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Strategy & Observations – A Red Wave?

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The Most Important Election of Our Time ...

The U.S. Presidency and control of the senate will be decided tomorrow (hopefully). A lot is at stake in this cycle: Monetary policy, Packing the Court, Adding States, Freedom of the Press. Does the United States continue as we have the past few years with the most prosperous economy and rebuild post COVID? Do we see a policy shift to the left towards open borders, green energy, and trillions in new spending? Remember that when we print money, we dilute the value of the dollar, which must then trigger higher interest rates, which in turn deflates the value of equity. One thing is certain, the Coronavirus has triggered a massive paradigm shift in how we work and live, and some of those changes are likely to be permanent. I'm predicting a TRUMP landslide. Let me explain why.

Strategy Highlights

Count the TRUMP Signs. The New York – Tri-metropolitan area is far from being red. In my suburban neighborhood, I see a few lawn signs, which include the occasional virtue signaling “Black Lives Matter” to a Biden-Harris sign. Trump flags outnumber both two to one. The discussion in the Pizza shop, Auto shop, the hardware store is all the same. Most folks in my neighborhood, as Americans, have a sense of fairness. Several NYPD guys live on my street. For a while, they flew flags (blue stripe), but most took it down, especially those with small children. Nobody wants any trouble, opportunistic vandalism.

Censorship. Recent efforts by Twitter and Facebook to censor the N.Y. Post story on Hunter Biden has been “anti-American.” The idea that the laptop is Russian dis-information is ludicrous. The fact that none of the major networks will even mention the story is deafening. I believe that most of us understand that there is corruption in politics, and we can each decide what we are and are not o.k. with, but what most people do expect is unbiased news coverage. The fact that the media, with few exceptions, will not ask real questions from Biden, who has not denied the evidence nor the Federal investigation into Hunter Biden is un-American at best. The sense of fairness seems lost, and my read is that most Americans are outraged by it.

What is the State of Our Economy? In my Long Island town, a year ago, the parking lot for the train was full by 6:30 AM. All 500 spaces are occupied. These days I only see 30-50 cars parked each day. Can this be right? I went to the LIRR website and checked ridership and discovered that it's generally down across the railroad by 70%. What's terrible is the railroad was constantly losing money and raising fares before the pandemic. It must be hemorrhaging capital now. The ripple effect from people lucky enough to be able to work from home in the cities must be enormous. When was the last time I wore a suit, much less dropped one off at the dry cleaner? I enjoy home-cooked meals for breakfast and occasionally a sandwich from the local deli. The food industry in the city must be seeing an enormous loss of lunch business. I have not gone out for a business dinner and drinks since January. Will all this “flip back” to the way it was in a post-pandemic world? Probably no. It's more likely we will see some mix of return, but I would be surprised if folks go back to commuting five days a week. The days of packed trains, subways and buses, lines at the lunch restaurants, even movie theaters and sporting events and concerts maybe forever changes.

The Virus. Is our president responsible for the virus? It is a silly question. Viruses are designed to spread. This one is a very infectious virus, and it cycles in waves. We see the second wave in Europe, and of course, it's here too. Blaming the Trump administration is folly. Let's not forget that China blocked domestic travel from Wuhan but allowed international travel. Their way to “level the playing field” in the world. Like the censorship from Twitter, this move unmasked China as the real threat to American interests. Remember, China's economy dwarfs that of Russia. The good news is that Project warp speed is in place. As a result, vaccines and therapeutics are being fast-tracked. The mortality rate of the virus is dropping with better therapies, and we may even see the lethality of the virus itself attenuate over time.

Taxes. Biden is promising to raise taxes; Trump is promising to cut them. In a fragile economy that is struggling to recover, it's hard to understand how raising taxes will do anything but pressure the economy to contract, especially at a time when we see paradigm shifts in how we work, in entertainment, in education, in medicine. In everything we do, from travel to social distancing. Halloween this year was "different." We normally go through bags and bags of candy. This year, folks put candy out on a table, and those bold parents and their young children who did come out, did so, but at about ten percent of the level of last year.

Is Biden a Moderate or a Socialist? I guess this depends on your viewpoint. The Democratic Party has become the party of big business, with the majority of funding coming from its billionaire donors. It's likely these donors expect something back in return. Biden will be the oldest president this country has ever seen (and let's not deny that it's evident in his gaffes). At times he said he was running for the senate, he's forgotten where he is, and he's made statements as recently as this weekend that were gibberish, literally unintelligible. His running mate, Senator Harris is the most progressive senator this country has ever seen. The campaign on multiple times has introduced her as leading the ticket. She is likely to become the next president should Biden be elected.

Trump. You may not like Trump's tweets, but don't confuse his directness with saying he's a racist. It's, in my opinion, a ridiculous proposition, and it seems more a result of Cancel culture. The left when challenged falls back to "you're a racist." I believe Americans are tired of these antics. Look at policies instead. Trump is the first president to focus in my life on America first. Bringing back manufacturing, especially pharma manufacturing. The next year is going to be very tricky. We will need government stimulus spending as the paradigm shifts triggered by the virus continue to evolve. How long will it be until the airline, hotel, restaurant, and leisure industries return, and in what form? Should the federal government bailout bankrupt cities such as New York and San Francisco, especially at a time when commuters are no longer commuting? Since this summer's riots, we have seen real violence, murders in major cities rising in such a way that people are leaving these cities. The defund the police movement, coupled with high taxes, has caused an exodus from cities. As a result, these cities are being hit with a triple threat: Corona, Law and Order, and High Taxes and as a result the tax base erodes causing the cycle to repeat.

What's Ahead for the Market? There is clearly a shift in how we work and live. Virtual companies that allow us to shop at home are doing well, while others, like the cruise ship industry, have their very survival now in question. The outcome of the election, with a Biden win, suggests higher taxes, much higher government spending on projects that likely have a very low return (such as the green new deal). This means higher interest rates, which deflates equity value. A Trump win is more of the past four years, but the virus impact requires we rethink our economy. We must rethink the way we do business. Mega-cities versus telecommuting? Auto travel or air travel? As a healthcare analyst, I believe the role of Biotechnology has never been more important to our national interest, so I believe Healthcare should outperform over the next few years, but the tide affects all ships in the harbor; it's my opinion that a Trump presidency represents the least economic impact and is our best chance to address the disruption that's resulted from the effects of the China virus. If I'm right and we do see a Trump victory and republicans maintain or expand control of the senate I would expect a short-term market rally. Beyond, that, I'm concerned as fiscal stimulus, the government printing money, must at some point trigger inflation, which suggests a lower market. Structural changes in how we do business will need to be resolved, and that ultimately sets the stage for future growth. So even in a republican win, I'm concerned about the market outlook in 2021. In a Democratic sweep, we should expect congress will try to print its way out of the economic chaos. That is sure to trigger inflation and I fear could fail to address the structural changes needed for the country to prosper. We will know, soon enough.

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