John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday September 8, 2021

Welcome to September, the only calendar month with a negative return on the Dow Jones Industrial Average over the last 100 years. Traders call this the "September effect" and argue that we are headed for a correction. Morgan Stanley in their September issue of "On the Markets" has this to say about the stock market: "In short, this fall we still expect our midcycle transition to end with a 10% or greater S&P 500 correction." They don't pin that forecast down to September. But September is the start of Fall. Mitch at Zacks Investment Management has a different take on the potential for a 10% correction:

"I have also seen folks argue recently that the stock market has not corrected in several months, and must therefore be due for a pullback this fall. I do not disagree that the stock market is due for a correction in the realm of -10% to -20%, but I do disagree with anyone who seems to know when it will occur."

The correction could come this fall or not until next spring. No one knows in advance, not even the seasoned experts at Morgan Stanley.

What we do know is that the jobs report for August was a huge disappointment. Economists expected 740,000 new jobs last month. The actual gain was 235,000. The good news was that the unemployment rate ticked down to 5.2% from 5.4% in July. And the new jobs number for July was revised upward to 1.05 million. What happened? Leisure and hospitality created a surge in new jobs through July and then flattened out in August. It was unrealistic for economists to think the July surge would keep rolling along. The U.S. labor market is challenging. Businesses are having trouble finding new employees. And the delta variant is causing some people to stay home. The economy is still growing and there are plenty of job openings. Odds are that the August jobs disappointment will give the Fed reason to delay tapering until later this year or even until next year. The Fed wants the recovery to stay on track.

Not that many months ago there was widespread fear that tax revenue at the states would collapse because of the pandemic and lockdowns. In response Congress borrowed heavily and gave the cash to the states. But state tax revenues did not collapse. And now because of the threat of new higher taxes at the federal level, the tax-free municipal bond market is booming. Investors have poured a record $69 billion into municipal-bond mutual and exchange traded funds in the first seven months of this year.

Here is what the editors of *The Wall Street Journal* have to say about the flood of cash going to the states: “Try to wrap your head around this: The U.S. government has been issuing hundreds of billions in debt to help states and localities that are rolling in record tax revenue and can borrow at negative real rates. Now Congress plans to borrow even more for public works that many states could finance more cheaply. Only in Washington does this make any sense.”

At the end of August Bernie Sanders held a rally to sell his $3.5 trillion budget proposal, and he also had kind words to say about President Biden's $1 trillion infrastructure plan. As he always does, he ranted and raved about America's "billionaire class," which he claims does not pay their fair share in taxes.

Sanders told the crowd at his rally: "We are living in a nation where the people at the top are doing phenomenally well. They have so much money, they don't even know what to do with it, and now some of them are off in outer space spending their billions. Well, we think maybe it might be a good idea, before you go off to outer space, to start paying attention to the struggles of working families on the ground."

The trouble with Sanders' approach is that there are not enough billionaires in the United States. According to the Forbes 2021 billionaire list there are 724 billionaires in the United States. Their collective net worth is $4.4 trillion, perhaps a bit more thanks to the strong stock market.

If Bernie Sanders confiscated every asset of every American billionaire, it still would not cover the cost of Democrats' next two legislative plans, never mind the $4 trillion annual cost to finance government regular operations.

I am amazed that the voters in Vermont can't understand the basic math and keep electing Sanders to the U.S. Senate. They also should know that socialism has never worked anywhere. The latest catastrophe is Venezuela. And once you tear down capitalism it becomes almost impossible to repair the damage. The last time we were in Argentina a young man drove us from the airport to the hotel. He was from Venezuela. He said he had to leave because even if he had a job, he could not afford an apartment.

“Bernie’s shtick is always “us versus them.” The reality is that there aren’t enough of “them,” which is why the tax man will be coming back sooner rather than later for the rest of “us.” (*The Wall Street Journal,* 8/31)

Fed chair Powell spoke at the recent Jackson Hole monetary conference. His message was that the Federal Reserve will remain super-accommodative, even as nominal GDP could grow 10% this year. Powell clearly wants to be renominated by President Biden for a second term. Staying accommodative certainly won’t hurt his chances for a second term. It is also good news for the economy, jobs, and the stock market.

Yes, there will be a “correction”, but it will be just that and not the beginning of a new downtrend.

I will have the next market review and update one week from today on September 15, 2021.

All the best,

John Dessauer