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Information for Decisions™

Sinai's Economic and Market Perspectives

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Lots Happening— Election, Economy, Spectacular Earnings, Biden and Republican Senate Market Rally— But Then What?

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Lots happening this week and will be so beyond—at least five happenings! Minuses and pluses; pluses and minuses.

Election '20—A Minus, Now a Plus for Markets

First and front-and-center is Election '20 and its Aftermath—a minus last week, plus this week.

A huge set of uncertainties Pre-Election Day existed in all of its permutations and combinations—the uncertainty of who would win; the makeup of Congress; whether a chaotic or peaceful transition; its shape and form. Unknown and uncertain remains the Washington dimension and the policies to be forthcoming after Election '20 is settled.

The policies will depend upon the Election results, still unfolding, the outcome for Congress and its composition, what happens in-between November 4 and January 20, and beyond.

The uncertainty of this all had been a big short-run negative.

But now it is a big short-run plus for markets with the uncertainty and craziness of a Trump Administration, bizarre relative to history and absolutely, likely over. *Relief has been registered in the equity market and the "Mood of America" has been lifted!*

The most preferred market Scenario, hope for a Biden Presidency, Republican Senate and a Democratic House is helping to drive a stunning Relief Rally near-term within a *new, higher S&P500 Fair Market Value Range* estimated by Decision Economics, Inc. (DE) as a 3525 midpoint and 3800 the upper bound and 3150-to-3200 the lower bound.

The upshift in the Fair Value Range stems from an incredible and spectacular earnings track in Q3 relative to expectations and an estimated much higher S&P500 earnings level next year. For the given DE Basic Prospect macroeconomic scenario and a continuing Ultra Easy Fed monetary policy stance, the new estimate for the DE S&P500 2021 Op. EPS is $167-to-$169, well above just one week ago's $163-$165 and before that $160. Plus, the underlying reasons support this post-Election '20 rally.

Economy—"Here-and-Now" For Sure A Recovery—Is it Sustainable?

*Second is The Economy—*surprisingly strong high-frequency economic data and a solid Labor Market Report (for October) to come this Friday (Nov. 6, about 600,000 Nonfarm Payrolls), after the Pandemic and Public Health-induced Q1-Q2 Economic Collapse in February to May, a quick and strong Recovery beginning in May with a "V" rebound for Real GDP growth in Q3, and strong data still through October (Calendar Nov. Releases).

And, positive looking beyond is the Recovery, expected by DE to be sustained and sustainable despite Second and Third Wave surges of COVID-19 in the U.S. and much of the Global Economy, new lockdowns and restrictions popping up almost everywhere, and the "Army of Unemployed"—those let go and not being rehired even as there is lots of hiring—that could take down the growth of consumption so as to produce an alphabet "W" Real GDP growth pattern or "Double-Dip" Recession (DE Odds 15%).

Fed Policy and Fiscal Stimulus—Plus and a Minus

The Federal Reserve this week will indicate essentially no change in policy—an "Ultra" Ultra Easy Monetary Policy as far as the eye can see, with components 1) essentially a zero federal funds policy rate; 2) unlimited, as needed, Quantitative Easing (QE); and 3) direct lending to the private sector through the Mainstream Lending Facility. But as supportive as Fed policy has been, it can only lend, not borrow and spend.

Just this week, a Lending Facility capability has been enhanced by a reduction to $100,000 in the size of loans made through this facility to business, most likely small business. Also, to induce banks to sponsor and make these loans funded by the Federal Reserve and Treasury, through increased subsidy payments by the Federal Reserve to the banking system.

There must be a demand to borrow, something not present currently as the private sector hunkers down in the face of the COVID-19 and strives to maintain safe balance sheets. The famous "liquidity trap" of the 1930s remains in-place in the aftermath of the "Coronavirus Shock", calling out for traditional fiscal stimulus of increased federal government spending—the 1930s recipe. DE research shows that lower taxes are a more effective way to provide demand-side stimulus. But this is traditionally not seen this way with the natural political leaning toward increased federal government outlays.

Fiscal policy stimulus, more definitely needed, a new fourth round, is stalled in the politics of Election '20, without a time when an Agreement in Congress and with the Executive Branch might occur.

This is a distinct negative and risk for the near- to intermediate-term as economic activity fades from the "V" Q3 rebound that showed up post the "Coronavirus Shock".

Earnings Much Stronger-than-Expected—Very, Very Positive Fundamental for the Equity Market

Third is company earnings, i.e., profits, proxied for by the S&P500 Op. EPS which is tracking way, way better-than-expected compared with Pre-Earnings Season estimates.

This has been a big surprise, quite unexpected, but an extremely positive fundamental for the U.S. equity market.

The current track for the S&P500 Op. EPS with 406 Companies having reported is -10.1% YoY vs. an expected Pre-Earnings Season of -25%. The *level difference* is over +$7, *a* *huge upside surprise*, shifting up the Fair Value Market Range for the equity market quite a lot.

Only 17 companies out of 406 have shown a loss. Profit margins are back up into double-digits, particularly strong for Real Estate (29.5%); Information Technology (22.5%); Financials (18.9%); Utilities (18.9%); Communications Services (18.5%) and Health Care (16.3%).

Why is this happening and will it continue?

There are three main reasons.

First is the firing, laying-off, furloughing of over 23 million persons in March and April in response to the shutting-down of the economy. This represents companies' reactions to save on costs—and in the modern era lightening quick.

Once having done so and looking ahead, companies are restructuring and doing what companies always now do in such a situation—reduce compensation costs by hiring selectively for whatever business is expected and *not* hiring to Maximize Shareholder Value by keeping labor market costs as low as possible.

*This can be seen in the jobs market dat*a—over 22 million Nonfarm Payroll Jobs lost in March and April and only about 50% of them regained in six months since.

There is hiring going on but there is also a lot of not hiring, likely to continue and a major reason for the quick return to double-digit profit margins for so many S&P500 companies.

Second, substitution of capital for labor as a cost effective highly productive tendency, trend, and theme, going on always as companies strive to Maximize Shareholder Value.

Third, and perhaps bigger than any time in history, is the use and acceleration of the "New" New Technology that is part of an epochal rewiring and restructuring of everything that goes on in the U.S. and Global economies—how we work, how we play, how we communicate, how we travel, how we absorb information, how we shop, and many more "hows".

These tendencies and trends will continue and have been intensified and accelerated by the exigencies of the Pandemic, its continuance and, indeed, Second and Third Wave worsenings.

On given *DE Basic Prospect forecasts*, the 2021 S&P500 Op EPS level *must be raised again*, now to $167-$169, up from $163-$165 just a week-or-so ago, in turn up from a previous $160.

On the P/E Forward Earnings multiple used by DE, 21 (in a range of 19-to-23), *Fair Value for the S&P500 now would be marked at 3525, up from 3425-3450 recently and before that 3360.* Downside is 3200 and upside 3800.

This is a huge positive for equities and provides major support for the ongoing Rally.

But, will earnings growth momentum fade in 2021 or continue? This would be a potential negative and big uncertainty, particularly in the aftermath of the Election. And, is the Forward Earnings P/E multiple of 21 used by DE too high?

Global Economy—Recovery to be Aborted? Plus and Then Minus?

Fourth, hesitation in the upturns in countries outside the U.S. and the Global Economic Recovery is a potential minus. China, South Korea, Japan, Germany, the Eurozone, the U.K., Canada all recovered starting in the third quarter. But, looking ahead, the resurgence of the Pandemic, restrictions and lockdowns, raises the question about the path of Recovery and increases the downside economic risks going forward.

China and South Korea appear to be in a strong upturn, particularly China, with no significant spikes up in the COVID-19 virus to cause a hesitation. This is a big plus, especially given that China is the second largest world economy and a big buyer of export goods from many of the Southeast Asian countries and Germany in Europe.

But, the others all are confronting now a worsening Pandemic with the policy reactions to the worsening and the worsening itself issues for the path of the Global Economy in the future.

The "Coronavirus Shock"—The Illness and Its Role in the Business Cycle

Finally, hanging heavy over all of the pluses, minuses and uncertainties is the "Coronavirus Shock", COVID-19, the Third Wave surge in the U.S. and the rest-of-the-world and now must be indicated as *an integral part of the business cycle*.

No looking forward to what might happen can fail to necessarily include a working assumption on the course of the Pandemic, the impacts and reactions in public health and central governments to the illness, and its effects and side-effects in interactions within the mechanisms of the economic business cycle itself.

Some Perspectives

Rarely has there been so great a swirl of events, data and, of course, the External Shock of a Pandemic to sort through on its short-term and longer-run implications for assessing the economy and financial markets.

From a short-to-intermediate-term point-of-view, particularly for the U.S. equity market, on the uncertainty of Election '20 coming to an end, a Trump exit and Biden entry, psychological relief, and a better mood vis-à-vis Washington, an optimistic Election Rally is in-train.

Once done, a lot of good news and positive expectations looking ahead will have been absorbed and the longer-run issues, uncertainties, and prospects for the U.S. economy and financial markets will come to the forefront without easy answers.

Table 1
Key Worldwide Economic Indicators and Events at a Glance
November 2-November 13, 2020

	Release	Time (EST)	Last	DE / Consensus	Comment/Event/Venue
		Nov 2-Nov 6			
U.S.	ISM Mftg. (Oct)	Mo 10:00 am	55.4	55.8 / 56	PMI to show a fifth month of expansion for Manufacturing. Recovery continues.
	Trade Balance (Sep)	We 8:30 am	-$67.1	-$63.8 / -$64.3 B	Trade Balance should narrow from August.
	ISM Non-Mftg. (Oct)	We 10:00 am	57.8	57.6 / 57.5	Services to show strong growth but will be tested by outbreaks moving forward.
	FOMC Decision	Thu 2:00 pm	Hold	Hold / Hold	Fed to keep rates steady until inflation consistently above target.
	Nonfarm Pay. (Oct)	Fr 8:30 am	661 K	597 K / 610K	Payrolls to expand again but less than September.
	Unemp. Rate (Oct)	Fr 8:30 am	7.9%	8% / 7.7%	Unemployment Rate likely to remain near September reading.
		Nov 9-Nov 13			
	NFIB Survey (Oct)	Tu 6:00 am	104	100	Small Business Optimism to slide with outbreaks.
	JOLTS Job Open. (Sep)	Tu 10:00 am	6.493	6.325 M	Openings could fall but still far better than early Spring.
	CPI (Oct)	Th 8:30 am	0.2%	0.1%	Consumer Prices to rise at weaker pace than September.
	PPI (Oct)	Fr 8:30 am	0.4%	0.2%	Growth in Producer Prices to slow a bit.
	Mich. Survey (Nov Pre.)	Fr 10:00 am	81.2	82.4	Consumer Sentiment to improve but still very weak.
		Nov 2-Nov 6			
EUR	Retail Sales (Sep)	Th 5:00 am	4.4%	-1.3% / -1.5%	Retail should contract and will be constrained moving forward by recent restrictions
	Germ. Fact. Orders (Sep)	Th 2:00 am	4.5%	1.8% / 2%	Orders to improve again as Germany remains the bright spot of the Eurozone economy.
		Nov 9-Nov 13			
	ZEW Exp. (Nov)	Tu 5:00 am	52.3	50.9	Expectations to fall as new virus wave spreads rapidly across the Continent.
	Economic Bulletin	Th 4:00 am			
	Indus. Prod. (Sep)	Th 5:00 am	0.7%	-1.3%	Production to reverse course after four months of growth.
		Oct 31-Nov 6			
CHN	NBS Mftg PMI (Oct)	Sa 9:00 pm	51.5	51.2 / 51.3	PMI figures set to remain optimistic amid Recovery, but slide a bit due to National Holiday. Service PMIs to climb as more consumption demand during Holiday.
	NBS N.M. PMI (Oct)	Sa 9:00 pm	55.9	56 / 56.1	
	Caixin Mftg PMI (Oct)	Su 8:45 pm	53.0	53.1 / 52.8	
	CX Svcs. PMI (Oct)	Tu 8:45 pm	54.8	55.1 / 55	
		Nov 7-Nov 13			
	Exports (Oct)	Sa TBD	9.9%	6.1% YoY	Exports likely to edge down due to virus resurgence on external markets.
	CPI (Oct)	Mo 8:30 pm	1.7%	1.6% YoY	CPI and PPI likely to soften marginally as increase in food price cooled down.
	PPI (Oct)	Mo 8:30 pm	-2.1%	-2.2% YoY	
		Nov 2-Nov 6			
JPN	HH Spending (Sep)	Th 6:30 pm	-6.9%	-7.9/ -10.5% YoY	Sluggish demand has hindered Household Spending.
	Labor Earnings (Sep)	Th 6:30 pm	-1.3%	-1.5/ -1.1% YoY	Earnings likely to drop further on weak job market.
		Nov 9-Nov 13			
	Core Orders (Sep)	We 6:50 pm	0.2%	5.3%	Core Machine Orders and Tert. Ind. Activity both improve on decreased virus cases in September.
	Tert. Ind. Act (Sep)	We 11:30 pm	0.8%	1%	
		Nov 2-Nov 6			
U.K.	Construc. PMI (Oct)	Th 4:30 am	56.8	55	PMI to suggest considerable growth for Construction.
	BoE Policy Decision	Th 7:00 am	Hold	Hold Rates	Negative Rates possible, but stay steady for now. QE program could be expanded right away.
		Nov 9-Nov 13			
	Unemp. Rate (Sep)	Tu 2:00 am	4.5%	4.8%	Three-month Unemployment Rate to rise but still artificially low.
	Real GDP (3Q)	Th 2:00 am	-19.8%	14.8%	GDP to show solid rebound but economy still in tough spot.
	Indus. Prod. (Sep)	Th 2:00 am	0.3%	-0.8%	Production to fall after four months of growth due to uncertainty.
		Nov 2- Nov 6			
AUS	RBA Cash Rate (Nov)	Mo 10:30 pm	0.25%	0.1%	RBA Cash Rate and RBA 3-Yr Yield cut due to slack of economic recovery.
	RBA 3-Yr Yield (Nov)	Mo 10:30 pm	0.25%	0.1%	