John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday September 25, 2019

The U.S. Federal Reserve is arguably the most powerful and influential financial organization on the planet. That is not only because the U.S. is the largest economy, but also because there are many countries that, in one way or another, link their currency to the U.S. dollar. The dollar link means that all those other countries are impacted by changes in U.S. monetary policy. No wonder investors, politicians and business managers around the world pay close attention to what our Fed says and does.

Last Wednesday, for the second time this year, our Fed cut interest rates by a quarter of one percent. The new federal funds target is 1.75%-2%. Generally, an interest rate cut is welcomed by all, except perhaps individuals with too much cash. This time the follow on to the rate cut is mostly uncertainty about the future for the U.S. economy and monetary policy.

There were three out of ten voting Fed members who dissented. That is the greatest number of no votes at any meeting since 2016. And, the three voiced decidedly differing opinions and outlooks.

James Bullard, president of the St. Louis Federal Reserve Bank wanted a more aggressive 0.50% rate cut because of signs the U.S. economy is slowing down. In his statement explaining is no vote he said: "Trade policy uncertainty remains elevated. U.S. manufacturing already appears in recession and many estimates of recession probabilities have risen from low to moderate levels."

He added that a half-point rate cut would have provided insurance against slow economic growth and help move inflation back up to 2%.

Eric Rosengren, president of the Boston Federal Reserve Bank wanted rates to be left alone - no rate cut. In explaining his view, he wrote: “Additional stimulus is not needed for an economy where labor markets are already tight. Current Fed policy is now actively nudging people to borrow and risks further inflating the prices of risky assets and encouraging households and firms to take on too much leverage.” In other words, he is worried that cutting interest rates might lead to a credit bubble, rather than maintaining moderate overall growth. Credit bubbles are bad news, they lead to higher inflation and eventually higher interest rates and recession. His concern is understandable, but at this point more theory than reality. Interest rates have been extremely low for a very long time and there are no signs of a credit bubble. Businesses have taken advantage of low interest rates and so have home buyers. But neither have overindulged in cheap credit. That is probably because of a combination of tough bank credit standards and worries about the next recession. No one wants to have too much debt when the next recession arrives.

The third no vote was cast by Esther George, president of the Kansas City Federal Reserve Bank who, like Eric Rosengren, thought a rate cut was unnecessary and risky.

Keep in mind that each Fed Bank President has a staff of the best and brightest who collect and analyze data from economies around the world. When there is disagreement it has to be because the data are not crystal clear. That is why there is such a wide difference of opinion between James Bullard, Eric Rosengren, Esther George and the other seven voting Fed members. Since they all are looking at the same data you would expect results that were closer together. The differing views make it difficult for business managers and individuals to choose the best course for deploying their

respective resources. They are left with two important questions: what is really going on in the economy and what will the Fed do next?

Last week the Fed issued officials' projections for future Fed policy moves. There are 17 officials who participate, and the results intensify the uncertainty. Seven officials predict one more rate cut this year. Five see no change. And the remaining five see a rate increase by the end of this year.

In other words, the best and brightest economic minds are sharply divided about the current and likely future for the economy. One group thinks the economy is doing just fine. A second group thinks the economy needs help and the third group thinks the economy is about to overheat and needs restraint.

Fed Vice Chairman Richard Clarida defended the interest rate cut and added comments intended to explain the differing votes. He said that the U.S. economy remains in a good place but the global picture is worsening. "We clearly have a slowing global economy that is broader than the trade tensions between the U.S. and China. There is a slowdown in global capital spending and global manufacturing and also some pretty important disinflationary forces."

The bottom line is that the U.S. economy is doing quite well. U.S. industrial production was up 0.6% in August. U. S. housing starts jumped 12.3% in August. The Conference Board's U.S. leading economic index was unchanged in August after a big jump in July.

Outside the U.S. there are some serious issues. Brexit is threatening to push the UK into recession. And outside economists say the Chinese economy is actually growing

at a slower pace than Beijing reports. Instead of 6+% they say the reality is more like 3%-4%.

The question that divides the Fed members is how much of the global slowing will impact the U.S. The answer is not an easy one. Consumers account for almost 70% of our economy. Everyone who wants a job has a job. Wages are rising. With American consumers in a strong position we may keep on growing even as other economies slow.

Stocks continue to do well. Although they have been rising or falling as news on the U.S.-China trade talks varied. Clearly settling the trade dispute with China would be a positive for the U.S. economy and stock market and the global economy.

Our best strategy continues to be holding on to our stock positions.

I will have the next market review and update for you one week from today on Wednesday, October 2, 2019.

All the best,

John Dessauer