CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

November 29, 2020

The Election, the Virus, the Vaccine

Momentous weeks. We have a new president elect and a president who will not concede that he lost the election. Last week—some three weeks after the election—the administration agreed to permit the transition phase of the post-election period to begin. Coronavirus infections rise in a terrible third wave in America and at alarming rates in Europe, where the virus had been seen to be well-contained. Hospitalizations increase at a rate that threatens to overwhelm hospitals in many American communities; deaths are again rising, recently at the rate of 2000 per day. Against this are announcements from Pfizer, Moderna and AstraZeneca about the efficacies of the vaccines being developed, from which it appears likely that effective vaccines will be available in 2021. The light at the end of the Covid tunnel is closer than we thought a month ago.

The Fed's monetary support and its vast injections of money into the system have been more important to financial markets than the weakness or strength of the economy and, indeed, more important than the health or illness of Americans.

So far, Mr. Trump's intransigence and prevarications have not adversely affected financial markets, however harmful they are to our democracy and to the process by which the new administration prepares to take office on January 20th. The many legal challenges brought by the Trump campaign and its allies are being withdrawn by the Trump team or dismissed one after another by the courts adjudicating them. Although Mr. Trump has not conceded that he lost the election and although his efforts to overturn the election results continue, a peaceful hand over of executive power seems likely.

As for the virus and the vaccines, problems are considerable. Before one or more vaccines is approved, manufactured, delivered around the world and administered, time will pass, probably many months. During this time, and given the uncontrolled spreading of the virus in America, economic activity falters once again. It is notable that, before the election, there was no new round of federal fiscal support for the economy. Whether even a relatively modest package will be enacted in December or early January is unknown. If the Republicans retain control of the Senate--as will happen unless the two Georgia Senate run-off elections go to the Democrats--the prospects for further support for the economy from the federal government following January 20th are uncertain. Mitch McConnell has consistently asserted his unwillingness for another round of big federal support.

By

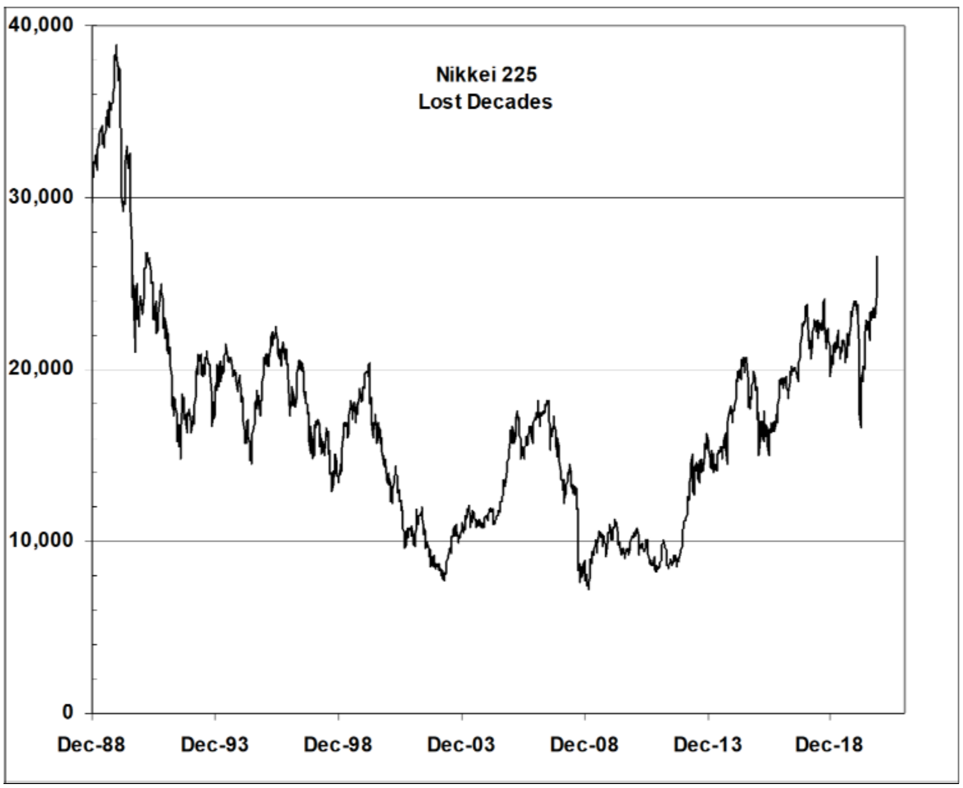
Jack Mayberry

The health or weakness of the real economy is of secondary consideration to financial markets. Odd as this seems, the experience of the last six months has shown us what matters now. The first round fiscal support provided by the CARES act that became law in late March and the immense and ongoing monetary support provided by the Federal Reserve since then demonstrate what really matters to markets. The absolutely enormous liquidity provided by the Fed has been far greater than needed to sustain economic activity. This excess

The chart below shows the principal stock index for Japanese stocks. Note that the index has just reached levels last seen in 1991. It is worth pointing out that, since the early 1990s, Japan has generally had interest rates near zero, periodic bouts of deflation and very little real economic growth. In recent years, the same obtains in Europe and America. Are we becoming 'Japanified?'

liquidity has flowed to stock and bond markets and to housing. The prices of these assets have risen sharply. The Fed will certainly keep the monetary spigots open wide. With that in mind and with the risk of a contested election seemingly behind us, Core is making new investments.

As mentioned in previous letters, Core's focus is on the equity markets in East Asia and, to a lesser degree, in Germany. Although I have in mind some investments in US equities, I expect to continue to invest more in Asia and Europe than in America. (As relates to my comments above about the Fed's excess liquidity support for stocks and bonds, note that the liquidity flows to non-US investments as readily as to American ones.) China, Korea, Japan, Taiwan and others have been far more effective in dealing with this Coronavirus than have been the US and Europe. In previous experiences with MERS and other Coronavirus epidemics, those countries became accustomed to actions that have helped with this one, including the wearing of masks. And of course, in the case of China, the authoritarian state does not just make recommendations about behavior, it commands them. It appears that Koreans, Japanese and Taiwanese have far greater trust in government and a far greater willingness to follow the recommendations than do many in America. Because these countries have been able to suppress the incidence of Covid infections, their economies have been able sustain growth to the good of their stock markets.



Moreover, the Asian stock markets offer far greater value than does the American market. Asian markets are markedly less expensive than the US market, no matter how one measures: The ratios of stock prices to the underlying earnings of companies, of stock prices to underlying value of assets, of stock prices to sales of companies all favor Asian markets over American. The chart in my last letter shows how Asian markets have under performed US markets in recent years.

To fund these new investments, Core has reduced our long-standing investments in gold and long-term Treasury bonds. These investments served us very well, particularly in the first months of the plague. We retain positions in both and may reduce them further in the months ahead.

This very strange year draws nearer to its close. We will learn in coming weeks how the health of Americans was sustained or worsened as a result of visits—for those who made them—during this Thanksgiving weekend. Then come the year-end holidays that many of us will celebrate in hitherto unexpected ways. As 2021 unfolds, we should be able once again to travel and congregate without the risk of shortening our lives. Let us hope.

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