John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday October 14, 2020

The presidential election is now just a few weeks away. The polls show Biden ahead by roughly ten percentage points. But when the question is changed to ask who Americans think will actually win the election, President Trump comes out ahead. The bottom line is that the election is a toss-up, President Trump's to lose.

At the end of last year, before COVID-19 struck, the U.S. economy was strong and growing. Both the Census Bureau and Federal Reserve reports showed the wealth gap shrinking and poverty declining under three years of a Trump administration. That was in sharp contrast to eight years of an Obama/Biden administration when poverty rose, and the wealth gap widened. If China had not produced a COVID-19 global pandemic there is no doubt the U.S. economy would today be solid and growing, giving Trump an almost certain shot at reelection. The virus has hurt the economy and Biden is trying to blame the Trump administration. The economic damage is enough to upset most Americans. The confusion shown by the polls is understandable. How the battle against the virus will be won is an unknown. Would Biden have done better? Probably not, because a President has limited power to deal with a pandemic. The power to determine the extent of lock-downs and public activity rests at state and local government levels. Still the pandemic clearly has upset what would have been a clear shot at a Trump reelection.

Last week stocks sank because of concerns about yet another trillion-dollar stimulus package. Speaker Pelosi and Democrats refused to accept anything less than a $2 trillion dollar stimulus package. President Trump walked away from that political ransom proposal. Federal Reserve Chair Powell did not help. He said the domestic rebound could still slip into a downward spiral if the coronavirus is not effectively controlled and growth sustained.

I think the editors at the *Wall Street Journal* have it right when it comes to another stimulus and the economy:

“Mrs. Pelosi’s calculation is pure political cynicism. Either Mr. Trump agreed to her terms, or she’d blame him for the failure and use it as an election issue. She didn’t want to risk giving Mr. Trump even half-credit for a relief bill before the election. She knows the media will spin it her way, and if Joe Biden wins in November she’ll be able to write an ever bigger spending bill disguised as “stimulus” next year.

You almost have to admire the audacity of her demands. Our sources say the White House’s final offer was in the range of $1.6 trillion, but Mrs. Pelosi wouldn’t take it. Think about that. A Republican President was willing to spend an amount that was half the federal budget only a few years ago, and Mrs. Pelosi said no. Some spirit of compromise.

Mrs. Pelosi’s biggest demand was more than $400 million for states, cities and tribal lands. This is a bailout for Illinois, New York, California and other Democratic states that refuse to adjust their budgets to post-Covid realities. It’s an income redistribution play from Florida and Texas taxpayers to blue-state public-union pensions. She also insisted on at least $500 a week in enhanced jobless benefits, which means millions of Americans would earn more by not returning to work.

Federal Reserve Chairman Jerome Powell stuck his chin into the debate on Tuesday by claiming the economy will suffer without more fiscal aid. But that’s far from clear. The economy is still rebounding in robust fashion, enough so that at their September meeting the Fed Governors had to update their too pessimistic predictions from June. St. Louis Fed President James Bullard told the Journal this week that the economy is healthy enough that no more monetary stimulus may be needed.

Data such as industrial production and, this week, service-industry activity have been strong. A rebounding labor market and a 14% savings rate pave the way for more consumer spending without $1,000 checks. The Atlanta Fed's GDPNow forecast for third quarter growth is 35.3% as of Tuesday."

The *Wall Street Journal* editors collected the facts and showed us a realistic view of current conditions. The pandemic has done a lot of damage. Too many Americans are still out of work and struggling financially. But fortunately, our economy is resilient enough to more than survive the virus attack. A 35.3% third quarter rebound will be welcome news even though that will not get us back to pre-pandemic levels. To get there we will need pro-growth policies from Washington. The question is, would a Biden administration swing too far left or be able to provide enough pro-growth policies to reduce unemployment and produce sustainable real economic growth?

Goldman Sachs economist Jan Hatzius has this to say about a Biden win in November: "All else equal, such a blue wave would likely prompt us to upgrade our forecasts. The reason is that it would sharply raise the probability of a fiscal stimulus package of at least $2 trillion shortly after the presidential inauguration on January 20, followed by longer-term spending increases on infrastructure, climate, health care and education that would at least match the likely longer-term tax increases on corporations and upper income earners."

Not all the experts at Goldman Sachs agree. Goldman Sachs equity strategist David Kostin has projected that Biden's tax plan would lead it to reduce its 2021 earnings estimate by 12%. "For many clients, the most important equity market implication is the potential for higher corporate tax rates." In other words, a Biden tax plan would likely be a negative for investors.

The cover of the October 3rd issue of *The Economist* headlines this: "Bidenomics. The good, the bad and the unknown."

The unknown is the biggest component. Goldman Sachs may think they can predict what a Biden/Harris administration will do. But with the Democratic party leaning so far left, odds are there would be some unpleasant economic policy surprises under a Biden presidency.

I will have the next market review and update one week from today on Wednesday October 21, 2020.

All the best,

John Dessauer