John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday September 15, 2021

Marilynn and I are in New Orleans, which is still recovering from hurricane Ida. We will be sailing from here to Memphis this week. For travel reasons I will not be posting a market review and update on September 22. But I will be following the economic news and financial markets. I will post another market review and update on September 29.

Here in New Orleans many restaurants are still closed. And you need to have proof of vaccination to go to those that are open. New Orleans also requires masks in every hotel, restaurant, or place where people gather. Those who oppose masks and vaccination are really limited in what they can do in this city. In my view New Orleans has it right. Covid is so nasty that we should do everything we can to prevent getting it or passing it on to others.

Executives at Kroeger, one of the nation's largest grocery chains, are warning that grocery prices are likely to keep rising. While they say grocery prices could rise 2%-3% this year, their warning feeds the fear that we might be in for a nasty rise in inflation. And that would ignite a rise in interest rates. Making inflation fears worse, at the end of July U.S. producer prices were up 8.3% over July 2020. Jerome Powell, chair of the Federal Reserve says that while this is painful for consumers, it won't last. Prices, he says, will likely cool off as supply chain issues and shortages are resolved.

The European Central Bank isn’t so sure. Europe’s economies are experiencing robust growth and a burst of inflation. The U.S. Fed is still talking about tapering its bond buying program later this year. The European central bank has announced a modest cut in their bond buying program. So Europe is ready to taper, while our Fed is watching and waiting.

In my view the inflation picture here is not as bad as the 8.3% annual rise implies. The month-over-month rise in August was 0.7%. That was down from July’s 1.0%. Prices are up year-over-year because they were depressed during the pandemic lockdowns. So there already is some evidence that Fed Chair Powell is right and inflation rates will calm down in coming months. Look for the month-over-month inflation rate to continue declining. And do not forget about the velocity of money. It has stopped falling but remains on the floor. Two things have to happen before we need to worry about inflation and interest rates. The velocity of money needs to increase and there needs to be a credit bubble. Neither is likely any time soon.

It is almost unbelievable but for the fifth straight month U.S. job openings hit record levels in July. There were 10.9 million job openings in July and the June number was revised up by 112,000. In July there were 1.3 job openings for every person counted as unemployed. That too is a record. Why are businesses still having such a hard time getting people to come back to work? That is not an easy question to answer. No doubt government handouts act as a disincentive to work. The $300 monthly bonus will soon expire. But the childcare tax credit and an increase in food stamps will continue. On the other hand, wages have been rising but so has inflation. The net is that real wages have been declining.

Economists have now had a good look at the disappointing new jobs number in August. Remember, economists were expecting more than 700,000 new jobs that month, but the actual number was just 235,000. It turns out that the Delta variant was the main factor behind the disappointing new jobs number. And the Delta variant has slowed the reopening process. The bottom line on jobs is that openings are likely to remain at record levels for the next few months.

Congressional Democrats are feeling the pressure from critics of their massive spending proposals. As I wrote last week, there aren't enough American billionaires to finance the $3.5 trillion budget proposal and the $4 trillion annual operating costs for the federal government. So Democrats have targeted stock buy back plans. They have become common since a tax rule change in 1982. In the first quarter of this year the companies in the S&P 500 spent $178 billion on stock buy backs. Democrats want to impose an excise tax on companies that buy back a "significant" number of shares.

Spencer Jakab, writing for *The Wall Street Journal* says: "Stock buybacks are a sorely misunderstood punching bag." Stock buybacks decrease the number of shares outstanding and that raises the per-share profits on the remaining shares. That is a good thing for shareholders. The only criticism that makes sense is that corporate CEOs are terrible at stock market timing. They spent twice as much on stock buybacks during the first quarter of 2020 when stocks were at record highs than they did in the second quarter when stocks were down and on sale. Politicians try to make stock buybacks look bad by saying the money would be better spent on investment to expand businesses and create more jobs. These same politicians never had the responsibility of running a major business. They are not in a position to criticize corporate decisions on how best to use available cash. Targeting stock buybacks is a sure sign that Democrats are desperate. They know that their spending plans are too expensive. They know that the spending plans would end up raising taxes on every taxpayer, not just the rich. Hopefully the stock buybacks will continue, unimpeded by new taxes.

There was a report a few days ago that we have now gone 369 days without a 10% stock market correction. That is unusual. But these are unusual times with the pandemic, lock downs, a reopening, and a robust recovery. Will there be a stock market correction? Yes, but we don't know when. Meanwhile our best strategy is to hold on to our stock positions.

I will have the next market review and update two weeks from today on September 29, 2021.

All the best,

John Dessauer