

January 20, 2021

## 2021 Economic Forecast

### Trump's Legacy: The Pandemic and Derailment of American Democracy

#### High Crimes and Misdemeanors

#### Is Civil War on the horizon?

**Preamble: 2020 is the year we would all like to forget.** This 32nd edition of my annual forecast is designed to inform my readers of my assessments of the state of both the domestic and global economies and forecasting the Outlook for 2021. My findings are predicated upon employing demographic theory and analysis as they relate to the economy and effect on the financial markets. I will begin by discussing my political analysis and geopolitical risks before moving forward on the actual forecast.

### Political analysis and geopolitical risks

**We have endured four years of the Trump administration attacking our foundations of democracy consisting of the rule of law, an independent judiciary, freedom of the press, the right to vote, American humanity, promoting hatred and willfully dividing us rather than uniting us.** His America First policy has created the world's greatest geopolitical risk resulting in the disengagement of American global leadership and with it, foreign policy that at best can be summed up in one word, unpredictable. We have witnessed this administration's governance by incompetence, crisis, chaos, and outright obstructionism. His failed policies consisted of immigration reform, China tariffs and the bailout of American farmers, both attempting to destroy Obama Care without any plans for its replacement and fiscally irresponsible tax reform primarily benefiting the wealthy, amongst many others. The Republican controlled Senate under the leadership of Mitch McConnell stonewalled all the legislation endorsed by the House and conducted an impeachment trial without any witnesses. **This now brings us to the greatest crisis of the century, the Pandemic.** This was not mishandled by the president but rather approaches criminal negligence. He admitted to knowing the deadly nature of Covid-19 in early January and chose to do nothing against the backdrop of avoiding a national panic. He also knew that China shut down the entire Wuhan Providence on January 24 isolating millions of their citizens. The US and South Korea had their first infections in January. However, South Korea immediately instituted wearing masks, social distancing, and tracing. This country suffered a little more than 1000 deaths and never closed their economy. On the other hand, President Trump never promoted masks and downplayed the entire pandemic to the extent claiming, "we will no longer hear about Covid-19 after the election." Forced into a March lockdown, businesses were shuttered. Many of them forever. In addition, 14 million became unemployed, the stock market crashed, and we entered the worst recession since 1929. We have more than 22 million Covid-19 cases and 370,000 deaths all of which are still rising. Mr. President, it did not have to be like this

or to this extent. This is a world pandemic, and any other president would have fought this virus on a global basis rather than doing it alone. Adding insult to injury there was no federal plan to vaccinate the population and left this obligation to the states. The state's performance lagged the rest of the developed world. The Republicans were given the opportunity the first time to impeach him, but they chose to acquit him without a trial. Now he is the first president to be impeached twice. **At the end of the day, Mr. President this is how you will be remembered.**

**Today more than ever, America needs to welcome Joe Biden and Kamala Harris as our forty-sixth president and vice president against the backdrop of our deeply divided and deranged country.** The indisputable victory enabled Biden to surpass the historic 80 million vote mark and earned more Electoral College votes as compared to Trump's win against Clinton. On the upside, this was probably the cleanest election in our history. Either way, Trump's 73 million votes clearly demonstrates the political force and divide in our country. This alone represents a clear and present danger to America. Absent the presidential and the Georgia run-offs, the Republicans outperformed the Democrats in this election. They won 33 seats in the House consisting of all women and or minorities. Clearly, a positive trend for the Republican Party. Democrats probably won control of the Senate from the Georgia run-offs due to Trump's consistent lies about voter fraud. Democrats, with Joe Biden as vice president came to power and controlled the government inheriting the deepest recession since 1929 from the Bush administration. While today, the Democrats once again voted in control of the government are forced to succumb to a Trump induced recession that is far worse than the last. It appears history has repeated itself. The Obama and Biden administration brought us back from the brink of disaster and must be given the credit for the economic recovery that Trump claimed to own. President Joe Biden was successful then and America needs to support his efforts once again.

**January 6, 2021 will go down in history as the day a standing president of the United States promoted an assault on our Capital to halt the confirmation of a presidential election and attempted a coup.** This was a well-planned attack against our democracy given the fact that Trump supporters forced confrontations at state houses throughout the nation. The claim that the election was stolen is based upon fake news orchestrated by Trump and promoted by his media outlets sponsoring conspiracy theories and supported by his enablers who actual have become co-conspirators in the Senate and the House. On the downside, many of his supporters after being told these lies and conspiracy theories over and over, and over again, along with his co-conspirators who knew otherwise, may always believe the election had been stolen. How is it, with our intelligence, did these white nationalists get a free ride assaulting the Capital? It is more probable than remote had this been a Black Lives Matters incursion there would have been bodies everywhere. Since day one, President Trump has done everything in his power to secure re-election no matter what the cost, effect, or detriment to his constituents. His deplorable and criminal actions to remain in office probably lies in the reality of his potential criminal indictments by the Southern District of New York that may take place as soon as he leaves office. Had he won the election I believe these criminal cases would be barred by the statute of limitation. Desperate men will take desperate measures to protect themselves and everyone else is nothing more than collateral damage. It took the Supreme Court to determine the Bush versus Gore razor thin election. Notwithstanding the fact that Gore won the popular vote, the Democrats accepted their defeat and permitted the peaceful transfer of power. In our instant case, the Biden election is irrefutable against a backdrop of so much surmounting evidence that there is no purpose in spelling it out. **The question becomes how do you convince at least half of the 73 million Trump supporters who have been indoctrinated to their false beliefs over the past four years to believe otherwise?** Democracy is clearly at risk when news broadcasters, social media and politicians promote hatred, violence, racial and political division, fake news, and conspiracy theories to the extent that out right lying becomes an acceptable practice. Social media with its exemption from being sued is actual incompatible with democracy and even public health. Without re-evaluating our First Amendment, our protections to the freedom of speech and the

press, we may very well witness the derailment of our American democracy and possibly civil war. At this stage, perhaps Vice President Kamala Harris and Speaker of the House Nancy Pelosi should probably not attend the inauguration in the event of an attempted assassination.

**President Trump not only attempted to steal our democracy but was successful in stealing the Republican Party.** Chris Cuomo, of CNN coined the phrase “**Retrumplicans**” to properly describe this phenomenon. Their party is more splintered today than ever before. The GOP will do whatever it takes to grab power. Their actions consisting of gerrymandering, voter suppression, Congressional obstructionism, promoting fake news, changing the rules and ignoring bipartisan norms to meet their agendas, fostering lying as a new national acceptable practice, all support this theory. They deceptively portrayed the Democrats as Socialist who would destroy the country when in fact they are Welfare Capitalist. The GOP has become the minority party attempting to control the majority. Their base continues to shrink given the changing demographics in America. Except for Bush’s second term win after 9/11, the Republicans never won the popular vote in the last eight elections. The Republicans have enormous obstacles and headwinds to overcome to retain their existence. I have always believed in their basic principles consisting of smaller government, lower taxes, and fiscal responsibility. **Why don't they?**

## State of the US Economy

**We entered 2020 in the longest economic expansion in our nation's history fueled by the Obama/Biden administration's enormous stimulus.** In March, the pandemic induced recession starting with the lockdown triggered the most profound economic contraction that surpassed even that of the Great Depression. Small businesses were ravaged with many left, in complete ruins. 14 million jobs were lost bringing the unemployment rate to 14.7% at its peak only to fall to a still elevated rate of 6.7%. Cars have replaced people in food lines with one out of six people in the US going hungry. This pandemic infected the world forcing central banks to drop interest rates and in many cases below zero. Domestically, we have witnessed the most immense monetary and fiscal injection into our economy ever. Against the backdrop of the Democrats controlling the government, it is clear fiscal tightening will be averted and we can expect more stimulus and infrastructure spending that will outweigh tax hikes which are unlikely during a recession. The economy will get worse before it gets better given the delays in vaccination logistics while both infections and death rates are on the rise. We may very well incur more than 500,000 deaths before we witness a turnaround. On the upside, the stock market has recovered from its devastation hitting record highs across the board fueled by liquidity, vaccine optimism and to some degree a Democratic controlled government. When all is tallied GDP will contract by 2.4% for 2020 and expand to 4.2% in 2021 with the predominance of growth occurring in the second half of the year. On a long-term perspective, our deflationary demographic trends associated with the retirement of 100 million baby boomers will guarantee us that the subpar growth trend will persist for decades to come. **Either way, the US tends to surprise on the upside.**

- **The Government Sector:** The national debt has grown \$4.6 trillion bringing the unsustainable spiraling debt to \$27.6 trillion. This 20% increase is primarily pandemic related and is clearly justified as compared to the previous \$1.5 trillion fiscally irresponsible Trump tax cuts. This insurmountable debt trajectory represents our greatest threat to our future growth, prosperity and living standards. Debt addiction has become a global problem. Contrary to the world’s beliefs, it is impossible to borrow, your way to prosperity.

- **The Federal Reserve:** Given the unprecedented contraction in economic activity the Fed along with global central banks remain committed to extremely accommodative monetary policies even if inflation surpasses their 2% target. The Fed rate could fall below zero but should not close the year by more than 25 basis points. The Fed will support the government's surmounting deficits by keeping the supply of money and credit abundant in the long-term raising inflation expectations.
- **The Consumer Sector:** The continuing rise in the numbers of the Covid-19 infections, deaths and related unemployment has deteriorated both consumer confidence and spending. After the first stimulus package there was a surge in spending activity. This is clear and convincing evidence for the new administration to provide additional stimulus to spur economic growth. The last package of \$600 per person was too little too late. In any new stimulus plan, payments should run for at least six months. When consumer spending drives 70% of the economy and considering the existing pandemic pent-up demand, it makes sense to put money in the hands of the people.
- **The Corporate Sector:** Broad based corporate profits were crushed except for the tech monopolies who benefited from the demand driven by the pandemic. Amazon, Google, Facebook, and Netflix's future profit expansion faces the headwinds of a saturated marketplace, governmental action, the post pandemic recovery and in the long-term, inflation. The industries who suffered the most will have the greatest comeback in this V-shaped recovery. These reopening and recovery industries consist of but are not limited to airlines, cruise lines, restaurants, hotels, casinos, nursing homes, REIT's and retailers. On the upside, 2021 EPS growth is expected to reach a dramatic 32% on an annualized basis with further contraction in the first part of the year and immense expansion for the remainder of the year. Although clothing retailers were hit the hardest, when all is tallied Christmas retail sales will probably surpass the previous year. However, the devastation in the small business sector, a symbol of the American dream has driven the bankruptcy trend to its outer limits. The majority, of these bankruptcies were in retail. **Pier 1 Imports** got deported and closed 991 stores after being in business for 60 years. **Brook Brothers**, one of the oldest apparel chains in the nation got disowned by their creditors and filed in July. At the **Guitar Center**, after their organs met the mohel, they could no longer perform and sought bankruptcy protection. **GNC**, the vitamin company overdosed on their debt and then the court approved their sale to a Chinese entity. **J. Crew**, the preppy apparel company got screwed by creditors and filed a Chapter 11 in May. **Stein Mart** ran out of gas and farted their way into liquidation closing 281 stores. Although many of these companies were already in trouble before the pandemic, this bankruptcy trend will continue as brick-and-mortar retailers fall victim to their Internet competitors. On the other hand, and unrelated to the pandemic, after it was discovered the **NRA** ran out of ammunition and started shooting blanks, they were frisked into a reorganization against the backdrop of fraud charges filed in New York.
- **The Housing Sector:** Residential development has been an engine of growth during the pandemic. However, it remains well below our demographic needs. Both Texas and Florida are the states with the greatest influx of migration. This has placed upward pressure on home values while exacerbating their affordability issues that will continue to worsen as the recovery takes hold.

**In sum, The US economy is in the midpoint of the worst recession since 1929 triggered by the most profound pandemic-induced economic contraction in our history.** The severity of this recession to a major extent is attributable to Trump's administrations negligence and incompetence. In retrospect, all that needed to be done was for Trump to be honest with the American people and promote wearing masks rather than politicizing it, then the outcome would have been quite different. Even in 1918, masks were locally mandated during the Spanish Flu. However, President Woodrow Wilson, against the backdrop of World War I, downplayed the flu and 675,000 Americans died. Somehow it appears history has

repeating itself. The recession will get worse before it gets better, and its timing and direction depends on the speed Americans are inoculated. So, there is no misunderstanding, our government will do whatever it takes to support the domestic economic growth. Our extreme monetary and fiscal responses not only need to continue but need to be expanded. On the monetary side, the Fed will enable money and credit to be abundant and keep interest rates at zero or below in an environment of benign inflation. They will also promote the dollar to fall. While on the fiscal side, we need infrastructure and other spending programs to replace the loss in aggregate domestic demand. Our destitute Americans at minimum need stimulus to carry themselves until the economy reopens and jobs are expanded. Against the backdrop of the Republicans losing control of the Senate, I suspect they will play their usual fiscally irresponsible card against any pro-growth policies. President Biden once again begins his term inheriting an economy in total collapse. The only difference this time around is that the country is in total chaos. The time is now for governmental action financed by debt. On the downside, these actions are inflationary and will produce subpar growth in the long-run. Eventually, we will have no choice but to come to terms with our untenable national debt, unfunded liabilities, and the adverse demographic impact of our aging population. **Let us pray that we will be able to spend Thanksgiving and Christmas with family this year.**

### **State of the Global economy**

**Global economic activity basically hit a dead end as the pandemic started to take hold on the world.** Except for China and South Korea, the devastation was not broad-based and primarily effected the service sectors. Gross World Production (GWP) is expected to contract 4.4% for 2020. Governmental synchronized support was timely and massive with all the world's central banks committed to ample liquidity, fiscal stimulus, and interest rates at zero or negative for a protracted period, bifurcating the effects of inflation. The world's near-term risks associated with the impact of their second and third waves could trigger a double dip recession in the first half of this year. In **Europe**, the creation of the European Commission's Recovery Fund is a historic attempt to the formation of common debt that should further build a stronger foundation to the European Union. **China's** economy expanded at the estimated rate of 2% for 2020 against the backdrop of broadened domestic demand and their competent curtailment of the pandemic. China will be the economic engine driving the global recovery producing 8% to 10% growth in 2021. **In sum, notwithstanding the Outlook remains entrenched with escalating risks and uncertainties, global economic activity is destined to recover hopefully by the fourth quarter producing above trend growth of 5% to 6%.**

### **2021 Economic Forecast**

**We started the year out of the gate with the longest Bull Run in history, stopped in our tracks by a Matador named "Covid", only to close the year in a New Bull Market with all indexes reaching historic levels.** The market crashed and shredded 36% from the **Dow**, climbing an additional 68% to close at 30,606 producing an unexpected 7.2% gain. The **S&P 500** remarkably closed the year at 3,756 with a yield of 16.7%. On the other hand, the Big Tech heavy **NASDAQ**, obviously the top performer, closed the year at 12,888 demonstrating an unbelievable return of 43.6%. The stock market has been resilient in the face of this catastrophic downturn. The markets extraordinary performance has been incited by the excessive liquidity, vaccine optimism, massive monetary and fiscal stimulus, better than expected corporate profits, a rebound in housing, enhanced consumer spending, an improving job market, and of course, Big Tech. The continuation of all these factors will bode well for equities rather than bonds. Equities will clearly outperform all other asset classes especially when dividends yields are greater than bond yields and valuations could move higher against the backdrop of elevated forward earnings expectations. We will be entering a new post-pandemic economic cycle. On a historic basis,

Bull markets that are spawned from a new economic cycle generally last for years. However, even if you consider the pandemic as an interruption in the otherwise longest economic cycle in our history, investors are generally rewarded for remaining in the markets at the end of the cycle. **Now let us consider sectors, asset allocations, and diversification.** Last year's losers will be this year's winners. These reopening and recovery industries consist of but are not limited to airlines, cruise lines, restaurants, hotels, casinos, nursing homes, REIT's and retailers. International equities will outperform domestic ones and small caps will outpace large caps in an environment consisting of global economic expansion along with a weakening US dollar. Value stocks should surpass growth stocks. Employing an aggressive market growth asset allocation approach considered 70% in equities, 20% in fixed income, 5% in commodities and 5% in alternative investments. With respect to equities at least two thirds should be US-based and the remainder in global stocks and to a lesser extent, emerging markets. Investor's asset allocation should be adjusted based upon their age and risk tolerance. Diversification is the key. Investors should consider managed account solutions and or exchange traded funds. Cash flow is everything, therefore, equity selections should be based upon companies that have demonstrated a consistent record of increasing dividends. On the downside, the markets are in a fragile position given the financial and political turmoil. In the event our vaccination logistics are further delayed, the markets will react with dissatisfaction triggering a 5% to 10% correction. On the upside, this should be viewed as a buying opportunity. **In sum, we are approaching a post-pandemic economic cycle that will generate a bull market that may continue up to two years.**

**Absent any geopolitical and/or natural disasters, the forecast assumes we will conquer the pandemic in the third quarter and will benefit from a synchronized global expansion of economic activity. The Dow will trade between a range of 28,000 and 33,500 closing the year at 32,750. The S&P 500 and NASDAQ may close the year at 4,200 and 15,150, respectively. It is more probable than remote the fragile market may incur a 5% to 10% correction within the first quarter representing a buying opportunity. This trading year will be one of moderate turbulence and volatility but generally will rise in an unsteady pattern attaining new historic highs.**

- **Bonds:** Yields can rise but not by much given the expected global recovery. The 10-year Treasury closed the year below 1% and with the Fed committed to keeping their rate close to zero, do not expect these Notes to surpass 1.5%. Investment grade and high yield credit with an investment horizon of 12 months will outperform Treasuries.
- **Currencies:** The Fed's massive expansion of their balance sheet guarantees the US dollar (USD) will continue to fall. The USD bear market will remain intact for more than a year. All major currencies, especially the Yen will trade higher against the dollar. On the upside, this will benefit our export sector and their related profits.
- **Turmoil in Oil:** The entire industry had been crushed by the pandemic. Oil prices drop to \$10 a barrel from \$60 a year ago representing a 75% collapse. The price fell below the breakeven point for production imposing industry wide bankruptcies and enormous bank write-offs. A barrel of Canadian oil in April cost less than a pint of beer. On the upside, the price of oil recovered closing \$52 a barrel against rising demand, producer curtailment and inventory contraction. The global economic expansion supports this trend to continue and normalize by the third quarter producing an average of \$65 per barrel for the year.
- **Gold/Silver:** Last year I forecasted gold and silver would close at \$1800 and \$20 per ounce, respectively. Gold closed the year at \$1894 per ounce generating a radiant return of 25%. While Hi- Ho silver trotted down the Lone Rangers trail closing the year at \$26 per ounce striking a breathtaking return of 47%. In an environment of a depreciating US dollar and interest rates expected to remain about zero in the near-term, these precious metals will migrate higher. Gold and silver could close the year at \$2200 and \$32 per ounce, respectively. Investors should maintain a 5% position in their portfolios.

- **Commodities:** In 2020 commodities followed the gold progression and could be referred to as the comeback kid. The weakening US dollar and expected synchronized broad-based global growth, especially in China support the continuing commodities bull market. Investors should consider exchange traded funds as a basis to remain diversified.
- **Real Estate:** Housing will continue to fuel economic and job growth where mortgage rates are at all-time lows, inventory of existing homes are limited and demand for suburban homes are rising. On the downside, commercial retail properties have been materially impaired given the permanent closures of small businesses throughout the country. This trend will reverse in the years to come.

**In sum: the direction and extent of our economic recovery is contingent upon our success in eradicating the pandemic, the continued growth in China's aggregate demand and a synchronized global expansion.** With the entire world committed to aggressive monetary policies and massive fiscal stimulus, the odds support enhanced global economic progress in the second half of the year. **Each cycle carries its own exclusive risks that could negatively impact growth.** In the instant case, the delay in the inoculation protocols, a major spike in inflation, reversals of monetary and fiscal policy, a collapse in the price of oil, US political divide, natural disasters, and geopolitical concerns. **On a mid-term perspective,** we need to address future inflation expectations, technology driven unemployment, rising poverty and income inequality, securing equitable global trade, and the reality of climate change. Ultimately, the world's most valuable commodity will be clean water. **While on a long-term basis** we need to contend with our uncontrollable surmounting national debt and unfunded liabilities, the demographic issues associated with the retirement of millions of baby boomers, and the growing world population. **We are approaching the end game of our bull markets possibly within 2 to 3 years. This will bring about decades in a world of low returns. These are truly extremely challenging times full of risks and uncertainties that will make it extremely difficult to navigate turbulent financial markets. As such, investors should consider managed accounts.**

## Disclaimer

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