John Dessauer Investments, Inc.

www.johndessauerinvestments.com

John Dessauer's market review and update as of Wednesday November 25, 2015

HAVE A VERY HAPPY THANKSGIVING

Now for the bad news: Republicans in the House of Representatives are making a classic mistake. They have passed a bill that would hamstring the Federal Reserve. Having a completely independent Central Bank is essential for a healthy economy - one that can survive attacks from well-intentioned, but misguided politicians. Federal Reserve Chair Yellen is right when she said that policymakers do not understand the economy well enough to come up with a rule that would guide the economy through its ups and downs.

Last Thursday the U.S. House of Representatives passed the Fed Oversight Reform and Modernization Act. The vote was 241 to 185, with most Republicans in favor and most Democrats against. The bill would make the Federal Reserve set interest rates based on a mathematical rule. The rule would be based on a set of economic indicators including the unemployment rate and inflation. There would be a Congressional audit if the Federal Reserve deviated from the rule. This time President Obama has it right. He says he will veto the bill if it makes it through the Senate to his desk.

The Republican sponsors of this bill are pessimists who fear the Federal Reserve's unprecedented action to rescue the economy from the near depression of 2008 will inevitably lead to financial bubbles and high inflation. It is frightening that they give former Federal Reserve Chair Bernanke so little credit. The U.S. economy was truly at risk of plunging into a severe depression back in 2008. It wasn't Congressional action that saved the economy. On the contrary, in the wake of the great recession the Congress was busy reforming the U.S. health insurance industry as well as creating new rules and regulations that hampered the economic recovery. It is fortunate that Bernanke and his team were able to implement the unprecedented policies that saved the banking system and set a foundation for a recovery. The bubble/inflation pessimists in Congress should be praising Bernanke for his leadership. They also should be thanking the current Federal Reserve Chair Yellen for her skill in keeping economic growth alive, in spite of global economic headwinds and continuing political meddling.

Federal Reserve Chair Yellen is right when she says the Fed Oversight Reform and Modernization Act would “likely lead to an increase in inflation fears and market interest rates, a diminished status of the dollar in global financial markets, and reduced economic and financial stability.”

The last thing any nation needs is a group of politicians setting monetary policy. History tells us that, without exception, political control of monetary policy leads to an economic crisis if not a disaster.

The current, truly independent U.S. Federal Reserve is the result of hard economic lessons learned through economic crises. In the 1970s, the Federal Reserve tended to do what the President asked. The result was high inflation, high interest rates and a deep recession.

The Republican inflation hawks may be, as politicians so often do, acting with hindsight, focusing on past economic challenges rather than preparing for the future. There is increasing evidence that the U.S. and global economies may be stuck in a slow growth mode for a long time. The OECD (Organization for Economic Cooperation and

Development) reported last Monday that global trade flows have fallen dangerously close to levels associated with a global recession. The OECD has cut its forecast for global growth this year to 2.9% from 3.7% earlier. Global trade is on track to grow by only 2% this year, a level it has fallen to only five times in the past five decades and that coincided with downturns in 1975, 1982-83, 2001and 2009. OECD Chief Economist Catherine Mann said in the introduction to the report "This is deeply concerning. World trade has been a bellwether for global output."

Closer to home, U.S. economists are debating the question of the equilibrium level for real interest rates. Federal Reserve staff studies indicate the equilibrium rate fell below zero during the financial crisis of 2008-2009, and has only recovered a bit. They say the equilibrium rate is "close to zero currently." If so it will be hard for the Federal Reserve to raise interest rates very much. December could be a "one and done" move, raising interest rates only 0.25%.

The bottom line is that there is no evidence to support politicians' fear of rising inflation. The current challenge at home and abroad is to find ways of stimulating economic activity. Recession and deflation remain the greater risks.

Thankfully the Republicans' mistake will not survive the current political climate. Democrats in the Senate have the ability to block the bill. The U.S. and all economies need independent central banks.

There is some good news about China

A senior official at the IMF (International Monetary Fund) said last Wednesday that China's economy could overshoot the IMF's forecast and grow close to 7 percent this year. China grew at a 6.9% rate between July and September, which means the IMF's current forecast for growth at 6.8% this year is too low. A major driver is consumption. Retail sales in China have been growing at a 10% rate this year.

Mark Mobius thinks China's economy is most likely bigger than currently believed.

"I know there's a lot of debate as to whether the numbers are true, whether it's really 7 per cent, but our numbers indicate that it is at least that," the chairman of the emerging-markets group at Franklin Templeton Investments said in a recent interview with Bloomberg TV. "We think that a lot of the economy is not really being counted because China is being converted from a manufacturing-oriented economy to a service economy."

He thinks there are sections of the economy that are not fully accounted for in official data. China is a huge country with a population of a billion or more. Instead of inflating economic data, as so often accused by western critics, it could very well be that data collection in China is imperfect and not taking full account of actual economic activity. Mark Mobius is not a person to say things off his cuff. I am sure his comment is based on his travel and experience in China.

The China pessimists, who have been warning of a hard landing for China's economy, are coming up wrong again. China's growth rate has slowed, but that is due to a healthy transition and not an economic calamity.

Because of concerns about global growth and terrorist attacks in Paris the overall stock market has been trapped below Dow 18,000, but individual stocks have been far more active. Microsoft, for example, shot up after reporting strong growth in its cloud business. Intel moved higher after increasing its dividend. Stocks remain our best investment choice.

I will have the next market review and update for you one week from today on Wednesday December 2, 2015.

All the best,

John Dessauer