John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday November 23, 2022

Nancy Pelosi is out of a job. Republicans will control the house. At least that will stop the Biden runaway tax and spending agenda. But it will be too late for one anti-business tax. That is a 1% tax on net stock buybacks that was buried in the so-called inflation reduction act. Corporations buy back shares to offset new shares being given out as stock options to executives and to reduce the number of shares outstanding. The latter increases earnings per share and supports the stock price. This benefits shareholders. Why do Washington politicians hate stock buybacks? Do they really think they can do a better job managing cash flows than the executives who manage the businesses? Obviously, the politicians do not have the experience or skills to manage a business. That is clear from looking at the details of the new tax. The tax is levied on "net buybacks." If a company buys back shares to offset stock options given to executives there is no "net buyback" and no tax to be paid. Fortunately, the tax is modest and not a disaster. Estimates indicate that if the new tax had been in place in 2021 it would have reduced operating profits for companies in the S&P 500 by just 0.48%.

Keep in mind that tax collections from corporations are at an all-time high. There is no need to add another tax. President Biden talks about corporate greed. This new tax is an example of political greed.

The U.S. tax code is a monster, so complex that tax experts struggle to follow all the rules. One reason it has become so complicated is the political tinkering such as the new 1% tax on net stock buybacks that has gone on for decades. Hopefully, the Republicans will put a stop to the political tax tinkering.

Last week I wrote about Morningstar's inflation forecast. The data on U.S. housing supports the Morningstar outlook. House prices are still up from a year ago, but they are declining. The combination of high prices and rising home mortgage rates is making housing less affordable. Housing is no longer a contributor to inflation. On the contrary it is becoming a deflationary force.

The following is an eye opener on climate change.

"If anywhere can claim to be the birthplace of the industrial revolution it is Coalbrookdale, a pretty village in England's West Midlands. In 1709 Abraham Darby, a local merchant, leased a foundry and fed the furnace with coking coal, rather than charcoal made from wood. The use of fossil fuel meant he could make pig iron much more cheaply, and cast it into pots, pans and cauldrons for cooking – the kind of low-cost manufactured goods that would, over the next three centuries, produce an unprecedented rise in living standards across the world.

Darby's furnace was not just ground zero for the industrial revolution. It was also ground zero for global warming. Since the fateful smelting, economic output and greenhouse gas emissions have risen in tandem. England's furnaces were joined by coal powered railways and steam powered textile mills, all using tools cast from coke fueled foundries. Between the middle of the 19th century and the outbreak of the first world war, Britain's national income per person more than doubled and its carbon emissions increased fourfold. When other countries industrialized, their emissions spiraled too.

As politicians gather in Sharm el-Sheikh, an Egyptian holiday resort, to review progress on climate change at cop27, there is at least one cause for optimism: the historic link between rising prosperity and carbon emissions has been broken. Today Britain is a member of a large and growing group of rich and middle-income countries that has severed it. This decoupling has been achieved not through the large-scale development of renewable energy - or, indeed, by exporting emissions to poorer countries - but by a change in the relationship between economic growth and energy that is perhaps as significant as those first stirrings of the industrial revolution three centuries ago.

All told, some 33 countries have in recent years cut emissions while maintaining growth. Around three-fifths are European, meaning, as was the case during the industrial revolution, the old continent is leading the way. But the group also includes America, where emissions fell by 15% between 2007 and 2019 even as GDP per person rose by 23%, as well as others that have joined more recently." (The Economist magazine, Nov. 16)

The bottom line is that there are real changes being made voluntarily that are reducing the amount of energy that is needed to sustain growth. This is real improvement in our climate change challenge. Hysterical activists and power-hungry politicians do not help. In many cases they discourage the underlying progress while ignoring things they could and should be doing. For example, recent photos from space have highlighted sources of methane here on earth. Methane is the worst of the greenhouse gases. The photos show that large landfills near large cities are producing large plumes of methane. What are our politicians doing to solve that challenge? After all, the landfills are within the power of the city governments. There may be efforts, but I haven't seen evidence of that.

Using less energy to produce goods is practical and affordable. Technology, obviously, is a major factor in the progress of reducing emissions.

As far as stocks are concerned, we are now in the post midterm election period and stocks, while volatile, will most likely be going higher. Hold on to your stock positions.

I will have the next market review and update for you one week from today on Wednesday, November 30, 2022.

All the best,

John Dessauer