John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 6, 2021

The Comptroller of the Currency is the top regulator of 1,200 financial institutions, mainly banks. It is a job and a title that does not get much media attention. So, many Americans probably have never heard about the Comptroller of the Currency. Never-the-less, it was a total shock when President Biden nominated Saule Omarova to be the next Comptroller of the Currency. He did that over the strong objection of Treasury Secretary Janet Yellen, who would be her boss. Omarova graduated from Moscow State University in 1989 on the Lenin Personal Academic Scholarship. She still believes the Soviet economic system was superior, and that U.S. banking should be remade in the Soviet's image.

In a recent paper, "The People's Ledger," she proposed that the Federal Reserve take over consumer bank deposits, "effectively 'end banking,' as we know it," and become "the ultimate public platform for generating, modulating and allocating financial resources in a modern economy."

In other words, she would end competition among banks, substituting a single government entity. The editors of *The Wall Street Journal* call this nomination "bizarre" and add "Ms. Omarova is the wrong nominee for the wrong industry in the wrong country in the wrong century." I agree and further wonder why the Cornell Law School has her as a professor.

Why has President Biden made such a controversial nomination? One theory is that he intends to reappoint Jerome Powell as chair of the Federal Reserve and has done this to appease the progressives in the Democratic party. Imagine next year's mid-terms and any Democrat that votes in favor of Ms. Omarova's nomination. Republicans would have a field day labeling those supporters as political radicals out to destroy our economy. Hopefully this nomination will fail.

Meanwhile the economic recovery, with its mixed signals on inflation, rolls on. Consumer spending rose 0.8% in August, up from 0.1% in July and better than the 0.6% expected. Consumer prices rose 0.4% in August from July, the same as the previous month. The Fed's favorite inflation measure - the PCE - was up 3.6% year over year in August. These inflation measures are running at the highest level in thirty years. Fed chair Powell said last week that the supply side disruptions that have been pushing prices up are lasting longer than expected. The problems include ports that are jammed up on the West Coast and factory shutdowns in Asia amid COVID spikes.

Still, Powell said he expected supply chain problems to start improving next year, which would start to push inflation lower in the first half of 2022.

There is a positive side to the inflation story. Justin Lahart, writing for *The Wall Street Journal* says: "Cost pressures aren't yet crimping corporate profits." He concludes, "Earnings in the third quarter are likely to be buoyant despite rising costs." Yes costs, especially wages, are rising. But as a UBS measure shows, the prices that companies in the S&P 500 are charging are rising faster than wages. Of course, not every business has the ability to offset rising labor costs with product price increases. But there always are issues from one company to another. Competition and innovation make life interesting for corporate executives.

Argus Research sees full year GDP growth at 5.7%. For next year they expect a slower pace of 3.6%, still solid growth. On the earnings front we now have second quarter earnings for the S&P 500 and they are up 80% year-over-year. The gloom and doom that came with the pandemic and lockdowns has been replaced by an “I can’t believe it” attitude about the economy and the stock market. Which brings me back to politics: seeing the robust recovery from a truly awful economic threat, why would anyone want to tamper with our economy? Massive spending programs and dramatic tax increases seem to me to be out of touch with reality. Our federal government can keep spending growing, but only if that rate of growth is slower than the growth rate for the overall economy. Thankfully there are Democrats who see the proposals for massive spending as threats to the economy and their control of the Congress. Karl Rove points out that the last time Democrats pushed through massive spending plans they suffered heavy losses in the following elections.

Looking ahead, Argus Research sees earnings per share for the S&P 500 companies growing in the low-to-mid 20% range for the second half of this year. Argus has raised its S&P 500 earnings target to $191 for this year and $214 for next. These estimates are up from previous ones at $182 for this year and $205 for 2022. To me that is significant. It says that earnings expectations are rising and may keep rising. Rising earnings reduces the risk of an overvalued stock market.

Mark Hulbert recently wrote an article for *The Wall Street Journal*, titled "Bull Markets Usually Don't End With a Bang."

"Unlike bear-market bottoms, which tend to be short and violent, bull-market tops in the stock market tend to occur gradually over time, as first one sector or investment style hits its peak and turns down and then another.

Of course, there is no way of knowing whether the current stock market-which pulled back brutally from record highs in late September, before Friday's rally to start October-has entered such an extended topping process."

Yes, some one of these days we will likely see a 10%+ correction. And someday this bull market will end. But timing that is impossible.

"Think back to October 2007. Even though the S&P 500 was about to embark on a 16-month decline of 57%, virtually none of the approximately 100 stock-market timers that my firm monitors were envisioning anything of the sort.

This failure was true even for those market timers with the best long-term records coming into that month. One of the top long-term performers at the time was telling clients that a bear market was such a remote possibility that it wasn't even on his radar screen. Another moved from being fully invested to going 25% on margin-borrowing to invest even more in stocks-the day before the exact day of the S&P 500's bull market high.

If these market professionals with good long-term records weren’t able to anticipate the beginning of one of the most serious bear markets in U. S. history, you’re kidding yourself if you think you can consistently do any better.” (Mark Hulbert)

I will have the next market review and update for you one week from today on Wednesday October 13, 2021

All the best,

John Dessauer