John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday November 25, 2020

It's for real. Pfizer has applied to the FDA for emergency use of its Covid-19 vaccine. Moderna will not be far behind. Recent data show that both are about 95% effective - far better than the annual flu vaccines. Millions of doses are being made ready for distribution. Distribution plans are not yet complete, but we do know that health care workers will be the first to be vaccinated. We don't yet know whether the process will be at physicians' offices or at hospitals and clinics. However, the evidence tells us that by spring or early summer next year tens of millions of Americans will be vaccinated and ready to resume normal activities such as shopping and traveling.

Economists are now busy trying to figure out what the post-pandemic economy will look like. Last week Fed Chairman Jerome Powell said, "We're not going back to the same economy—we're recovering, but to a different economy."

It is clear that we have changed in many ways in order to deal with the virus. Stay-at-home to work has allowed businesses to keep functioning while reducing the risk of virus contagion. Individuals have invested in technology so they can work from home. Likewise, businesses have also invested in technology and in additional services such as home delivery. The results have been astounding. Restaurants that partnered with home delivery services like DoorDash have seen related sales grow explosively. Will home delivery suffer when consumers feel safe going out to restaurants again? There probably will be some decline, but most likely, once spoiled by home delivery many consumers will continue to avail themselves of that service.

There likely will be changes that hurt, such as commercial real estate in big cities. Stay-at-home will likely become permanent for some workers because they will prefer working from home rather than commuting and businesses will support work from home because that can reduce costs and keep skilled workers happy. In addition, the riots and rising crime rates in big cities have scared residents. Post office data show that at least 300,000 families have recently left New York City. I would expect similar outflows in cities such as Seattle Washington and Portland Oregon because of the rioting, burning and continuing chaos.

The travel business has been devastated. Hundreds of cruise ships are sitting idle waiting for relief from the virus. Some economists postulate that travel may be permanently damaged because even with a vaccine people may not feel safe cruising, flying, or staying at hotel resorts. However, there is one case pointing in the other direction. Royal Caribbean has designed short cruises with all sorts of changes. The ships will sail at reduced capacity. Buffet food service will not be allowed. There will be testing before boarding, strict limits on shore excursion behavior and enhanced onboard medical facilities. Royal Caribbean recently asked for volunteers to go on these new cruises. They were overwhelmed as more than 100,000 people promptly applied to be volunteer cruisers. This data indicates that once the vaccines have been widely distributed demand for cruising will recover to pre-pandemic levels.

Personal savings is another positive for a return to mostly pre-pandemic economy. Despite millions of Americans being out of work and the economy struggling, between February and October, U.S. savings account balances rose $2 trillion, notes Ian Shepherdson of Pantheon Macroeconomics. He added “There’s a lot of unknowns, but the thing I'm most confident about is there's a ton of cash to finance spending and a ton of untapped demand for services."

Remember the whining and complaining - especially by Blue State governors - when the pandemic struck? They were sure they needed a federal government bailout because of the lockdowns. Well that has not been the case - states are experiencing a surge of tax revenue. Of course, that is a well-kept secret. But the truth is that California recently reported that tax revenue for this fiscal year is running $9.9 billion (18.6%) above projections. Personal income tax revenue in October was $1 billion (15.6%) higher than in October 2019. For the last four months, overall revenue has exceeded spring forecasts and even 2019 collections. In New York, overall tax revenue was up 4.3% in September compared to September 2019. A rebounding stock market has produced a gusher of revenue for blue states with sharply progressive tax systems. Red states have actually suffered. Tax collections in Texas, for example, were down 8.25% in September and October from the previous year. That was due mostly to lower oil and gas revenue. But Texas Governor Greg Abbott isn't complaining. *The Wall Street Journal's* editorial concludes: "Most states will survive the pandemic fine without more federal aid if they don't reimpose lockdowns as Oregon, Michigan and New Mexico have, though some have pre-existing problems that Democrats want Congress to relieve."

There is good news for investors. Morgan Stanley has looked at all the facts and concluded that their 2021 target for the S&P 500 is too low. They see earnings rising next year and as a result have raised their target from 3,350 to 3,900. In the near term they expect the S&P 500 to trade in a range of 3150 to 3550 as the market continues to deal with virus uncertainties and the ongoing election confusion.

Michael J. Wilson, Morgan Stanley equity strategist predicts a “strong rebound in GDP feeding robust top line growth while 2020’s cost cuts allow for rebounding margins and powerful incremental flow-through that drives operating leverage and margins higher than expected by the consensus.”

I will have the next market review and update one week from today on Wednesday December 2, 2020.

All the best,

John Dessauer