Weekly Market Insights

November 30, 2020

A new regime and a strong market

James Wolfensohn passed away at 86. He was hardly just a lawyer and investment banker, but he was, as the Financial Times labeled him, a renaissance man. Mr. Wolfensohn was, during his long career, President of the World Bank, partner in an influential investment bank, and he served as chair of both Carnegie Hall and the Kennedy Center. If that wasn't enough, he performed with Yo-Yo Ma, and, as a youth, represented Australia in the Olympics as a fencer. He will be missed.

Equity Markets

It was a good week for most equity markets around the globe. Not only did the U.S. equity markets have a fine week, but a fine month. The Dow gained 2.21%, the S&P 500 2.27% and the NASDAQ rose 2.96%. It is really quite remarkable given the resurgence of the pandemic. Perhaps the positive announcements concerning the advances in vaccines have offset the recurrences.

There is much discussion about how monetary policy is merely keeping the system afloat and we don't see real growth. Gita Gopinath, Chief Economist at the IMF, argued in the Financial Times that the world is in Keynes's well-known liquidity trap. Simplified, it says the additional injections of money will not spur economic growth. My apologies to Lord Keynes for this oversimplification. She is correct, and Keynes had the answer that fiscal policy, not monetary stimulus, is necessary. Even a dose of fiscal stimulus will not help an economy when most participants can't leave their homes. So, we are back to what we have written about all along. To paraphrase the Clinton campaign mantra, "It's the pandemic, stupid."

Economics

The global economies, with the exception of China, appear to be slowing, mostly due to the accelerating path of the virus. Another factor is the lack of new fiscal stimulus from the government, particularly in the U.S., which leads us to thinking about the new administration and the proposed new cabinet members.

There are a lot more announcements to come, but for our purpose the one we should think about is the Secretary of the Treasury, Janet Yellen. We are fortunate that Ms. Yellen is a well-known commodity.

If she is approved, which just about everyone expects, she will have her work cut out for her. The new president will surely back large-scale government support packages because of the massive unemployment and all its ramifications. Mr. Biden is an excellent negotiator, and Ms. Yellen will give him intellectual heft.

She will certainly have smooth relations with Chairman Powell, whom she worked with for years at the Fed. Almost certainly, she will work to reverse Secretary Mnuchin's actions to close down Treasury support of Fed facilities, and she has long respected the independence of the Fed, which is vital for the dollar's position in the world economy.

The Treasury plays a lead role in international macroeconomic and financial issues and will be working diligently to reestablish positive relations and cooperative problem solving, particularly with China. We should expect to see much closer cooperation with the IMF, G20 and the United Nations.

Last, she will have her most difficult time, if the country has a Republican Senate, in bringing back some of the regulations the previous administration either discarded or ignored. It will be a difficult task but she is a wonderful choice.

Other nominees are Neera Tanden, Director of the Office of Management and Budget, Cecilia Rouse, Chair of the Council of Economic Advisors, and Jared Bernstein and Heather Boushey as members of the CEA. Most of Mr. Biden's nominees cut their economic teeth as labor economists and are fairly known commodities. For the most part, the group is center-left. It will not particularly please the progressives nor the conservatives, but, by far, the dominating person should be Janet Yellen.

We have not had much of an opportunity to research any other nominees besides Ms. Yellen, so more in the near future.

Conclusion

As we watch the new administration forming and medical advances against the pandemic unfolding, it makes sense for investors to remain invested. A cautionary note—the strong equity performance may very well have disrupted investors' portfolios, making them overweight in equities. Our recommendation is for investors to reexamine their allocation and rebalance if they find they are overweight.

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