John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 16, 2019

The following is from Mitch at Zacks Investment Management:

"The U.S. and global equity markets got shaken up a bit last week, with weak manufacturing numbers in the U.S. and globally indicating pronounced slowdowns in factory activity, employment, and trade. The manufacturing sector is very globally interconnected, with very few sophisticated products being assembled in a single country, so the synchronized slowdown comes as no surprise. There are cyclical forces at work here, in my view, but the adverse impact of the trade war is also starting to show up in the numbers.

With the impeachment inquiry also flooding the airwaves last week, it may feel to some readers as though we're due for a reckoning. I would tend to agree that in the short term, all the noise is likely to contribute to higher levels of volatility, full stop. But does that mean it's time to shift portfolios or turn fully defensive? I don't think so.

If you ignore the noise and consider the broad range of fundamentals, the picture for markets and the U.S. economy does not look as bleak."

Mitch is not alone. Jeffrey Saut is a market strategist for Capital Wealth. He is a nearly 50-year stock market veteran. He has a knack for timing market pullbacks. His record includes several remarkable market calls. In an interview with MarketWatch, he insists we are in a secular bull market and the stock rally is far from over.

"The point is, a secular bull markets last 15-plus years. You can run how long this thing should last, either from October of 2008 or March 2009 or April of 2013. The point

is there ought to be years left in this thing and no one believes it." Saut then added: "Anyone not retiring in at least the next three years stands to lose if they stop believing in this bull market. Investors are "scared to death," convinced by the media that a recession is coming and putting too much faith in soft data such as economic surveys. If we're going into a recession, why are the most economically sensitive stocks, mainly the semiconductor equipment stocks, holding up so much better than the S&P 500?"

When it comes to valuation Saut said, "Given the current interest rate environment, my indicators point to a multiple of 19 times forward earnings."

Argus Research has a $185 estimate for the S&P 500 next year. The Saut 19 multiple points to an S&P at 3,515 next year or 18% better than last Friday's close.

The interest rate environment is likely to become more favorable for stocks. Inflation is the primary driver of interest rates. And the latest reports show U.S. inflation to be quite low. U.S. consumer prices were unchanged in September. The Labor Department said the flat September consumer price index (CPI) was the weakest reading since January. The increases in the cost of food and rents were offset by decreases in the cost of energy and used cars and trucks.

In August the CPI edged up 0.1%. For the twelve months through September the CPI increased 1.7%.

The so-called core CPI rose 2.4% in the twelve months through September. That measure was restrained by moderate gains in healthcare costs as well as declines in apparel, new motor vehicles and communications prices.

The Federal Reserve members like to watch the consumption expenditures (PCE) price index for their 2% inflation target. For the twelve months through August the core PCE price index rose 1.8% - below the Fed's 2% target.

Some economists expect inflation to pick up as tariffs on Chinese goods work their way through to a range of consumer products. However, those tariffs are also beginning to take a bite out of economic activity.

The bottom line is that the economic data remain mixed enough to allow at least one more small interest rate cut, a positive for stocks.

The U.S.-Chinese trade battle has been the primary driver of stock market volatility. President Trump says the recent talks have gone very well.

Zacks says this about the talks: "While a full-blown trade deal looks to be off the table, a partial deal looks very much on the table, similar to the partial deal the U.S. signed with Japan last month. This would allow them to showcase their cooperation and agreement on some issues, while they continue talks on other more complicated issues.

The ultimate questions the market is eager to have answered are: if there is a partial deal, then who gets what and when? What happens to the tariffs in the meantime? And what other issues need to be addressed?

I don't want to get ahead of myself, because there may not be a deal at all. But there was a general sense of optimism that some kind of an agreement could be reached this week, and that helped buoy the market.

In other news, Weekly Jobless Claims delivered some additional good cheer with new claims coming in less than expected at 210,000 versus 219,000 expected. This comes

on the heels of last week's Employment Situation report where the unemployment rate fell to the lowest level in 50 years."

With inflation low and the economy still slogging along, Jeffrey Saut is likely to be right. He believes the S&P bottomed last week at 2,855. And then there's his long-term investment model that "flipped positive on October 2008 and never turned negative and says we have years left in this thing."

Zacks Investment Research thinks stocks will double in the next five years.

Argus Research sees earnings rising in 2020.

These optimists are outnumbered by the stock market pessimists, which historically is positive for stocks. The time to worry is when the pessimists are hard to find.

I will have the next market review and update for you one week from today on Wednesday, October 23, 2019.

All the best,

John Dessauer

© October 2019