John Dessauer Investments, Inc.

www.johndessauerinvestments.com

John Dessauer's market review and update as of Wednesday March 8, 2017

There is good news for stocks

"This year is shaping up to be the most synchronized for global growth since the immediate aftermath of the last recession, in a development that could ease the burden on the U.S. as the world's economic engine. From robust Chinese factory data to faster inflation in Germany, just about all major economies are running at a decent clip, if not accelerating." (Bloomberg News March 2, 2017)

"This year is shaping up as the first synchronous acceleration in both developed and emerging markets since 2010." (Chetan Ahya, global co-head of economics and chief Asia economist at Morgan Stanley in Hong Kong)

"It's pretty much a global phenomenon and has been underway since around mid last year." (Shane Oliver, Sydney based head of investment strategy at AMP Capital Investors Ltd.)

And there is evidence that momentum is gathering in much of the world. Economic confidence in the euro area is stronger than it has been since before the 2011 debt crisis. Unemployment, while higher than in the U.S., is falling faster than economists expected. Corporate profits in Japan set another record. Economic growth in Australia is exceeding expectations. South Korean exports rose for a fourth month in February. The latest data from India show better growth than expected. The good news continues. Last Wednesday there was a report that factory activity in the euro region rose to its highest reading in six years, driven by Germany and strong readings in Italy and Spain. On Thursday Spain reported fourth quarter growth at 0.7% (2.8% annualized).

Synchronized economic improvement around the world is just plain good news for consumers and businesses alike. Of course there are uncertainties, mainly political. England is struggling to sort out the details on separation from the euro region. However, the British economy has held up much better than expected, at least so far. There are elections coming in Europe. The Netherlands will be first, followed by Germany and France and possibly Italy as well. Like the United States, voters in Europe are upset by the sluggish economic performance in recent years and the threats from a tsunami of immigrants from the Middle East. In France, the left has created posters asking Obama to run for president. That is a reaction to a surge in polls showing rising popularity of right wing candidates. While a shift to more conservative economic policies might be good for European stocks, there are also Brexit type populist trends in The Netherlands, Italy and France. Breaking the euro apart could have serious economic consequences. Economists and investors are likely to remain cautious about Europe's economy and stock market until after the elections. If European voters behave anything like Americans, there could be a Trump style stock market surge in Europe later this year after the elections.

Federal Reserve chair Janet Yellen explained the U.S. stock market surge in her recent testimony before Congress. On February 15, she said: "I think market participants likely are anticipating shifts in fiscal policy that will stimulate growth and perhaps raise earnings."

She also indicated that there would be an interest rate increase this month. In the past, after a strong stock market rally, talk of raising interest rates would trouble investors and send stocks down from their peaks. However, this time that does not seem to be the case. The talk about a March interest rate increase has been going on for weeks. In fact there has been talk about several interest rate increases over the rest of this year. Investors not only are not afraid of interest rate increases; I think they are welcoming a return to more normal interest rates, and see the Federal Reserve's determination as a sign the economy is already gaining strength. Gone are the fears that the Federal Reserve might be making a mistake and that interest rate increases might tip the economy back into recession.

Janet Yellen, no doubt, is right that the post-election surge in confidence is based on anticipation of the benefits from tax reform and new fiscal policies. The President and Congress are working on specifics. It will be a while before we know exactly what tax changes will be enacted. And after that, it will take time for tax payers to adjust. However, the synchronous gain in the global economy that began about six months ago is providing fuel for economic improvement here at home. It is also providing a source of growth in sales and profits for business.

The fourth quarter U.S. growth rate - at 1.9% - was anemic. However, fourth quarter corporate profit reports continue to be better than expected. Part of the explanation is good corporate management, keeping costs under tight control. But part is also due to the improvement in the global economy.

Morgan Stanley in the March edition of "On the Markets" had this observation: "On this score, market breadth has broken out to all-time highs, which typically doesn't happen if growth is slowing. In other words growth is likely *not* slowing and stocks may be the real winners."

Headline growth in the United States did slow in last year's final quarter. The U.S. market is responding to a broader measure of growth…the U.S. plus the global economy. The improvement in the global economy is gathering momentum. That means support for consumers and businesses will improve during the weeks and months while we wait for tax reform and fiscal policy change. And after the President and Congress work their magic?

Thanks to a combination of current global economic strength and coming U.S. tax and fiscal policy changes, this stock market rally could run for longer than most expect. Downturns and pull-backs likely will be short and shallow.

I will have the next market review and update for you one week from today on Wednesday March 15, 2017.

All the best,

John Dessauer