

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday January 6, 2021

As the New Year begins there is good news on the vaccine and good news on the economy, all of which is clouded by political uncertainty. By Wednesday we should know the results of the two Senate races in Georgia. The outcome is critical for the economy, jobs and the financial markets. For reasons that baffle me there are powerful Democrats pushing for a high-risk agenda that almost certainly would hurt the people who vote for them. I have written about the wealth gap and poverty levels during the Obama-Biden era versus the Trump years. The reports I quoted were hardly political. One was from the Census Bureau and the other from the Federal Reserve. The wealth gap widened during the eight years of Obama-Biden. The rich got richer and the poor stayed poor. In addition, the number of Americans living in poverty rose. During Trump's first three years that change dramatically. The wealth gap shrank as low-income workers gained far more than the high-income group. In addition, the number of Americans living in poverty declined. The explanation is the underlying policies applied by Obama-Biden versus Trump. What astounds me is that the Biden plan for the economy basically follows the Obama-Biden model. In other words, the Biden-Harris team knows or should know that radically changing the tax code, social security and health care will hurt the economy and the people who voted for them. Why they don't adopt the Trump policies and make them their own is for me a mystery.

The bottom line is that Tuesday's election in Georgia will determine which policies will be enacted and become the law of the land. If Republicans win one of the two seats, they will retain control of the Senate. That could mean a bright outlook for the

economy and financial markets. President-elect Biden has been a Senator for over 30 years. He understands how the Senate works and would likely be a good negotiator with a Republican controlled Senate. Radical tax changes would be blocked as would radical changes in climate policy and medical care.

Heavy hitters on Wall Street like Goldman Sachs and Morgan Stanley expect a split government with Republicans in control of the Senate. They are quite optimistic when it comes to the economy, jobs and the financial markets.

There was a Red Wave during the general election. Fourteen seats in the House of Representatives flipped from Democrat to Republican. In Senate races Republicans also did well. And in the states, the Red Wave turned state legislatures to Republican control. If this is any indication, then Wall Street powerhouses have reason to believe we will have a divided government come Wednesday morning.

On the good news front the process of vaccinating Americans has begun. The start is much sooner than what was predicted a few months ago. At the moment there are two vaccines approved and being used, one from Pfizer and another from Moderna. A third vaccine from Johnson and Johnson is likely to be approved next month and two more are likely soon thereafter. So far roughly 2 million out of a population of 330 million have been vaccinated.

Here in Collier county Florida the start has been chaotic, described by some as “out of control.” However, at least the hospital workers are getting the vaccine. Hopefully, as more quantity becomes available, the process will be worked out in a sensible way. There are about 54 million Americans age 65 and older according to the Census Bureau. It is going to take time to produce enough vaccine to vaccinate that many

older people. And then it will be up to local governments to provide a fair and equitable system for getting vaccinated.

However, the end of the pandemic is now in sight. It may take six months or more to vaccinate enough people to make it really safe to gather in groups, go out to restaurants, theaters and church services. But just the fact that the pharmaceutical companies have been able to provide vaccines so quickly is enough to lift spirits and begin the process of returning to a more normal economy.

Last week I wrote about “rebalancing” by major fund managers. Stocks did better than bonds in 2020 which caused the ratio between the two to tilt in favor of stocks. That forces managers of balanced funds to sell stocks and buy bonds. Data from Lipper, a division of Reuters, shows that individual investors have been behaving like the fund manager professionals. In the week ended the day before Christmas Eve, Lipper data show that U.S. based equity mutual funds enjoyed an inflow of \$354 million. I am sure the managers of those funds were pleased to have a net inflow. However, the Lipper data also showed that taxable U.S. bond funds enjoyed a \$9.527 billion inflow, the biggest in the past four months and several times the amount flowing into stock funds. U.S. money funds had an inflow of \$15.32 billion. The bottom line is that individual investors poured far more money into bond and money market funds than into stock funds. By favoring bonds and cash individual investors effectively rebalanced their portfolios.

While these amounts are substantial, they pale in comparison with the trillions of dollars sitting on the sidelines in the form of household savings. As the economy feels relief from the pandemic, we are likely to see consumer spending rise to satisfy pent-up demand. No matter the political outcome in Georgia that will lift sales and profits for a

lot of U.S. companies. The businesses that have suffered the most - like restaurants, hotels, airlines and cruise lines - will likely be leaders as that pent-up demand is released.

What happens in the longer-run will depend on the political results in Georgia. A dramatic rise in taxes, radical energy policies, and Medicare for all would take a big toll on the U.S. economy. On the other hand, a divided U.S. government could mean another good two years for stocks.

I will have the next market review and update one week from today on Wednesday January 13, 2021.

Happy New Year,

John Dessauer

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