John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 5, 2022

As you saw from the news, Naples was badly damaged by hurricane Ian. We are very fortunate. In spite of wind gusts over 100 mph, our house was not damaged, and we had electricity back in less than 24 hours. While it is on and off, we also have internet. There are parts of Naples where the damage to power lines is so bad that they cannot be repaired, they must be rebuilt. Those poor folks will not have power back for months.

Wall Street was not bothered by the hurricane, but investors clearly are worried about how aggressive the Fed will have to be to knock back the rate of inflation. The Fed's preferred measure of inflation is the personal-consumption expenditure price index or PCE. In August the PCE was up 6.2% from a year earlier. That was down from 6.4% in July and 7% in June. That would have been grounds for celebration except that service prices rose a sharp 0.6% in August. And the so-called core PCE index, which excludes volatile food and energy prices, rose 4.9% in August from a year earlier, which was up from 4.7% in July.

Financial markets did not like that news. In reaction the Dow Jones Industrial Average fell 500 points to 28726.

"The market is delivering a harsh verdict on the costs of inflation, though not as harsh as the harm inflation is doing to family budgets. The spending decisions of the Biden Administration and Democratic Congress, combined with a Fed that was too easy for too long, have done great economic damage, and the sad truth is that the reckoning was always going to be painful." (*The Wall Street Journal* 10/01/2022)

First the Biden Administration ran billion-dollar deficits that added significantly to our national debt. Then they ignited inflation, which rose to 7% before the war in Ukraine. That forced the Fed to raise interest rates to cool off inflation. Now the interest on the national debt has risen to a threatening level. According to the Monthly Treasury Statement the gross interest on the national debt hit $88 billion in August. That is $1.06 trillion a year. These August figures do not yet take into account the coming Fed interest rate hikes. As the Fed keeps battling inflation the gross interest on the national debt will likely keep rising to well over $1 trillion a year and surpass Social Security as the largest item in the federal budget.

Economists call this exploding interest on a national debt a "doom loop"- the vicious circle in which the government's borrowing to pay interest generates yet more interest and yet more borrowing.

In the past 2 ½ years the federal government issued $7 trillion of new debt, which took publicly held national debt to its present $24 trillion level, up from $17 trillion in February 2020.

One school of economic thought says that we are OK as long as the economy is growing faster than the national debt. Unfortunately, that is not the case. The rate of economic growth is slowing as the Fed fights inflation. The rate of growth of the national debt is rising.

"Inflation and interest rates are inflicting painful damage today. Yet seemingly without notice the national debt is working like a cancer sapping the nation's long-term vitality. Whether we reach the "doom loop," or just become mired in stagflation, unchecked government spending and mounting national debt will drain all growth potential from the national economy sooner rather than later," (*The Wall Street Journal*, 9-29)

Where are you, Janet Yellen? As Secretary of the Treasury, you must see these terrible numbers. Why aren't you sounding the alarm instead of promoting the Biden spending plans?

I see yet another concern. The United States is not the only country faced with borrowing to fend off a pandemic caused recession. There are limits to available credit in the global economy. What if the massive U.S. borrowing crowds out other governments? What if Janet Yellen and the U.S. Treasury have trouble finding enough borrowers?

We definitely need a change in government policies. Hopefully that will happen next month.

As if we needed more to worry about the editors of the *Wall Street Journal* opened October with an editorial titled: "Covid Fraud Hits $45.6 Billion, As the theft mounts, Democrats in Congress refuse to do anything about it."

It's almost unbelievable. Why would any politician refuse to stop a massive fraud that is costing taxpayers billions of dollars? The $45.6 billion is three times the amount U.S. has spent to help Ukraine defend itself against Russia's war machine.

"House Democrats continue to cover for the Labor Department's failures. Republicans on the Ways and Means Committee this summer introduced antifraud legislation to track the flow of funds and fix the practices leaching the system. Democrats haven't moved on it, and last week they blocked a GOP "resolution of inquiry" that would have forced the Administration to provide more specific information about the unemployment fraud.

Republicans estimate—based on Labor Department information—that as much as $163 billion of the $873 billion spent in pandemic-related unemployment benefits since March 2020 may be in error from improper payments or fraud." (*The Wall Street Journal, 10-01*)

I can only guess as to why the Democrats are trying to cover up the fraud. They must be afraid that if voters find out the details, they might vote Republican.

Meanwhile we are now at the start of third quarter earnings season. The rate of growth of corporate profits is expected to slow down. I have seen estimates of 2% year over year growth. That would be good news and provide basic support for stocks. The Fed will eventually push back inflation. That will set the stage for another growth cycle. The best strategy is still to hold on to our stock portfolios.

I will have the next market review and update for you one week from today on Wednesday, October 12, 2022.

All the best,

John Dessauer