MULVIHILL

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"Nothing so undermines your financial judgment as the sight of your neighbor getting rich". - J.P. Morgan

The political and social unrest in the U.S. reveal that something between a circus and a train wreck is taking place. You might just shrug your shoulders and shake your head if it were not for the fact the world desperately needs the globe's largest economy and so-called bastion of democracy to be operating on a solid footing. The impeachment trial resulted in the expected result, serving only to once again display the nonsense and lack of useful discourse and debate when members of Congress rise to the podium. Not surprisingly Trump and his minions continue to claim the election was fraudulent. The abuse being heaped on the Republicans who voted guilty at the impeachment trial shows how real the repercussions can be if one stands up to the Trumpers. While I had hoped for better, I can at least understand not wanting to throw your whole political career away. Much more deserving of ridicule are senior, long-time politicians with no need for re-election support who still have no spine to say Trump is wrong. Amanpour & Company on PBS is my favorite newsmagazine show and as an example she very recently had an interview with Terry Branstad. Mr. Branstad is a 73-year-old who was Governor of Iowa for 20 years and Ambassador to China before resigning last fall. His comments on China were insightful and well spoken but when Ms. Amanpour asked him very directly at least four times if he believed the election was rigged he blathered on and was totally unable to answer no.

Racism is a difficult topic to tackle but can't be ignored and unfortunately has become a large part of the current narrative and debate. Recently the Republican members of the Georgia State Legislature (I assume peeved about the loss of the two Senate seats) introduced a bill to ban pre-election voting on Sundays, which would negate the "souls to the polls" black voter drives. A similar bill in North Carolina in 2014 was found to be unconstitutional after the State argued in court that Sunday voting was "disproportionately" black and democratic.

Back in Washington the $1.9 trillion stimulus package continues its slow march through Congress and in some form will be passed into law with $1,400 checks being sent to those in need and additional support for the unemployed. Stimulus is here to stay. President Biden wants it; Treasury Secretary Yellen wants it; Fed Chair Powell wants it; and Bernie Sanders, now chair of the Senate Budgetary Committee, wants it. I am reminded of the old expression the fox is in the henhouse.

Even given the possibility the pandemic gets worse, it is difficult in my opinion to foresee a recession with everyone on-side to provide whatever money is needed to ensure it doesn't come to pass. That may well be seeing things too simplistically but Occam's razor says don't complicate things unnecessarily, so I won't. (Until I'm forced to.)

Like the economy the market continues to ride a wave of liquidity and momentum. The Fed and the Federal Government are providing liquidity, household savings have gone through the roof during the pandemic and there are signs of money flowing out of bond funds and into equity funds. If the recovery actually comes to pass that cash will be looking for a home and stocks seem as likely a destination as any. As always there are still serious concerns to be considered. Foremost in my mind is assessing how much of the good news has been reflected in the market already, and secondly but perhaps more importantly, will we see significantly higher interest rates which traditionally have had the effect of derailing bull markets. Arguments are being made that an economic recovery and inflationary price pressures are causing longer term rates to rise, and that the Fed will start to tighten monetary policy sooner than is currently expected. The recent increase in the 10-year Treasury Yield certainly raises a red flag but as I see it the yield is still historically low and is a reflection of an improving economy not yet fears of longer term inflation. I take Fed Chairman Powell at his word that higher regulated short rates are not a near term option. In fact I believe the Fed is fully prepared to let the economy run hot for some period to convince themselves and the rest of us that we will not be returning to the slow, muddling along growth we have experienced over the last decade. The Fed's Vice-Chairman Richard Clarida said in a recent speech that rates won't rise just "because the unemployment rate has fallen below any particular econometric estimate of its long-term natural level". We also know that it is now policy to let inflation exceed the 2% level that had previously been recognized as the target. The Fed's twin mandates of full employment and price stability are even more ephemeral than usual and it seems possible that a new longer term policy of sustained encouragement to growth is in the cards which should be a positive for equities. It doesn't take much deep analysis to realize that such a policy combined with a rapidly recovering economy increases the chances of losing control of the inflation rate. There is definitely going to be a period of reflation as we gravitate to a more normal existence. In 2020 the price of airline tickets was down 21%, hotels 13% and sporting events 21%. Just the revival of the hospitality and leisure industries ensures a higher inflation rate. The question will be is it a short-term blip or a reason for more concern. One suggestion I think has merit is to focus on wages and unit labor costs as longer term inflation indicators as opposed to the level of the Consumer Price Index. By the way do not fixate on annualized or year over year economic reports in the 2nd and 3rd quarters of this year as the comparisons will be severely skewed by the drop and recovery of one year ago.

And then there's Bitcoin. As a member of the first cohort of baby-boomers and the guy who counselled his bartender to be careful investing in a possible bubble when Bitcoin was trading at less than $500, I was hoping it would go away without comment from me. Now with it changing hands at a price above $50,000 and with a market cap around $1 trillion I feel the need to say something however unwise that may be. As for the price I have no personal basis to speculate on what it is worth, although someone just paid that price and it's no longer strangers in dark places but recognizable investors and companies so that gives it some validity. I do believe that there is some measure of "fear of missing out" or as J.P. Morgan (the guy not the bank) so nicely explained; "Nothing so undermines your financial judgment as the sight of your neighbor getting rich". (Which could apply to the stock market as well.) What I do feel comfortable saying is that we are seeing everywhere around the world a loss of faith in traditional institutions such as governments, central banks, banks, courts of law, etc. Bitcoin is the antidote to your wealth being manipulated by those forces.

Gold used to be the asset of choice when concerns about the value of fiat currencies arose, and still is, but Bitcoin is also becoming such a store of value. Both assets have the unfortunate tendency to be volatile so "store of value" requires your personal definition.

In summary we are counting on vaccines defeating the Coronavirus leading to strong growth globally without inflation getting out of hand and that elected officials can find common ground not only in Washington but around the world. A lot was written that once 2020 and Donald Trump were in the rear-view mirror all would be well. It has proven to be not that easy except of course in the case of the stock market.

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