

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday November 11, 2020

I thought by now the election results would be official and clear. However, that is not the case. The media projects that Biden is the winner of the presidential election. But the media does not decide elections. Elections are decided by a complex process of ballot counting across all 50 states. The Trump campaign alleges there are many irregularities in several states that when corrected, could tip the balance in his favor. It will take several weeks to resolve all the ballot issues. For now, I assume Biden has prevailed and will eventually become the 46th President. This raises the question of what lies ahead for the economy and financial markets under a Biden administration.

Larry Lindsey is an economist and president of the Lindsey Group. He was an economic advisor to President George W. Bush. On October 25 he published an article titled: "The Trump Boom Is Real." He explained: "In sum, the Obama recovery, which was subpar in virtually all respects, ultimately underperformed the Fed's expectations in terms of GDP growth and the unemployment rate, while the Trump portion of the recovery consistently outperformed expectations."

If Biden replaces Trump will there be radical changes in economic policy that could derail the recovery from COVID-19? The stock market's performance last week, as the tally pointed to a Biden win, suggests there will not be radical change in economic policy.

On November 5 the editorial board of *The Wall Street Journal* Had this to say: "Joe Biden's Non-Mandate." "He may win the White House, but his party and progressive ideas lost.

As the votes continue to be counted in swing states, Joe Biden has the best chance to become the next President. But the closer we inspect the nationwide election returns, the more the result looks like a defeat for the rest of his Democratic Party and especially for the progressive agenda. Mr. Biden would take office without a mandate beyond addressing COVID-19 and not being Donald J. Trump.”

Democrats spent hundreds of millions of dollars expecting an increase their majority in the House. Instead they lost 6 or perhaps more seats. They will still have control but with a sharply reduced majority. Democrats also spent a hundred million dollars or more expecting to flip the Senate to their control. That did not happen. They did flip two seats but then lost one of their own. Georgia’s two senate seats are heading for a January runoff. So, we will not have an official answer on which party will control the senate until after the runoff. But both Republicans handily beat their Democrat opponents in the general election. And both came very close to reaching the 50% mark that would have prevented the runoff. A third-party candidate spoiled things by attracting just enough votes to force a runoff. But in January it will be a two-party race between Republicans and Democrats. The odds favor the Republicans and the Democrats would have to win both seats to achieve a tie where Vice President Harris would be the tie breaker. As of now the Republicans hold a 50-48 majority in the Senate. If they win only one seat in Georgia, the tally would become 51-49 leaving the Senate in the hands of the Republicans.

Former Attorney General Eric Holder led a project funded with \$100 million or more to flip state legislatures to the Democrats. He failed. Not only did all Republican state legislatures hold, the Republicans flipped both legislative bodies in New Hampshire.

Looking across the country there clearly was no blue wave. The fact that Republicans did so well is remarkable given that the Democrats had nearly all of the media, Silicon Valley billionaires, and all of the leading cultural figures and institutions helping them. And spent two or three times more than Republicans for Senate seats and state legislatures. Voters may have elected Joe Biden but they have left his party and its radical ideas behind.

In two years all House seats and several Senate seats will come up for election. A leading Democrat in Virginia is warning fellow Democrats that they have to abandon socialism and defund the police or risk losing the House in 2022.

The bottom line is that even with a Biden win, for at least the next two years, economic policy will likely bear more resemblance to the Trump agenda of lower taxes and less regulation.

This brings us to the economy and financial markets. The Federal Reserve says the virus still poses considerable risk. Fed chairman Powell at a recent news conference said: “Economic activity has continued to recover” but “the pace of improvement has moderated.” Shortly thereafter the Labor Department reported that the private sector added 906,000 new jobs in October. Overall employment rose by 638,000 as government jobs declined by 268,000.

The unemployment rate fell to 6.9% in October from 7.9% in September. The pessimistic forecasts including from the Fed keep turning up wrong. In June the Fed predicted a 9.3% unemployment rate by year end. In September they cut that expectation to 7.6%, still too pessimistic as the rate is already 6.9%.

“Too many people are still out of work, but progress has been remarkable since the government induced recession. The economy will continue to grow as long as the U.S. avoids policy mistakes, including another lockdown.” (*The Wall Street Journal* 11/7)

The terrible COVID-19 virus came from China. We now assume it will take a vaccine before economic activity can return to pre-pandemic levels. I was jolted on November 6 when I read the following in *The Wall Street Journal*: “U.S. Firms Get Another Boost From China”

Business and consumer activity inside China has returned to pre-pandemic patterns in many ways. Cities are bustling with crowds of office workers and traffic on the streets. Restaurants, shopping malls and gyms are packed. Movie theaters are open. And domestic air travel in August was close to levels not seen since before the pandemic.

It is not clear why China is doing so well dealing with the virus. There is a vaccine being tested in China and one report says hundreds of thousands of people have been vaccinated successfully. Or it could be that the Chinese lockdowns worked better than ours. The bottom line is that China is showing us that there can be strong economic life after the pandemic.

I will have the next market review and update one week from today on Wednesday November 18, 2020.

All the best,

John Dessauer

© November 2020