John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday December 1, 2021

The stock market did not like Black Friday. The Dow Jones Industrial Average plunged more than 900 points or more than 2%. One report said it was the worst Black Friday in 70 years. The cause was a report of a new and troubling variant of the Covid virus that has appeared in South Africa. Scientists are studying that variant to see how it behaves. Americans are urged to not only get vaccinated but to get the booster shot as well. Clearly the battle against the Covid virus is not over. But real progress has been made. Vaccination and booster shots do work and even in cases where the person gets the virus after the shots the case is mild and not life threatening.

On the positive side, third quarter earnings are outstanding. Consider the following from Zacks Investment Management: "Corporations have been posting very strong Q3 2021 earnings numbers. With over 90% of S&P 500 companies reporting, earnings are up 43.1% from the same period last year, on +18.6% higher revenues. Almost 80% of companies beat their earnings per-share estimates. All told, earnings for the S&P 500 have reached a new all-time quarterly record, surpassing a record set the previous quarter. Estimates for 2022 earnings have moved higher all year.

And yet no one seems to be happy with the economy. There are only problems, issues and crises, with barely any stories covering record sales, rising wages, abundant jobs and incredible demand. Some of the biggest U.S. retailers, including Target and Walmart, have reported being fully stocked for the holiday shopping season, but all we hear about are supposedly empty shelves.

I’m not saying the economy is humming nicely and there are no issues to speak of. But I do think there is a fairly wide – and seemingly growing- disconnect between people’s perception of the economy versus the actual fundamentals of the economy. Many investors and the media see the economy in bad shape and getting worse, which makes me even more bullish. The wall of worry is growing, and stocks love to climb it.” (Mitch on the market. Zacks 11/27)

Recent data from the Labor Department confirms the Zacks assessment on the economy. In the week before Thanksgiving U.S. jobless claims fell to a 52-year low. Jobless claims dropped to 199,000. Jobless claims averaged 218,000 a week in 2019.

In October employers added 531,000 new jobs, the biggest monthly gain in three months. The unemployment rate fell to 4.6% from 4.8% in September. However, total employment is still 4 million jobs lower than in February 2020. Companies across the economy report they are struggling to find workers. Retailers, hospitality, leisure, and logistics firms are particularly strapped and have been raising pay to avoid staff shortages during the critical holiday shopping and travel season. Makes you wonder where are the 4 million who had jobs before the pandemic. Apparently, they are still collecting unemployment or living off savings because of Covid fears.

Robert Frick, corporate economist at Navy Federal Credit Union says: “When they (Covid cases) climb quickly, layoffs—especially of lower income workers in the services industry—are quick to happen.” However, he also added: “With every successive wave there’s less of an effect on the economy, because more people are vaccinated and less fearful about getting out and traveling. But it's certainly a factor—and how much it is a factor depends on how bad the current Covid wave will be."

My conclusion is that we can be thankful the economy has been doing so well. But there is still work to be done before there will be a full recovery from the Covid pandemic.

With the third quarter doing so well, it looks as if the fourth will also be a bell ringer. But then what? In ordinary times there is a big drop in economic activity after the holiday season. If it wasn't for the adjustments that government statistical agencies make for seasonal swings, the GDP would register a contraction in the first quarter from the fourth quarter every single year. A sort of mini-recession when the big spending is over after the holidays. Strange as it may seem, that may not be the case in the opening quarter of 2022.

There will be layoffs after the holidays. And companies ought to experience some easing of the labor and supply chain strains they have been facing.

"A lot of people coming off holiday jobs will be looking for work again and available to hire. And with holiday goods no longer clogging up transportation networks getting supplies will be easier. Many businesses might look at it as a good time to secure necessary labor and rebuild depleted inventories. As a result, some of the seasonal swoons in activity that typically occur when the calendar flips might be diminished---translating into gains after they go through the seasonal adjustment process." (Justin Lahart, *Wall Street Journal* 11/27)

In other words, the opening quarter of 2022 might look good when compared to opening quarters pre-pandemic. The good economic news might keep rolling in, unless policy makers in Washington foul it up. And some are sure trying to do just that. In the spending bill that just passed the House, there are loads of damaging fines for common and inadvertent labor violations. Employers are subject to thousands of pages of OSHA regulations that prescribe everything from the spacing between ladder rungs to whether employees may wear wedding rings.

Under the House bill, the maximum fine for a "serious" violation would increase to $70,000 from $13,653. And "serious" is not well defined in the bill - it is left to the opinion of the regulator. A Washington state employer was recently cited for a serious violation when two employees were discovered with face shields but no masks and three others were wearing masks under their chins. This is an example showing that employers do their best to comply but sometimes employees do not. And the employers get fined. Obviously, employers will likely fire noncompliant workers rather than get stuck with huge fines.

The maximum fine for repeat violations would increase to $700,000 from $136,532 under the House bill. That would be a powerful incentive for employers to employ only workers who are willing to comply with all the regulations no matter how inconvenient they may be.

The editors of *The Wall Street Journal* conclude, "These fines are merely one example of the destructive economic policies buried in the bill's some 2,500 pages.

Netflix and big businesses may be able to afford the increased labor fines and liability in the bill. Small businesses will as usual be hurt the most."

Then there's the $8 billion methane "fee" that is in effect a tax on natural gas production and thus on consumer energy prices. The American Gas Association estimates this could raise the average family's natural gas bill by 17%. This is also a violation of President Biden's pledge not to raise taxes on anyone earnings less than $400,000 a year.

Remember President Trump's attack on the wealthy by cutting the deduction for state and local taxes to $10,000? Well, the House bill would change that to a maximum deduction of $80,000 a year, a big tax cut for the millionaires and billionaires.

Hopefully the House bill will be seriously challenged in the Senate.

I will have the next market review and update for you one week from today on Wednesday December 8, 2021

All the best,

John Dessauer