's corporate profits report is more goods news and should keep investor sentiment in positive territory.

I will have the next market review and update for you one week from today on Wednesday, September 11, 2019.

All the best,

John Dessauer