

## **John Dessauer Investments, Inc.**

### **John Dessauer's market review and update as of Wednesday October 28, 2020**

The good news is that major pharmaceutical companies including Johnson & Johnson and Pfizer are making progress developing vaccines. Pfizer says it may have early data from late-stage vaccines trials within a week or two. Others say they will have similar data available in November. We could have a vaccine within a month or so.

However, we will likely need several vaccines to provide shots for a billion people around the world. The pharmaceutical companies are concerned about what will happen when the first vaccine is available. They will need to keep working on trials with volunteers to develop enough vaccines to meet the global demand. If the FDA issues a quick emergency use authorization (EUA) then volunteers may well withdraw because they don't want to risk being in the placebo group. They will want the new vaccine.

Earlier this month the FDA said that a drug maker should continue to collect data in any ongoing trials for as long as feasible, even after getting an emergency use authorization, and work toward submission of a formal approval application as soon as possible.

Pfizer says it may have an ethical duty to inform at least some study volunteers that they have been given a placebo. It has proposed allowing them to move over to the vaccine arm of the study should its vaccine receive an EUA.

The bottom line is that developing a vaccine is only the start toward being able to vaccinate millions of people around the world. Most likely it will be several months after the first vaccine is approved before the U.S. and global economies will be able to vaccinate enough people to fully reopen their economies.

“Everything is hyper-politicized these days, so even the surprisingly strong U.S. economic recovery is being dismissed as a mirage. The truth is that growth is continuing, and even the labor market for lower-income workers is reviving, though it has become increasingly bifurcated between states that reopened sooner and those that maintained longer lockdowns.” (The *Wall Street Journal* 10/23)

The data that is emerging on the recovering U.S. economy is surprisingly good - far better than expected. This is bad news for the Democrats and the popular media, so they bury the news, try to take credit or dismiss it as temporary and misleading. But as the editors of the *Wall Street Journal* say, the strong revival is the reality. For example, according to the Bureau of Labor Statistics latest jobs report, the layoff rate in August hit the lowest on record. Employers are raising wages. Third-quarter median weekly earnings increased 8.2% year-over-year and 9.2% for the bottom 25% of workers. The latest government report shows that retail spending in September was up 5.4% year-over-year. Home construction is booming, with builders reporting shortages of materials and workers.

The Atlanta Federal Reserve now estimates the economy grew 35.3% in the third quarter and further growth of 5% or more is possible in the fourth quarter.

“The story that the media haven’t told is that states that have maintained longer and stricter business restrictions have been slower to recover. The unemployment rate in September was 12.6% in Nevada, 11% in California, 10.5% in Rhode Island, 10.2% in Illinois and 9.7% in New York compared to 6.7% in Arizona, 6.4% in Georgia, 5.4% in Wisconsin and 5% in Utah.

The U.S. economy overall has plenty of momentum, and the biggest risk isn't a reduction in government relief, as the liberal intelligentsia proclaim. It's political leaders who refuse to reopen schools and businesses no matter the virus risks, and threaten major new burdens on hiring and investment." (The *Wall Street Journal* 10/23)

Stocks have been basically doing nothing for the past couple of weeks. They have been up, looking like new highs were coming only to pull back towards recent lows. Earnings generally have been better than expected but some individual stocks were hard hit even after showing growth year-over-year and beating expectations.

Morningstar keeps track of inflows and outflows from all sorts of mutual funds. Their data show that individual investors continued to pull money out of equity mutual funds in September. In that one month the equity fund outflow was \$21 billion. The one tiny bit of good news was that the September outflow was the smallest amount since April's \$18 billion. However, for the third quarter the total \$119 billion outflow was a record.

International equity funds suffered also, with a \$3.2 billion outflow, the seventh consecutive monthly outflow. That is the longest string of international equity fund outflows since the 2008-2009 financial crisis.

Taxable bond funds lead all fund categories in September with \$39 billion in inflows. They also netted a healthy \$202 billion inflow in the third quarter, just shy of the \$203 billion record inflow in the second quarter. Investors looked for safety with at least some, though very modest return.

It is encouraging to see stocks hold their ground in the face of such large equity fund outflows. Once again it seems that individual investors are giving in to popular fears

and ignoring the underlying strength in the economy. Once there is a vaccine and it has become effective, the economic recovery is likely to gain strength. Investors who sold their equity mutual fund shares are not likely to buy back quickly enough. As in past market difficulties, the long-term rewards will go to investors who were patient and invested for the long term.

Election day is early next week. It will be difficult to provide economic and stock market analysis until at least most of the results are known. Therefore, I will not have a market review and update next week. Hopefully by the end of the week we will know enough about the House, Senate and President to be able to evaluate likely changes in economic policy.

Therefore, I will have the next market review and update two weeks from today on Wednesday November 11, 2020.

All the best,

John Dessauer

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