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John Dessauer's market review and update as of Wednesday March 2, 2016.

Many investors are afraid the next recession is right around the corner. What if they are right? Or, what if the economy simply stalls and final demand falters. Central banks have done their part, their balance sheets are swollen and some are now pushing interest rates into negative territory. What more can they do? The obvious next course is for governments to step up and do their part with tax simplification and tax rate cuts. Plus, targeted and carefully implemented infrastructure spending would be a big help. The problem is political paralysis, largely caused by huge government debts. Government debt in the United States has risen from 64% of GDP in 2008 to 104% in 2015. In the euro region government debt is up from 66% to 93% of GDP. In Japan government debt is up from 176% to an eye popping 237% of GDP. Politicians fear cutting taxes or increasing spending will push debts up to breaking point levels. Looking at the future through this dismal perspective leaves little room for optimism and provides solid ground for anxiety and pessimism. The antidote is understanding and patience. Low interest rates are working. And low cost gasoline and home heating fuels are also working. These classic fundamental stimuli are working slowly because of government missteps since the 2008 financial crisis. While that is lamentable, it does not mean that politicians have condemned us to another recession.

Jamie Dimon, president and COE of JPMorgan Chase was here is Naples last week. His talk was widely covered by local media. He was generally optimistic, giving a

list of reasons, including rising wages, low unemployment, record car sales, rising home sales and falling oil prices. He sees a strong and vibrant U.S. economy, not one that's broken. "We have the best hand dealt of any country out there." Contrary to popular sentiment, he added: "Credit is in great shape." Jamie Dimon is in a position to see what is really happening in our economy. He is not a politician running for office. He doesn't have to color his views for the media or popular consumption. In addition, he recently bought millions of dollars' worth of JPMorgan Chase stock. Could his view be correct? Is the stock market volatility being driven by political candidates trying to sell voters their solution to a problem that really doesn't exist, and pessimists trying to get rich by scaring vulnerable investors?

Dimon is a realist; while optimistic, he knows we face daunting challenges including how to deal with immigration, how to stimulate better growth, and how to fix our sagging infrastructure. In his talk in Naples he pointed to New York's JFK International airport which he says is "an embarrassment."

Legendary investor Warren Buffet in his 2016 letter to Berkshire Hathaway shareholders expressed similar optimistic views. He warned that betting against America is never a good idea. And he predicted that babies being born in America today will enjoy a future better than any group in history.

Here is an analysis of the oil market that might come as a surprise. BP's chief economist Spencer Dale was asked last Wednesday about oil market conditions. He said this response: "What is clear, is the oil market is behaving like any market. Prices are falling quite sharply and, as a response, demand is growing quite fast. Last year, global oil demand grew by twice its 10-year average." Why haven't we heard about oil demand

growth before? Has that been deliberately buried by the media? With demand growing, it is clear that a balance between supply and demand will be achieved, probably sooner than most expect. BP's Spencer Dale agrees: "Even allowing for Iranian supply, I see flat to falling global supplies this year and so I think you'll see a big swing in the market. By the end of this year, the market moves closed into balance." As for the long term, he predicts rising oil demand as the number of vehicles outside the developed world triples. Like Jamie Dimon's view of the U.S. economy, here we are getting a view of oil market conditions from someone who is in daily touch with market realities. Instead of the mind numbing pessimistic predictions of never ending oil price declines, we learn of growth in demand and a market moving steadily toward balance.

Here at home there are encouraging reports. Last week the Commerce Department reported that orders for durable goods (products expected to last three years or more) surged 4.9% in January. Overall manufacturing output rose solidly in January and factory payrolls increased by the most since August 2013. The worst for U.S. manufacturing, which accounts for 12% of GDP, may be over.

Another favorite of the pessimists, deflation, is fading fast. The Consumer Price Index or CPI, excluding food and fuel, rose 0.3% in January - the biggest monthly gain since 2012. That pushed the index to +1.7% over the past twelve months, closer to the Federal Reserve's 2% inflation target. Including food and fuel, the Index was up 1.3% year over year. As oil prices bottom out, this measure of inflation will keep marching higher.

And, American consumer spending increased 0.5% in January, the best showing in eight months.

It certainly would be better if our government would simplify our tax code and bring tax rates back to a more productive level. It also would boost growth and create jobs if our government had the wherewithal to engage in well directed infrastructure projects. But neither is going to happen while the nation is embroiled in a battle over who will be our next president. And after the coming election, we still might not get much economic help from our political leaders. But it is impressive that our economy, burdened with the aftermath of a deep recession and a divided political leadership, has recovered, grown, and created jobs. That is testimony to the fundamental strengths of our economy and the success of the innovative monetary policies implemented by our Federal Reserve.

Slow growth may try our patience, but it is more sustainable than fast growth. Odds are the next U.S. recession is two or more years away.

The bottom line: The Federal Reserve will not raise interest rates in March. The wild stock market has introduced too much uncertainty. But they *will* raise interest rates, albeit slowly, once the stock market has calmed down. The welcome rise in stocks last week looks like the start of a recovery. But it will likely take a few weeks for the stock market to calm down.

I will have the next market review and update for you one week from today on Wednesday March 9, 2016.

All the best,

John Dessauer

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