

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday December 15, 2021

We can breathe a sigh of relief. Saule Omarova, the pro-soviet style banking professor, has withdrawn her nomination for Comptroller of the Currency. That's the good news. The sad thing is the way the White House and liberals are casting her as a victim. Here is what President Biden had to say after she withdrew: "As a strong advocate for consumers and a staunch defender of the safety and soundness of our financial system, Saule would have brought invaluable insight and perspective to our important work on behalf of the American people. But unfortunately, from the very beginning of her nomination, Saule was subjected to inappropriate personal attacks that were beyond the pale."

The *New York Times* followed with the following: "Some lobbyists including the incoming chairman of a group representing community bankers and the chief executive of another group that focuses on big banks, also shared a Wall Street Journal editorial suggesting that Ms. Omarova's Soviet childhood meant that she could not be trusted."

The editors of the Wall Street Journal responded: "Childhood? Please. The issue isn't where she was from but that she hadn't disavowed her radical views on the U.S. financial system. This included her recent proposal that the Federal Reserve take over consumer bank deposits, effectively ending banking as we know it, and become the ultimate public platform for generating, modulating, and allocating financial resources in a modern economy.

The U.S. doesn't need a bank regulator who wants to end banking as we know it, or who wants to create a central bank digital currency, as she put it, to "redesign our financial system & turn Fed's balance sheet into a true 'people's Ledger.'"

Her views are so radical that a group of Senate Democrats said they could not vote for her. As investors, we dodged that bullet, but given the President's tilt to the far left, there probably are more to come.

According to recent Gallup polling, Americans still have more faith in capitalism than in socialism. In an October survey Gallup asked "just off the top of your head" whether they have a positive or negative image of six different economic and government terms, 60% reported "positive" for capitalism against 38% for socialism. Other poll results add to the capitalism view. "Small business" had a 97% positive, and "free enterprise" had 84% positive.

Gallup further reported that this positive view of capitalism among Americans has held steady for over a decade. Clearly the President and his supporters are out of touch with the American people. No wonder political pundits are warning that the mid-term elections could go solidly against the Democrats.

And there is another problem for Democrats. Last month U.S. inflation hit a 39 year high. The Consumer Price Index or CPI was up 6.8% in November compared with November 2020. That is the fastest pace since 1982 and the sixth straight month in which inflation topped 5%.

Economists generally see inflationary pressure from supply constraints easing in 2022, as sidelined workers return, consumer demand for goods cools and production ramps up. However, they also see continuing inflation pressure from sources such as rent and medical care. Will inflation come down as so many economists expect? There is a problem with such forecasts.

In February of 2020 Federal Reserve Chair Powell had this to say about inflation: “It’s not going to be easy to have inflation move up. We’re honest with ourselves and you in the projections that even with the very high level of accommodation that we’re providing.... It will take time.”

Back then the concern was that inflation would stay too low, below the Fed’s 2% target. Powell and other economists were worried that low inflation would persist, and that dreaded deflation could not be totally ruled out.

How could so many experts turn out to be so wrong? The answer is that the economic and inflation consequences of the pandemic and recovery are unpredictable. These experts do not have experience dealing with a Covid situation. That applies to the White House and Congress as well. They have been flooding the economy with money, adding to the federal deficit and national debt while making believe they know what the consequences will be. There are some basic economic principles that we do know about. And we are seeing the expected results from stimulating demand while there is a shortage of goods and services.

The Federal Reserve is at least having second thoughts about the inflation outlook and is reducing the stimulus from monthly bond buying. Because inflation has spiked up the bond buying will likely end in the first half of next year. Unfortunately, neither the White House nor Congress has shown any such second thoughts. They are charging ahead with massive spending plans while ignoring the spike in inflation.

Instead of changing policies to combat inflation, leading Democrats are blaming inflation on businesses. Last Month, for example, Elizabeth Warren, a Senate Democrat from Massachusetts wrote the following: “These record-setting natural gas exports are leading to higher prices for consumers, and they show no signs of a slowdown.”

Ms. Warren could not be more wrong. Toby Rice is CEO of a company called EQT, which is the largest U.S. natural gas producer. First, he points out that the average price for natural gas in 2021 is \$4.80 per mcf, significantly lower than the 20-year average of \$5.70 per mcf. He says: “Yes, the price of natural gas has increased rapidly relative to 2020 as the economic engines of the world have reignited, but natural gas prices in 2020 were the lowest in over two decades, a year during which we exported natural gas. Exports have encouraged more production, which has helped keep prices low for Americans.”

The truth, Ms. Warren, is that natural gas prices have been rising because supply is not keeping up with demand. And the restraint on supply is anti-fossil fuel regulations from Washington.

Inflation may come down next year, but voter fear of inflation will likely persist because the Fed chair and other leading economists have gotten their predictions so wrong.

I will have the next market review and update for you one week from today on Wednesday December 22, 2021

All the best,

John Dessauer

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