John Dessauer Investments, Inc.

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John Dessauer's market review and update as of Wednesday December 14, 2016

The election was a little more than a month ago, but President-elect Donald Trump is already having a massive, positive impact on consumer confidence and the outlook for the economy. Americans are more optimistic about the economy and their personal financial future than at any time in seven years.

The University of Michigan's index of consumer sentiment rose more than expected in December. Richard Curtin, director of the University of Michigan survey described the December results this way: "When asked what news they had heard of recent economic developments, more consumers spontaneously mentioned the expected positive impact of new economic policies than ever before recorded in the long history of the surveys."

The part of the survey that tracks respondents' opinion of the government's economic policies rose to its highest level since 2009.

Peter Boockvar, chief market analyst at the Lindsey Group, looked at the dramatic rise in consumer confidence and wrote "Bottom line, this is all about Trump enthusiasm."

And the positive reaction among consumers is the opposite of what most economists and market pundits expected. Very early in the morning of November 9, as U.S. election results were firming in Trump's favor, there was a sharp decline in financial futures. That was reversed so quickly that if you blinked you missed it. By opening time in New York, U.S. stock and bond markets were heading higher.

For most of this year William Buiter, Chief Economist at Citigroup, and his team warned repeatedly of the risk of a global recession if Trump won. In August they said a Trump win would cut world growth by 0.7-0.8 percentage points and "easily" push growth below 2%, the threshold that indicates an overall recession. Last week Buiter and his team reversed course and raised their 2017 forecast for global growth from 2.5% to 2.7%.

Economists at the Organization for Economic Cooperation and Development (OECD) are more optimistic. Earlier this month they raised their 2017 global growth forecast from 2.9% to 3.3%.

Nadege Dufosse, Head of Asset Allocation at Candriam, a money management firm with 100 billion euros under management said: "The prospect of a U.S. recession in 2017 has diminished. We are therefore overweight on equities, in particular in the U.S. and Japan."

The massive, widespread outburst in optimism is happening while President-elect Trump is busy selecting a Cabinet and working on the transition from Obama to his administration. He hasn't signed a single bill or changed a single regulation, but he has already led a change in attitudes that is improving economic conditions.

Because of his campaign rhetoric there are lingering concerns about international trade and possible long term damage to the economy. I was disturbed by his talk about China and what sounded like wrong-headed protectionism. However, he has refined his problem with China. Now he talks about stealing intellectual property. And on that score he is right. And Chinese companies are not the only offenders. My son is an analyst specializing in debt issued by technology companies. He will not buy any product made by Samsung, a Korean company. He says Samsung pirates anything and everything. Big companies like Apple can afford to take Samsung to court and fight. But smaller companies simply suffer, often brutally, as Samsung steals their ideas and copies their products. Are there Chinese companies doing the same thing? The answer is absolutely, yes; and it needs to be stopped. President-elect Trump is, in my view, correct to attack the intellectual property issue with China. He is on a far better course than the decades of China bashing by Senator Schumer, now Senate minority leader. For years Schumer accused China of manipulating their currency to keep it artificially low. Turns out he is wrong. The Chinese are savers and as a result there is a huge savings pool. The tendency is for some of that savings to be diversified into other currencies. The outflow of savings puts downward pressure on the yuan. Government officials in Beijing work hard at preventing a decline in the yuan, the opposite of what Senator Schumer claims. Intellectual property rights are a real economic issue. Senator Schumer's currency manipulation accusations are not just wrong they are an irritant and distraction.

The anti-Trump pessimists should have learned from their past mistakes. For at least the past five years they have urged investors to avoid stocks and hoard cash. Many followed that advice. However, avoiding stocks and hoarding cash has been a losing strategy. It has been far better to tune out the political, pessimistic noise and stay invested in stocks.

Now with U.S. stock indices at record highs the cash hoarders have a big problem. There always is the risk of a stock market correction, especially after a run to record highs. But, there is still so much cash on the sidelines that a 10% correction may not happen, because investors and fund managers are likely to buy on every stock market dip. And, if President Trump and the Republican Congress are successful in boosting final demand, stocks will benefit from stronger growth in sales and profits.

Warning: The political noise, especially from Europe will continue to provide material for the pessimists. The best strategy has been to tune out the political noise and stay focused on economic fundamentals. That will continue to be the best strategy in coming months.

Last week voters in Italy rejected a constitutional reform, and the prime minister resigned. This does not mean Italy will follow Britain with its own Brexit vote. Italian voters like the euro. But it does mean that Italy will be preoccupied by politics in 2017. There are scheduled national elections next year in France, German and the Netherlands. And, of course Britain will continue to be embroiled in the Brexit process. On the surface there appears to be a shift towards conservatives in Europe. Some compare the shift with the Trump victory in the U.S. That is likely to be wishful thinking. Europe will remain divided. Monetary policy will remain in the hands of EU bureaucrats. The various national elections can change fiscal policies, but even then only within the framework of the EU charter.

I will have the next market review and update for you one week from today on Wednesday December 21, 2016.

All the best,

John Dessauer