John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 7, 2020

Every three years the U.S. Federal Reserve publishes its Survey of Consumer Finances. The latest survey was published last week. It covers the first three years of the Trump Administration. It is remarkable and largely ignored by the media. The survey makes it very clear that whether you like Trump or not his policies have worked, meaning benefited all Americans and boosted the finances of minorities and low-income earners the most.

The Federal Reserve's survey provides a snapshot of American household debt, income and wealth across demographic groups. Contrary to some political claims, families at the top of the income and wealth distributions experienced very little, if any, growth in net worth between 2016 and 2019. That is in sharp contrast to the previous survey covering the last three years of the Obama administration, 2013-2016. During the Obama period families at the top of the income and wealth distributions experienced large gains. In other words, wealth inequality declined under the Trump policies. The rich stayed rich but the poor gained significantly. The Fed survey reported growing wealth among lower-income Americans. Net worth (assets minus debt) increased 32.5% among the lowest income quartile and 30.7% among the second lowest. In my view that is exactly what we should strive for. It is not helpful to punish the rich. It is very helpful to have the poor become richer.

I have written before about the recent Census Bureau's report on "Income and Poverty in the United States" for 2019. The 6.8% increase in median household income between 2018 and 2019 was the largest one-year increase income on record going back to

1967. It was also 45% more growth in a single year ($4,379) than Obama/Biden produced in their entire eight years in office ($3,021).

The media talk about how the Trump tax cuts benefited only the rich is also very wrong. In 2019 the poverty rate in the U.S. fell 1.3% to a 60 year low of 10.5%. This was the largest reduction in poverty in over 50 years. It lifted over 4.1 million Americans out of poverty, the largest yearly decrease since 1966. By comparison, the number of Americans living in poverty increased by 787,000 during the Obama/Biden years.

The *Wall Street Journal* editors are right when they say: “But surely it’s important that before the pandemic less affluent Americans were sharing more in the country’s growing wealth. That’s the economy Americans should want to return to, not the slow growth and widening wealth gap of the Obama years.”

I wish our President a full and speedy recovery and hope his economic policies will prevail in the post-pandemic economy.

The stock market has been volatile. In fact, as Morgan Stanley says, we have had the first meaningful correction in the new bull market. The S&P 500 fell 10% from its recent high and the tech heavy Nasdaq fell even more, down 14% at one point. Morgan Stanley sees four reasons for the correction.

“First, fiscal stimulus is fading and, with Congress embroiled in election-year politics and a tussle over when to fill the Supreme Court vacancy, the odds of the CARES 2.0 legislation passing before the election Have dropped significantly. Second is COVID-19 with a looming potential second wave and risk of further lockdowns. Third, real long-term interest rates appear to have bottomed as the Federal Reserve formally told us asset purchases won’t increase from here. Finally, we have the election itself and the uncertainty surrounding both the process and the outcome.

Looking beyond the near term, three of the aforementioned risks are likely to be resolved positively by the end of the year or shortly thereafter. More specifically, additional fiscal stimulus is likely as both parties want to spend more even if they can’t come to terms before the election process is completed. More market pressure could assist in accelerating that timeline. Meanwhile, progress on a COVID-19 vaccine and natural herd immunity via a second wave should become clearer and, eventually, we will have a conclusion to the election. The one risk we think will remain with us is that long-term interest rates are likely to rise further from here. That suggests valuations remain vulnerable for the most expensive growth stocks that have done so well in recent years.

The bottom line is that the recent correction was inevitable, as all bull markets need to consolidate. Trying to trade these corrections is difficult and the best approach is to ride it out given how early we are in this new cycle.”

Fortunately, the risk from rising long-term interest rates is moderate - if not low - because inflation remains low and the Fed is committed to keeping short term interest rates near zero for a long time. Morgan Stanley thinks the Fed funds rate will remain near zero until the first half of 2024. A near zero Fed funds rate will mean that long-term interest rates, even if they rise from here, will still be low by historical standards.

Stock prices, economic activity, inflation and interest rates are all connected like the strands of a spider’s web. My bottom line is that COVID-19 is the one major threat in the coming months. Cruise lines are preparing to take bold new steps to get sailing again even before there is a vaccine. They will sail with 80% or lower capacity, isolation areas on each ship, hand washing and mask wearing while sailing and strict boarding requirements. Other businesses such as bars, restaurants and theaters are likewise working hard to find ways of living with COVID-19 between now and when an effective vaccine is available. Some of these practices may work. And that will provide badly - needed information on how to deal with a severe medical threat. COVID-19 has changed the world. And some of the changes will be both permanent and beneficial.

I will have the next market review and update one week from today on Wednesday October 14, 2020.

All the best,

John Dessauer