

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

### **John Dessauer's market review and update as of Wednesday November 18, 2020**

“After Pfizer's Covid Vaccine Bull's-Eye, Stock Market Euphoria Is Justified.”

*(The Wall Street Journal 11/10)*

On Monday November 9, Pfizer said that its vaccine in late stage trials was 90% effective and safe, meaning minimal side effects. This is significantly better than expectations. The FDA (Food and Drug Administration) set a 50% effectiveness rate for considering expedited approval. Europe says it may approve a vaccine that is less than 50% effective. And in a good year, the annual flu vaccines are only 30%-60% effective.

This is a credit to the innovative capacity of the private pharmaceutical industry. Pfizer developed the vaccine using its own capital. Politicians from both parties should be careful when promising to keep vaccine prices low. Pfizer needs a return on the capital. If Washington prevents that, there would be far fewer resources available for combating the next virus. The good news is that the Federal Government has promised Pfizer \$1.95 billion for 100 million doses. That will vaccinate 50 million people free of charge. Health-care workers and Americans most at risk are likely to be the first vaccinated. But it is now probable that the vaccine will be available to most Americans by April 2021. That would mean the U.S. would reach herd immunity much sooner than experts predicted.

Central bankers here, in Europe, and in the UK have welcomed the Pfizer vaccine news, but also are warning that in the near term there are significant economic challenges. Federal Reserve chair Powell on November 12 said: “It's just too soon to assess with any confidence the implications of the news for the path of the economy

especially in the near term. With the virus spreading, the next few months could be challenging.”

The Fed has promised to do its part in supporting the economy by continuing the massive billion dollar a month bond buying program. And hopefully there will be another fiscal package from Washington now that most election results are known.

There also are technological challenges such as having enough super-cold storage facilities around the country. Storing the Pfizer vaccine requires storage at minus 94 degrees Fahrenheit, significantly colder than requirements for other vaccines.

As a result, states, cities and hospitals are scrambling to buy ultra-cold freezers that can safely store the Pfizer vaccine. The U.S. CDC says they should hold off and not panic buy freezers because the first vaccine doses will be in limited quantities and rapidly deployed, reducing the need for storage in specialized freezers. But since Pfizer’s vaccine could be approved within weeks, and production of large amounts have begun, it looks as if the states, cities and hospitals are right to be prepared with enough cold-storage capacity. Once approved, there will be a surge in demand for the vaccine. It requires two doses and is fully effective twenty-eight days after the first injection.

“It seems to be a proof of principle that we can make a vaccine, that it can make an immune response, that it does look safe in individuals that have been studied so far and that it actually works in the real world to protect against Covid. That’s all you can hope for in any vaccine. And for it to have occurred this quickly and this rigorously is really encouraging,” said Dr. Buddy Creech, director of the Vanderbilt Vaccine Research Program in Nashville Tenn.

Pfizer says it expects to produce up to 50 million doses this year - enough for 25 million people and 1.3 billion doses in 2021. Pfizer is not alone - there are several other vaccines under development in late stage trials. Once approved, their makers say they can produce billions of doses next year.

The timing may not yet be crystal clear, but at least we know there is an end to the pandemic and lockdowns coming soon. Hopefully, politicians will not panic in the near term and do more damage to the economy by shutting down businesses.

When asked about what worries him the most, Fed chair Powell said damage to the productive capacity of the American workforce. He pointed to the long-term impacts of women leaving the labor force, kids not getting education, and small businesses going bust. Managing our way through the Covid over the coming months will be tricky business. Mistakes are to be expected. But fortunately, the economy is stronger today than was expected just a few months ago.

The economy bounced back, with GDP up 33.1% in the third quarter. About half of the 22 million jobs lost in the pandemic have been recovered and the unemployment rate has dipped to 6.9%. Initial claims for unemployment continue to decline, down to 709,000 in the week ending November 7. And continuing claims for unemployment for the week ending October 31 fell by 436,000 to 6,786,000.

Inflation data, while still tame, show there is life in the underlying economy. The Consumer Price Index (CPI) showed both the headline rate and the core rate, which excludes food and energy, were unchanged in October after rising 0.2% in September. Over the past 12 months the headline and core CPI were up 1.2% and 1.6%, respectively. The gloom and doom forecasts of destructive deflation have been wrong.

The personal savings rate - at a healthy 15.8% - shows that there still is significant consumer spending capacity.

Between now and when a vaccine is distributed and effective the stock market is likely to be volatile. The economy, while healthy and recovering, is not likely to have surged again this quarter. More likely is that the growth rate for the fourth quarter will be modest. A growth rate of 5%-10% is what many expect. But the vaccine news is likely to keep getting better. That will provide a real basis for optimism about the future for both the economy and stock market.

I will have the next market review and update one week from today on Wednesday November 25, 2020.

All the best,

John Dessauer

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