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

Two weeks after the U.S. elections results shocked the world, financial markets are behaving much better than expected, but Democrats are wild and in denial. This is the opposite of what was expected. Pundits confidently predicted a Trump win would result in extreme U.S. and global financial market volatility. And our own recent history said the losing political party would accept the result and calmly plan for the next election.

The reaction to the election by the losing Democrats has been a far bigger shock than the action on currency, bond and stock markets. Barbara Boxer, a senator from California, is introducing a bill to eliminate the Electoral College. She has apparently forgotten that President Obama and 13 of his Democratic predecessors were elected by the Electoral College. Two Electoral College members were on television saying they would not follow their voters' wishes and would vote for Clinton. They claimed the founding fathers gave them the authority to do so when they saw the wining candidate as unfit to be President. Their problem, is that neither had ever met Donald Trump, had not even spoken with any of his close friends or advisors. They were making their judgment based solely on biased and often inaccurate media reporting. You can be sure the founding fathers would not approve of that manner of vetting a winning candidate for President. Electoral College members in Arizona reported extreme harassment by Clinton supporters trying to force them to vote for Hillary rather than Donald Trump. Some said they had received 8,000 or more threatening emails and phone calls. The Mayors of

Chicago and New York said they would defy federal law and keep sheltering illegal immigrants in their “sanctuary” cities. This has gone far beyond the usual postelection politics in the United States. My conclusion is that Democrats have been so used to winning at least one branch of the federal government that they can’t get over the shock of losing all three. After all, it has been a very long time, about 145 years, since the Republicans held the White House, and a majority in both houses of Congress. But, they really did lose. Now it is up to the President and Republicans in Congress to change policies, repair the economy and restore confidence in government. If they are successful, they likely will hold all three branches through the mid-term elections and perhaps longer.

The relative calm on global financial markets means the U.S. Federal Reserve is likely to raise interest rates next month. But that does not mean the era of low interest rates is over.

James Bullard is President of the St. Louis Federal Reserve Bank and a voting member of the Federal Reserve’s Board. In a speech at a UBS conference in London last week he said: “There were a lot of predictions that if the election went the way of the Republicans and President-elect Donald Trump then there would be a great deal of volatility, but that has not materialized so far.” He followed up with comments that one interest rate increase, possibly next month, may be enough to bring U.S. rates to a neutral setting. Then he added: “We have a low interest rate regime and it is really not expected to turn around and mean revert.” In other words he expects that low interest rates are here to stay for a long time.

Last week I wrote that a December 2016, 0.25% interest rate hike would have a far different impact on stocks than the 0.25% interest rate hike in December 2015, the difference being the forward guidance from the Federal Reserve. Last year the Federal Reserve Board members were confident the economy was about to leap forward and that they would be raising interest rates aggressively all year. The economy didn't cooperate and the anticipated interest rate increases did not materialize. Economic data over the last few quarters show an economy that is still growing at a rate far below past recoveries.

When asked what the Federal Reserve might do if the economy begins to grow at a faster rate, Bullard stressed that while rates would go up if the U.S. economy improves, the era of low global borrowing costs is unlikely to come to an abrupt end.

The bottom line is that stocks have everything to gain and nothing to fear from a stronger economy.

The dollar remains very strong, but that may not stop the Federal Reserve from raising interest rates next month.

The dollar is almost one-to-one versus the euro. A recent quote says that one euro cost $1.06, well down from $1.13 a few months ago. In addition, the British pound has stayed down at its post Brexit levels. There is always a debate when currency exchange rates change. Is the dollar strong? Or are the other currencies weak? The pound certainly suffered from the Brexit vote. And the euro is suffering from negative interest rates. Under these circumstances a 0.25% U.S. interest rate increase may not push the dollar higher. It could be that the dollar's strength is due more to other currencies' weakness. And it could also be that currency traders have already anticipated the next 0.25% U.S. interest rate increase. The strong dollar does make life more difficult for U.S. exporters.

However, a stronger U.S. economy, with a business friendly government and sensible tax reform would provide benefits that would far outweigh the damage to exports from a strong dollar.

Stocks remain an investor's best choice.

Happy Thanksgiving…have a joyful and peaceful day.

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

All the best,

John Dessauer