John Dessauer Investments, Inc.

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John Dessauer's market review and update as of Wednesday March 23, 2016.

Stocks have recovered from their earlier lows, but the outlook for the coming quarters is uncertain. Our biggest concern is that growth in corporate profits appears to have stalled. First quarter profits for companies in the S&P 500 Index are expected to be down 6.2%. Much of the decline will be among companies in the energy sector. However, excluding energy companies, profits for the rest of the companies are expected to be down 0.7%. The profit situation outside the United States is also discouraging. According to Societe General, a French bank, global corporate profits fell 2% last year. In emerging markets, corporate profits fell 12% last year. Here in the United States, profit expectations are so low that we may get pleasant surprises when profits are actually reported starting next month. In any case, stocks remain attractive for their dividends.

The U.S. Federal Reserve left interest rates unchanged at their recent meeting. And, the Fed's interest rate outlook is for very gradual and modest interest rate increases this year and next. Cash will remain less attractive than dividends on stocks.

Investors remain anxious in part because of the wild swings in government economic data. Last week, for example, the Commerce Department reported that retail sales - excluding automobiles, gasoline, building materials, and food services - were unchanged in February and that they grew 0.2% in January. These so-called core retail sales were previously reported to have grown 0.6% in January. That is a massive downward revision in a key economic data point from one month to the next. These "core" retail sales tend to correspond most closely with the consumer spending component of the GDP (Gross Domestic Product). And consumer spending accounts for two-thirds of the U.S. economy. No wonder economists are now cutting their estimates of first quarter economic growth, some by 0.5% to an annual rate of 1.9%. One month the government data show the economy to be gaining strength, and the next the government says, "Sorry, that's not really the case."

The bright spot in the retail sales data is that gasoline prices are still falling, down 9% in February. With oil back above $40 a barrel we are probably at or near the end of the drop in gasoline prices. But there is no upward pressure, so consumers will continue to enjoy low cost gasoline.

The lackluster economic growth here and in Europe has economists as well as investors wondering if monetary policy simply isn't enough to restore growth to pre-recession levels. As I wrote last week it sure would be nice if governments had more borrowing room to ramp up badly needed infrastructure spending. However, that is wishful thinking. For the rest of this year and next our economy will be in the hands of the Federal Reserve. Europe likewise is dependent on its central bank. And the European central bank has recently added significantly to its QE stimulus program. Even the critics must admit that, at the least, central bankers have been successful keeping growth alive and recession at bay.

Recent news from China is better than expected.

Industrial output in January and February (the months were combined because of the impact of China's new-year holiday) was up 5.4% year over year. Retail sales were up 10.2%. Both fixed investment and property sales were higher than expected. The recent rebound in commodity prices is another sign that the Chinese economy is not collapsing. Like their counterparts in the United States and Europe, Chinese authorities are applying aggressive monetary policy to keep the economy on track to achieve official growth goals of 6.5%-7%.

"If you thought the United States was to be socked in the stomach by China's recent economic slowdown, stop worrying. In fact, the slowdown might even be good for American business." *Naples Daily News 3/15/2016*

That was the leading paragraph in an article about a talk given here in Naples by Jeremy Haft, author of *"Unmade in China: The Hidden Truth about China's Economic Miracle."* Haft is an adjunct professor at Georgetown University and has started and built companies in China for more than twenty years. Here are some of the things he said about China and the United States:

"Moreover, China's impact on everything from the U.S. job market to its stock market is far weaker than many people think."

"Similarly, while China is often described as a job killer, actually the opposite is true. Trade with China has created millions of jobs in the U.S., including jobs transporting and distributing exported and imported goods."

"Moreover, because they have valid health and safety concerns about products made in their own country- from baby food spiked with melamine to weak bridges containing insufficient iron ore- they often prefer American products to their own."

"Fears that the Chinese could tank the U.S. economy by devaluing the yuan or selling millions of dollars of U.S. Treasury bills are overblown. Because both events have already happened and it didn't create a ripple in the U.S. economy."

"And it (China) won't be much of a competitor until its vast bureaucracy is streamlined, its farms privatized and people and capital are allowed to move freely. Until then we're the only game in town."

It is refreshing to hear from someone who is actually spending a lot of time in China doing business. China critics in the United States tend to be politicians spinning the story for their own ends, or Wall Street financiers who take government tours to see companies trying to raise capital. I spent a lot of time in China during the 1990s. My experience in those days mirrors what Jeremy Haft is saying today. On a per capita basis, China's economy is still a dwarf when compared with the United States.

The bottom line: China is not a threat to U.S. economic growth or U.S. corporate profits. The dollar has been more of a profits issue than China. And the dollar has finally pulled back. The dimmed outlook for corporate profits may be discouraging, but there are individual companies, even whole sectors, that are able to grow profits in this slow growth environment. Our best strategy continues to be to stay invested in stocks in well financed companies.

I will have the next market review and update for you one week from today on Wednesday March 30, 2016.

All the best,

John Dessauer