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PALOS

Weekly Commentary

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CONTENTS

Macro View

By Hubert Marleau

Relax Max Go with the Flow Joe

Submitted November 28, 2020

A Snapshot of the Week Ended November 27, 2020:

It is pretty certain that Thanksgiving and Christmas pose super-virus spreader event risks which could lead to tighter imposed or self-imposed restrictions, in turn weakening business activity. Yet, the S&P 500 index registered a weekly gain of 2.3%, to close at a new all-time high of 3638 on Black Friday. The passing of the contentious election, the emergence of efficacious vaccines and robust economic data, have taken the edge off the worst fears that the pandemic could bring over the winter months.

Outside of some recent weaknesses in the labour market, economic prints which cover October were uniformly positive. New orders of capital goods are surging, manufacturing exports are recovering briskly, the money supply keeps on rising and the housing boom is still on. On November 25, the Atlanta Fed's GDPNow model for real GDP growth in Q/4 was raised to 11.0%, up from 5.6% on 11/20, 5.4% on 11/17, 3.5% on 11/6 and 3.2% on 11/3. Business activity just keeps on rising. What is particularly interesting is that aggregate wage and salaries, excluding government transfer receipts, totalled $9576.9 billion in October and are now less than 1.0% from the February peak. In this regard, the economy is set to return to where it was last February with considerably lower interest rates, substantially less household debt and significantly higher personal savings at a time when more fiscal stimulus and monetary expansion is on the horizon.

Outside the surge in new Covid-19 cases, hospitalizations and deaths, a much brighter future is anticipated next year when one or more vaccines become widely available. Goldman Sachs, the big Wall Street bull, offered a timeline on widespread inoculation and herd immunity. The investment banker used global production projections from its health care equity analysts for Pfizer, Moderna, AstraZeneca, Novavax and Johnson & Johnson. It also incorporated purchase agreements and options across countries, and analyzed survey responses from Ipsos to tackle the demand side equation. It is expected that the first vaccines will be administered to high-risk groups starting in mid-December with widespread availability in April. It's an irking

Macro View cont.

By Hubert Marleau

quandary because many people may wait before taking a shot in the arm, wanting to learn about possible safety issues, side effects and proof of effectiveness. Moreover, reliance on AstraZeneca and Johnson & Johnson is a bit problematic at this juncture. Nevertheless, Goldman argues that “large shares of the population will be vaccinated by the end of Q2 in all major developed countries”. The bottom line is that the UK should vaccinate 50% of its population by the end of March and a 50% threshold reached in April for the U.S.and Canada.

Acknowledging that the market is a discounting machine, one should not be surprised to see that investor confidence is ubiquitous as reflected in frothy sentiment measures. Barrons’ Randall Forsyth wrote that according to Barclays’s Maneesh Deshpande, “individual investors are rushing to take advantage of the good news, pumping some $31 billion into stock funds in the past week, on top of $49 billion in the previous week”. It appears that older investors have been similarly getting on board in the last few months.

It's captivating to see that investors are not bothered about any downside risks. For example, the Cboe Volatility Index, known as the fear index, has tumbled 50 % since october 20. Meanwhile, the spot price of gold has fallen more than 7%---a mysterious event given the talk of reflation, a weak dollar and rising copper prices. The CNN’s Fear and Greed Index, my favorite sentiment measure, touched 92 on Friday, a level signaling greed. Evercore ISI strategist Denis DeBusschere observes that the components of the index do not correlate well with actual gains and losses. It just gives us what time it is. In my judgement, it's not a question of irrational exuberance or extreme valuations when it comes to 2021. Presently, the S&P 500 (3639) is 7.5% higher than the pre-pandemic peak of 3386. Wall Street’s top strategists have price targets ranging from 4200 to 4500 for year-end 2021.

The Shifting Factors of Production in a Post Covid World:
The Preface

Over the past few decades, the western economies were characterized by falling inflation, rising employment and declining productivity. After the pandemic, the course of the economy will profoundly change. We are about to enter a new era of unexpectedly rising productivity, increasing inflation and declining employment growth. In other words, the long-term N-GDP growth will be very different from that of the past. There are signs of structural changes in our society where the old elite is being replaced by a new and younger elite which will likely be much more adventurous politically and business wise.

Firstly, we are in the midst of a major demographic reversal. The cohort of people of working age will be negatively affected by the slowdown in population growth and the reduced willingness of working-age people

Macro View cont.

By Hubert Marleau

to join the labour force. Secondly, artificial intelligence, robotics blockchain and digitalization are rapidly diffusing throughout the world. Thirdly, gross income and wealth inequality will revise and reset fiscal and monetary policies in highly inflationary ways that were inconceivable by the older elites.

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