John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday September 14, 2022

We are still on the Silver Wind cruising the Northwest Passage. We have seen a lot of ice, but so far have not needed the help of an Icebreaker. There is a German cruise ship that we have seen from time to time. That ship did get caught in some ice and needed the help of an Icebreaker.

We have a Canadian Ice Pilot on board. He gave a lecture explaining what Canada does to monitor the ice so ships can use the Northwest Passage. Their system is quite remarkable. It raises the question, why does the Canadian government spend so much money monitoring the ice and subsidizing the settlements here in the Northwest Territories? We have visited several local settlements, each with 1,300-1,500 residents. There is little up here to support those settlements. The populations are mostly Inuits, who don't like being called Eskimos. Over decades they have managed to survive in this hostile environment. But today they need oil to generate electricity and heat their homes. In one settlement I saw a few large solar panels and four or five wind turbines. But for the most part they need expensive oil. The Canadian government provides the oil. Why? Because if they didn't the Russians would claim this region as their own. I was told that the Russian have made several attempts at taking over but failed because Canada maintains settlements here.

Down south in the USA there is some good news about inflation. Gasoline prices are coming down. In early June they were $5.02 a gallon - now they are on average

$3.76. While that is still higher than the $3.19 a year ago, it is a move in the right direction.

Speaking at the Cato Institute last week, Fed chair Powell reiterated that the Fed is determined to lower inflation. Referring to the Fed’s actions to bring high inflation down in the 1980s, he said: “We think we can avoid the very high social costs that Paul Volker and the Fed had to bring into play to get inflation back down.”

The Fed is expected to raise interest rates by 0.75% at its meeting next week. That will bring short-term interest rates up to just over 3%. That would be the third straight monthly 0.75% interest rate hike, the most aggressive series of rate hikes since Paul Volker’s time. How many more rate hikes will it take to bring inflation down? As we can see with gas prices falling and housing cooling off, Powell may be right. It is the rate of change rather than the level of interest rates that slows inflation. And raising rates to more than 3% from zero a few months ago is a huge rate of increase.

Verizon recently conducted a survey of small businesses. The results show that Senator Elizabeth Warren really is out of touch with reality. High inflation destroys businesses and jobs. 82% of the responders to the survey said that they were very worried about their finances because of high inflation. Inflation is pushing up costs and shrinking profit margins because customers cannot afford to pay higher prices for the goods and services. When interviewed, several business owners said they were on the verge of bankruptcy. The majority of businesses surveyed said they are not better off than a year ago. When businesses fail and close their doors, they are gone and so are the jobs they provided. Senator Warren is scary when she says we are better off with high inflation rather than pay the costs of bringing inflation down. We need political leaders who understand economics or at least know how businesses survive. Unfortunately, that is not what we have today.

Another scary political leader is Janet Yellen, Secretary of the Treasury. She has been trying to support the President and other Democrats by talking about the wonderful successes under the Biden policies. She is scary enough to have aroused the editors of *The Wall Street Journal*:

"Janet Yellen is a distinguished economist, but her tenure as Treasury Secretary hasn't enhanced her reputation. Her lack of influence with President Biden has meant she couldn't stop bad policy (student-loan cancellation), and now the White House is rolling her out in election season to portray the U.S. economy as a Valhalla of growth, fairness and optimism. It's not believable even if you drive a Tesla and live in Montecito.

We lack the space to cover all of Ms. Yellen's whoppers, but a couple of them give you a flavor of her fantasy economy. Start with inflation, which she dismissed in three quick sentences, including a claim that "the causes of inflation are largely global."

Well, sure, Russia's Ukraine invasion has contributed to higher energy prices. But U.S. inflation had already hit 7.9% on an annual basis before the invasion began in February. It was climbing fast in the autumn of 2021 when the Administration was still calling price increases "transitory."

U.S. inflation has been substantially home-grown. Trillions of dollars in federal spending hit an economy that was already recovering strongly from the pandemic with a tight labor market. This goosed demand while supply was constricted. The Federal

Reserve kept the money spigots open for too long, in part to finance the borrowing needed for all of the spending.

Even conventional Keynesians like Larry Summers concede the inflationary role of excessive spending, and a new study for the Brookings Institution by economists who concede they were wrong about inflation points to supply-demand factors. Ms. Yellen credits the $1.9 trillion in the March 2021 American Rescue Plan for saving the economy without mentioning that it was the gasoline that fueled inflation.

Ms. Yellen is also at pains to stress how much fairer the economy is since Mr. Biden took office. “Prior to the pandemic, higher inequality was accompanied by slower growth,” she says. The opposite is true. Before the pandemic, inequality was falling as wages rose faster for low-income workers than they did for the affluent amid healthy growth.

She fails to mention that the U.S. economy contracted by about 1% of GDP in the first six months of this year, even as real wages were falling. Real average hourly earnings declined 3%”.

She was far different when Fed Chair. I expected far more from her. I hoped she would oppose bad economic policies. She certainly does know bad from good economic policies. Her current support of bad economic policies is scary. Let’s hope the voters will reject the bad policies she now supports.

The internet is good when it is available, but still spotty. I will try to have the next market review and update for you one week from today on Wednesday, September 21, 2022.

All the best,

John Dessauer