John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday December 21, 2022

All eyes are still on inflation. Stocks have tumbled over concerns the Fed may have to raise interest rates more than expected. There has been a nasty side effect from the Biden war on American energy production. He said raising energy prices - oil in particular - would help in the battle over climate change. According to Biden and his supporters making fossil fuels more expensive would encourage a shift to alternatives such as electric cars. Instead making oil more expensive has forced millions of people to find a less expensive way to heat their homes. According to recent studies the use of coal has reached an all-time record high. Why? Because coal is much cheaper than oil. Coal is also much worse for the climate than oil. The sad truth is that the Biden energy policies have significantly raised carbon emissions from coal. Climate change is not an American problem, it is a global problem. Before America adopts an energy policy it should be looked at from a global perspective. If the Biden administration had done that, the use of coal would not have risen and our inflation rate would be lower.

There is good news on climate change. But it comes from the private sector, not from politicians. Rolls Royce and EasyJet are working on a jet engine capable of flying an airplane that uses hydrogen as the fuel and emits zero carbon. There are other efforts to develop engines that are small but nuclear. Leave it to the innovative entrepreneurs to find real solutions to climate change.

Stocks surged after news that inflation cooled in November. And the inflation news really has improved. The following is by Justin Lahart writing on Dec 14 for the Wall Street Journal:

"Suddenly, inflation is running a lot less hot. It could get cooler still in the months ahead.

The Labor Department on Tuesday reported that U.S. consumer prices rose a seasonally adjusted 0.1% last month from October—well short of the 0.3% economists had expected. That put overall prices 7.1% above their year-earlier level, marking the smallest gain since December of last year. Prices excluding food and energy items—the so-called core that economists and policy makers look to for a better understanding of inflation's trend—rose a smaller-than-expected 0.2% from October and were up 6% versus a year earlier.

Tuesday's report changes the context for the Federal Reserve's interest-rate decision on Wednesday. The central bank seems certain to raise its target range on rates by a half percentage point, and to signal that it expects to continue raising rates next year, but it would be hard for policy makers to not acknowledge that inflation has started to come off the boil. At the very least, that suggests they can raise rates by even smaller increments next year, and perhaps hold off from raising rates at some of their policy-setting meetings, in order to see how things pan out."

The Fed did raise interest rates, but by one-half of one percent rather than three-quarters of one percent. Stocks then reversed course and came tumbling down. The reason is that Fed chair Powell made it clear that the Fed was going to stay the tightening course until inflation comes down. That could mean rising interest rates through all of next year and that idea is what frightened investors.

The following, again from Justin Lahart at the Wall Street Journal, indicates that the inflation fear that brought stocks down was overblown.

"Dig into Tuesday's inflation report and, if anything, it looked even better. Core prices were 0.5% higher in November than September, which was the smallest two-month gain since September of last year.

Moreover, that gain was driven by an increase in shelter costs. These largely reflect rents, since the Labor Department measures homeowners' housing costs by calculating what it would cost them to rent their homes. Lately rent prices have been cooling, with data from rental marketplace Apartment List showing them falling during each of the past three months, for example. But because the Labor Department's rent measures reflect not just newly signed rents but existing leases, it is slow to pick up such shifts. So, the Labor Department's shelter-cost measure seems destined to slow in the months ahead—something of which the Fed is well aware. Exclude shelter costs and core prices fell by about 0.1% in each of the last two months. Those were the first declines since May 2020.

Meanwhile, the combination of easing supply-chain problems, cooling consumer demand, weakness overseas and many retailers' still too-high inventories should continue to put downward pressure on goods prices. And while there is some worry that rising labor costs could lead to protracted services inflation, services prices excluding rents have eased in each of the past two months.

It isn't a given that every inflation report in the months ahead will show such unambiguous signs of cooling as Tuesday's, but inflation's temperature will keep dropping all the same."

Hold on to your stocks. There is more good news ahead.

I will have the next market review and update for you one week from today on Wednesday, December 28, 2022.

All the best,

John Dessauer