*Despite having experienced many calamitous events over my many years in the investment business such as 9/11 and wars in the Mideast, I still find it awkward and uncomfortable writing about financial markets at times like today when there is so much suffering in the real world. The coronavirus is the most important factor in the near-term outlook for the stock market. However, it is not the disease itself but rather its impact on the economy due to restrictions and lockdowns or conversely an expected recovery in 2021. It seems inevitable that the current spike in cases will cause governments to impose more regulations to curb the increase with the consequent effect of slowing economic growth. Offsetting those concerns though is the discovery of two amazingly effective vaccines that have caused investors to look past the short-term negatives to a time not that far off when those vaccines will allow a return to some normalcy. It is quite remarkable how quickly these discoveries were made given we are told, the previous record was four years to find a mumps vaccine in the 1950's. Pfizer and Moderna have pre-manufactured doses to be distributed as soon as an Emergency Use Authorization (EUA) is quickly provided. It won't be until the second quarter that the vaccines will be widely available, but high-risk candidates such as the elderly will be first in line and should bring down deaths and hospitalizations early in the year. Of course, we need to get through U.S. Thanksgiving and the festive season before that and it is highly unlikely we will see any improvement as people congregate for the holidays. Another question is how many people will take the vaccine, as current surveys suggest it is an even split between those who will and won't. Whoever is responsible for names like "Emergency Use" and "Operation Warp Speed" did us no favor in instilling confidence in people. Nevertheless, I believe the efficacy and safety record of both vaccines and the approval of experts like Dr. Fauci will bring most vaccine hesitant folks onside but not the committed anti-vaxxers.*

*The vaccines have made the light at the end of the tunnel easier to see and the stock market as a forward-looking entity has responded to the upside, but what of the economy in the meantime? Since the disaster that was the second quarter of 2020 caused by the lockdowns following the original diagnosis of the virus, the US economy has shown unexpected strength. Subsidized in good part by fiscal support payments retail sales, housing and unemployment have rebounded but those payments have ceased and no replacement is yet in sight. The relaxing of restrictions and reopening's allowed for growth but now appear to have been much too lenient. Consequently as the expected reintroduction of many of those restrictions takes place there will be a serious impact on the economy in the near term. Some have expressed the opinion that the huge increase in the personal savings rate will provide a buffer to maintain spending, but I am not convinced that is sufficient. The Fed maintains its pledge to provide support where needed but the real requirement to get through this weak patch is, I believe, a new stimulus package from Congress. So far that has proven illusive.*

*So what are the chances for a stimulus package in the near term? First of all, the January 5th Senate runoff in Georgia has the potential to be a real game changer. If the two seats go to the Democrats all bets are off. The Senate will be divided 50/50 and Democratic Vice President Harris will have the tie breaking vote. A sizable stimulus package will go through quickly and we can expect fiscal spending on infrastructure etc. and other legislation like student loan forgiveness. However, that is not the predicted outcome and a Republican Senate majority means more gridlock. Whether to persuade voters in the Georgia races or in the 2022 bi-elections, both parties want to put the blame on the other side and it is leading to no good outcomes. Having said that, I believe the reality of the situation will force their hands and some package will be forthcoming. As to when, I would think the odds favor after the new Congress is seated January 20th. There is one of those stopgap spending bills that has to be passed by December 11th to keep the Government functioning and some money may be provided under that legislation. Finally, even if some compromise is reached near term there is a chance Trump won't sign it. Which makes me wish that as Trump exits maybe* *he could swing by the Capitol Building and take McConnell and Pelosi with him.*

*Most grizzled veterans like myself when confronted with an uncertain outlook fall back on the old aphorism, let the market speak to you. To me it's telling us that all will be well, and that by the summer of 2021 the vaccines will have broken the back of the pandemic and an economic recovery will be in the full swing. Evidence includes: the S&P 500 has traded to a new all time high; small caps as represented by the Russell 2000 Index are outperforming; new 52 week highs on the NYSE are the highest in 3 years; and stocks above their 200-day moving average are at a five year high; all three indicate broad participation. The big high tech stocks have been somewhat weaker after being responsible for 2/3 of the S&P return this year, but if a recovery is truly in the cards, the rest of the Index can begin to pull their own weight and recently there have been signs of value stocks outperforming providing some confirmation. The S&P P/E ratio is high on an absolute basis but relative to bonds is still lower than historical averages. Sentiment measurements are breaking out to the upside: the Bank of America Global Fund Managers survey hit a new multi-year high so professional investors are finally getting on board; the AAII Investor Sentiment survey which tracks smaller players moved up 17.9% in just the last week to 55.8% bullish. Sentiment indicators are easy to interpret in hindsight but not so much during a trend. It's a contrarian indicator but only at major turning points and usually isn't recognized until after the fact. You don't want to be the last buyer, but you won't know until it's too late. Unfortunately, that guy might be me, after months of being on board but a cynic about the market I can't deny that the market is sending a message to be positive.*

## Disclosures