



Soundings

What's New - December 2020

Quote of the month:

"The meaning of your life is to help others find the meaning of theirs." Viktor E. Frankl

I just finished reading Dr. Frankel's seminal work, *Man's Search for Meaning*. First published in 1946, a year after his liberation from the Dachau concentration camp, he explored the traits which allowed some to survive despite such suffering and hopelessness. Inborn optimism, humor, psychological detachment, along with a steely resolve to not give up, were qualities that not only worked in the camps, he wrote, but in everyday life of everyday people facing darkness of their own. He also strongly believed it was our duty to become our best selves. With freedom comes responsibility. He liked to say, "the Statue of Liberty on the East Coast should be supplemented by the statue of Responsibility on the West Coast." Timeless advice for sure.

What a month. Spurred by superhuman progress on the vaccine front, the markets went ballistic. For the Dow, it was the best month since 1987 according to the WSJ. All three major U.S. indices were up double digits and the Russell 2000 index of small cap U.S. companies logged its best month ever with a gain of 18%. Looking more broadly at the economy, indicators continue to show signs of improvement, but at a more moderate pace compared to summer – surging infection rates through the holiday season pose a downside risk to the economy into early 2021.

There is a renewed hope for another round of stimulus before congress leaves for Christmas. In this month's *Market & Economic Commentary*, I've placed an interesting piece from a Fed watcher at the University of Oregon who notes a little reported fact on aggregate savings. He believes that even without a relief bill, there is real potential for the economy to explode in 2021. First, the numbers...

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Market Update - Year to Date Returns

Major Indexes

(As of 12/01/20) *

| | |
|--|-------|
| Dow Jones Industrials | 3.9% |
| S&P 500 Index | 12.1% |
| NASDAQ | 36.0% |
| DJ Global ex US | 3.5% |
| Russell 2000 (small cap index) | 9.1% |
| Barclays Capital Aggregate Index (Bonds) | 5.4% |
| XAU (gold/silver) | 26.0% |

Source: The Wall Street Journal

D.A.L.I. Signals - 12/01/2020

[D.A.L.I. Page](#)

| Dom. Equities | Int'l Equities | Fixed Income | Cash | Commod | Currency |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 323 29.7% | 199 18.3% | 179 16.5% | 143 13.2% | 130 12.0% | 112 10.3% |

Source: Nasdaq Dorsey Wright

- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect investment performance. Individual investor's results will vary. The Dow Jones Industrial Average (DJIA), commonly known as the "Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the US stock market. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ market. The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices. The Russell 2000 index is an unmanaged index of small cap which generally involve greater risks. The Philadelphia Gold and Silver Index (XAU) is an index of sixteen precious metal mining companies that is traded on the Philadelphia Stock Exchange.
- The Barclays Capital Aggregate Index measures changes in the fixed rate debt issues rated investment grade or higher by Moody's Investors Service, Standard & Poor's, or Fitch Investors Service, in that order. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities, and the Asset-Backed Securities indices.
- DALI is a proprietary matrix created by Dorsey Wright & Associates, an independent 3rd party. It presents the relative strength relationship of six broad asset classes or "teams", domestic equities, international equities, commodities, fixed income, cash, and currencies. Each are represented by an equal number of ETFs. Each team play against each member of the other teams, with net victories tallied in an effort to rank each asset class team by order of overall strength. Raymond James is not affiliated with and does not authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members.
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Market & Economic Commentary

The U.S. stock market had one of its best months ever in November, with the S&P 500 Index surging almost 11%. Many are again questioning whether equities have become disconnected to reality as the Covid-19 pandemic rages anew. Lost in the debate is the potential for an explosive economy in 2021 given the magnitude of excess savings that households have accumulated, a sum that probably totals about \$1.4 trillion. Even the Federal Reserve is starting to realize just how beneficial this pot of money will be to the economy going forward. At the November Federal Open Market Committee meeting, Fed staff no longer assumed that another round of fiscal stimulus is coming. The lack of such support was offset in their forecast by household saving.

I have been focusing on excess saving for some time now, but my prediction it would replace fiscal stimulus as the economy's primary measure of support was wrong. Savings did not cushion the economy after the first fiscal cliff this past July; wages and salaries were the cushion. Lost in the concern about fading fiscal support has been the V-shaped recovery in wages and salaries, which are nearing their pre-pandemic levels and are even positive on a year-over-year basis. The notion that fading fiscal support would crash household spending hinged on the assumption that there were no jobs available to compensate for the income lost from declining federal support. That was wrong, and will likely continue to be wrong in aggregate. The underappreciated Job Openings and Labor Turnover data indicate that job openings, while down from the peak, did not suffer a decline like in the last recession and now hover at 2017 levels.

Rising wages and salaries means that households can support spending without touching accumulated savings. Of course, this doesn't hold true for all households, but micro stories are not the macroeconomy. In aggregate, savings rates have remained persistently high even after the economy moved through the first fiscal cliff at the end of July. Although the saving rate, at 13.6% in October, is down from the peak of 33.7% in April, it's still much higher than pre-recession levels and the average of 7.5% in 2019.

With Covid-19 vaccinations about to commence, the economy will likely rebound quickly without the need for households to tap accumulated savings. (The median estimate of economists surveyed by Bloomberg is for the economy to expand 3.8% in 2021 after contracting 3.6% this year.) The primary factor restraining the economy is the services sector, as spending on goods is above the pre-pandemic trend. A vaccine will allow the services sector to come online fairly quickly and close the output gap, or the distance between where the economy is and where it would have been in the absence of the pandemic. Rough estimates of the output gap indicate the economy should be producing 5% more goods and services than were actually produced in the third quarter.

This is where we need to start thinking about the possibility that households tap their accumulated savings, pushing the savings rate below zero after the economy has largely normalize. Based on the same methodology I used in August, I estimate households have accumulated \$1.4 trillion of excess savings, which is equivalent to about 6.6% of gross domestic product. This represents the remnants of the \$2.2 trillion CARES Act passed by Congress in March. Policy makers and market participants have yet to fully appreciate the magnitude of accumulated savings because the numbers are so large and out of historical context that they are difficult to comprehend. Also, there seems to be a false impression that savings are already being drawn down. That's just not happening on an aggregate level.

The thing to know is that these accumulated savings represent a massive amount of stimulus that is more than the current output gap and could spark an economy already set to normalize. I expect households will start spending their accumulated savings next year as confidence rebounds and very likely after the economy is already on its way to full recovery. It doesn't take much imagination to see how that could supercharge an already vaccine-induced hot economy.

Tim Duy, University of Oregon, "Get Ready For A Supercharged Economy", Financial Advisor, December 2, 2020

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On a Personal Note

In a time when much of the national media narrative is focused on bitterness and resentment, it was a breath of fresh air, literally and figuratively, to be out on the parade ground at Camp Bull Simons, home of the Army's 7th Special Forces Group (Airborne). We were there to honor two fallen heroes who gave their last full measure defending the freedoms of those they didn't even know. On a beautiful, crisp and sunny day, hundreds of us came to pay tribute to SFC Javier Gutierrez and SFC Antonio Rodriguez, who were killed in action on February 8, 2020, in Nangarhar, Province, Afghanistan while conducting combat operations.

The ceremony began, as they always do, with the playing of our National Anthem. All stood of course, as all understood what it means, none more so than those in uniform who made up the majority of the attendants. We heard from the Battalion Commander, their unit Commander, Chaplain, and comrades in arms. All were men of honor, duty, courage and service. They spoke openly of their love of God, Country, families, and their dedication to defending the defenseless. It was truly moving stuff that, once again, made me question whether I was trying hard enough on this planet.

For me, the most moving tribute came from SSG Hayden Lloyd, when he spoke to the character of his friend, the fallen SFC Gutierrez. All the speakers noted Javi's (Gutierrez) laugh and overall sense of humor, but Sgt Lloyd told a story that went deep. They were serving together on the streets of an impoverished nation in South America. On the side of the road, as they took a break for a snack, a young boy came to them and asked if he could have some scraps. Javi knelt down by the boy and engaged him in conversation, the kind of talk that might come from a big brother or "cool" uncle. After several minutes, he took the boy across the street and got him some ice cream. The boy, not used to such attention, did what any young boy or girl would likely do, wrapped his arms tightly around the soldier's neck and cried tears of happiness. (just like I'm doing (again)). The world is less of a place in the absence of these two heroes but lucky for us, Collin and I saw hundreds of others just like them. Silent professionals, all.

Kathleen and I celebrated 27 years of marriage on November 27th. I would have never dreamed that my life would have turned out this way. I credit the turn to the partner who steadied my tiller all those years ago. I'd often struggled with depression and the feelings of diminished self-worth that go hand-in-hand. Kathleen's love didn't fit my self-narrative and forced me to gradually change my own opinion of the man in the mirror. We had a nice day, even though a good chunk of it was spent apart (yes, it involved motorcycles). We had a wonderful dinner date at one of our favorite restaurants in Pensacola, the Global Grill. Even shared dessert, a chocolate torte with a little scoop of a crazy-cool, basil-infused, green-tinted ice cream. Carbs don't count on your anniversary.

On the drive home, Kathleen suggested a new "game" when we got home. Not one of *those* games, we're *old*. She suggested we each think of two songs that best bring light on our 27-year journey together and play them for each other, alternating back and forth. Isn't it amazing how music can transport you back to the times and feelings you've experienced throughout the years? Obscure songs unique to our history from Paul McCartney, the Crash Test Dummies, Will Kimbrough, among others that made us laugh and tear up, all in a good way, as we "Kagan-danced" the last hour of our special day. Thanks sweetheart, for a new anniversary tradition for this old dog. I love you more each day and can't wait to see where the next 27 years takes us. Maybe dance lessons.

Warmest regards,



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