

**GLEANINGS II - 866**  
**Thursday December 31<sup>st</sup>, 2020**

**Quote of the week** - "The Senate is not going to be bullied into rushing out more borrowed money into the hands of Democrats' rich friends who don't need help." - Senate Majority Leader Mitch McConnell (*What universe might he inhabit? For all private coronavirus disbursements max out at US\$75,000 taxable incomes & go to zero at US\$99,000. And 'people who live in glass houses shouldn't throw stones'; for it has been the GOP that has feathered its well-to-do friends' nests.*

**Economic Outlook** - The December 2020 OECD Economic Outlook opined "Vaccination campaigns, concerted health policies and government financial support are expected to lift global GDP by 4.2% in 2021 after a fall of 4.2% this year <sup>1</sup>. The recovery will be stronger if vaccines are rolled out fast, boosting confidence & lowering uncertainty. But its 'downside' economic scenario envisages global GDP won't get back to its December 2019 level until 3Q/22 (when, if its 2020 forecast last year had materialized, it would have been 8.5% bigger than it then will be) - *taking the OECD qualifiers at face value, the outlook for the US is far dimmer than the hoi polloi seem to be taking for granted; for the US vaccination programme is a mess, the Trump administration has studiously avoided anything remotely resembling a "concerted health policy" & Washington's financial support program is stuck in neutral; so Biden c.s. will have a Herculean Aegean stable to clean out with the political scene so polarized that many politicians & voters disinclined to cooperate. And with the US economy slowing going into the New Year, it will be just that much more challenging to get a strong recovery going in 2021* <sup>2</sup>.

*Due to the new mRNA (Mitochondrial DNA) technology, developing the Covid-19 vaccines was extraordinarily rapid. But while the conceptualization of the Pfizer/BioNTech vaccine by a BioNTech founder <sup>3</sup> took a single day, January 23<sup>rd</sup>, & Moderna's just two, the US governments' vaccination programmes have been are a massive 'cluster f\*\*\* & there now apparently are problems in the vaccine manufacturing process (which in Moderna's case should not be surprising since this Cambridge, MA-based company has since 2010 never generated a penny of revenue from making things but survived financially from grants, & "collaborative revenue" from other companies, to fund its research (and company insiders raised many eyebrows by selling, for months, their shares at a 'beat the band' rate as their price went from US\$19.23 on January 2<sup>nd</sup> to US\$104.47 on December 31<sup>st</sup> (as did Pfizer CEO Albert Balour, who sold 62% of his Pfizer share holdings, when they were "hot" shortly after announcing its vaccine was 90% effective.*

*The IMF expects that, when all is said & done, only one country, China, with the world's second largest economy, will have positive GDP growth in 2020 [37 analysts surveyed by Reuters expect by 2.1% (slightly off their mid-2020 2.2%call), the Chinese economy's slowest GDP growth rate*

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<sup>1</sup> I.e. way down from the consensus expectation a year ago that the 2020 Global GDP growth would be in the 3.3-3.5% range. And remember, a negative growth rate in one year followed by positive growth at the same rate in the following year still leaves GDP at the **end** of Year 2 slightly **below** that at the **start** of Year 1.

<sup>2</sup> And to make the outlook bleaker still, Ugur Sahin, one of the cofounders of Pfizer partner BioNTech warned on January 1<sup>st</sup> of a "gap" in the supply of vaccines until other vaccines come on stream (delays in its vaccine output have caused a halting within days of their launch of some inoculation programs in Germany).

<sup>3</sup> The company was founded by a now mid-fifties billionaire German couple of Turkish descent. Both are doctors who met in a German medical school, he born in Turkey & she in Germany to Turkish immigrant parents. By the way Pfizer's 59 year-old CEO, a veterinarian by training, is also foreign-born & educated (in Greece).

in 44 years]. YTD For its 3Q/20 GDP growth rate was an annualized 4.9% & its 4Q/20 GDP is expected to be up 5.8% YoY, while its forecast 2021 GDP growth rate is 8.4% (a post-2011 high). If so, at yearend 2021 China's GDP will be 10.6% bigger than at yearend 2019, while the US & the EU will struggle to break even GDP-wise in these two years (with major geopolitical consequences?) – it's ironic that while Beijing screwed up big time while seeking to 'weaponize' a virus that it nevertheless must have succeeded beyond its wildest dreams!

**Is Elon Musk really a “Wunderkind”?** - His Tesla company in 2019 sold 375,000 EVs (Electric Vehicles), 50% more than in 2018 with its 2019 car sales accounting for US\$20BN of its US\$24.5BN in total revenues (with much of the rest derived from solar power-related products).

But at a US\$705.67 share price Tesla has a market capitalization of US\$669BN, i.e. 75% of the aggregate US\$901BN 'market cap' of all of the world's 33 car manufacturing companies (that in 2019 sold 88MM cars and in doing so generating revenues of US\$103TR, i.e. 5,150x Tesla's. And at that price, Tesla shares have a P/E (Price-Earnings) Ratio of 1,398x (while the 1,096x ratio a few weeks ago already seemed wildly excessive). The often presented explanation in cases like this that “This time it's different” has long been proven deeply flawed & is only taken seriously by dupes and/or the wilfully delusional or put forward as a rationalization by the deliberately devious. Those buying Tesla shares at these prices, must have missed, or are ignoring, Bloomberg's December 13<sup>th</sup> article by Brooke Sample that EVs are the Future. We Just Have to be Patient.

**“Justice Democrats”** - Following the 2016 Presidential election a number of *mostly young* leaders Bernie Sanders supporters founded this 'progressive political action committee' in order to “elect a new type of Democratic majority” in Congress (with the commendable objective of 'eliminating the role of money and conflicts of interest in politics').

In 2018 they fielded 79 candidates of whom 26 made it through the primaries & 7 got elected to the House, the most high profile of them being the then 28 year-old Alexandria Ocasio-Cortez. And in the 2020 election cycle they fielded fewer candidates (65) so as “to focus on the most promising candidates” (?), & succeeded in electing 10.

Among the latter are Jamaal Bowman (age 44), principal of the Bronx's Cornerstone Academy of Social Action Public Middle School, in New York's 16<sup>th</sup> District <sup>4</sup> & Cori Bush (44), an RN & pastor (of the Kingdom Embassy National Church she founded in 2011) in Missouri's First District (where no Republican candidate has gotten over 40% voter support in 60+ years) <sup>5</sup>.

Both are typical Congressional Districts in one respect only, their 700,000+ resident range. Otherwise they're quite atypical; for NY16 is 32%-, & MO1 49%-, black, in NY16 38% lives at, or below, the poverty level & in MO1 18% (while the national average is 12%), and the unemployment rate in NY16 is 11% & in MO1 14.7%, while nationwide it is 6.7%.

On Sunday morning December 27<sup>th</sup> both were interviewed on CNN by Dana Bash in the time slot usually occupied by Fareed Zakaria. Not surprisingly so, both were aggressive in advocating their

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<sup>4</sup> Defeating the 73 year-old Eliot Engel, the Chairman of the House Foreign Affairs Committee, who had represented the City in the House in three different districts for 32 years, 55-41 in the Democratic primary and then Patrick McManus of the Conservative Party 84-16 on November 3<sup>rd</sup>.

<sup>5</sup> Defeating 48-45 the 10-term Democrat incumbent Lacy Clay (who had in 2000 'inherited' the seat from his father Bill, who had held it since 1968).

constituents' needs. Bowman's views can be summarized in two words "no compromise" & Bush's in four, "\$2,000 is not enough". Neither obviously had never heard of Bismarck's observation that "Politics is the art of the possible", nor of John Kenneth Galbraith's, in a March 2<sup>nd</sup> 1962 letter to President Kennedy, that it is "a choice between the disastrous and the unpalatable" or, if they have, they're deliberately tone-deaf & 'marching to a different drummer'.

And while the now 80 year-old Nancy Pelosi was 're-elected' Speaker on November 18<sup>th</sup> (after her 2018 undertaking not to stand for re-election in 2022), both nevertheless refused to confirm that in the 117<sup>th</sup> Congress they would support her (*she is not popular among Justice Democrats since she sought to control them vociferously' marketing their 'progressive' views.*

This cannot help but create headaches for Biden in the 117<sup>th</sup> House. For the 2020 election was a just as much a vote **against** Trump at the **macro-**, as against the Democrats at the **micro-**, level since the Justice Democrats enabled the Republicans to paint the entire Democratic Party as a bunch of 'bogeyman' socialists. As a result, in the House the Democrats lost-, & the Republicans gained-, 13 seats in the November 3<sup>rd</sup> election, and the former now have 222 seats in the House, a mere 9 seat majority, down from 35 in the 116<sup>th</sup>. This will be the smallest majority in the House in the two decades since the 107<sup>th</sup> Congress in 2001-2003, & only the fourth time either party has had a single digit majority since the 72<sup>nd</sup> Congress in 1931-1933.

So the Justice Democrats will now have political leverage far beyond that warranted by their numbers with the result that the Biden-Harris combo will be at risk of being caught in a Scylla & Charybdis/rock & a hard place quandary. For they need the Justice Democrats' votes to pass any legislation, while to be seen as unduly catering to their 'socialist' demands risks losing control of the House in the 2022 mid-terms. And the Justice Democrats are unlikely willing to 'keep their lamp under a bushel' (Matthew 5 : 14-15, Mark 4 : 21-25 & Luke 8 : 16-18) since in the Dana Bush interview both Bowman & Bush gave the impression that the only thing that really matters to them is their 700,000+ constituents' needs & wishes.

**Post COVID economic-political framework** – Many Americans expect that, once the COVID-19 trauma is behind us, things will 'return to normal'. But they are in for a surprise. For globalization, the major driver of global economic growth in recent decades, is now in disrepute. Politics has become polarized, & many voters critical of all powers that be, to a point not conducive to the "pulling together" that will be a 'sine qua non' of a successful recovery from the economic & healthcare coronavirus aftermath. And taxes have only one way to go ... up! For collectively we have for far too long 'kicked the can down the road' & now have reached the stage of having to face up to "paying the piper" This will come as a rude awakening to both the lower social echelon 'entitlement generation' & the hedonic political/corporate/public sector/professional upper one.

**Top Covid-19 vaccination rate countries -**

Country	Vaccination Rate per 100	Report date	Population (MM)	Number of jobs (000)
Israel	7.44	December 29	8.9	622,160
Bahrain	3.29	"	1.6	52,640
UK	1.18	December 24	66.7	787,060
US	0.64	December 28	328.2	2,100,000

Canada	0.19	December 29	37.6	71,440
Portugal	0.16	"	10.3	16,480
Denmark	0.12	December 28	5.8	6,960
Germany	0.09	December 29	83.0	74,700

**US money supply growth** - In the US there are a number of ways for defining the 'money supply'. The most commonly used ones are known as M1 & M2. M1 is narrowly based on the currency outside the US Treasury, the Federal Reserve & the vaults of all deposit-taking institutions, and on other financial instruments that can easily be turned into cash, incl. travelers' cheques, current accounts at banks & other *immediately* cashable deposits, while M2 is defined as M1 **plus** savings accounts at banks, investments in money markets funds, Certificates of Deposit & other 'time deposits' (those that cannot be turned into cash on a moment's noticedemand').

M1 & M2 grew by 137% & 82% respectively in the 10 **years** ended in February 2020 but in the past 10 **months** have grown by 64% & 24% respectively. And while in November M2 **declined** 0.75%, M1 **expanded** by 11.6% (*attributed to people losing faith in the ready encashment feature of their money in financial intermediaries in other than its utmost liquid form*).

*Throughout history such excessive money supply growth has almost invariably led to high inflation (sometimes instigated by governments to erode the real value of their debt). And in this case there may be three 'special circumstances'. One, last August 27<sup>th</sup> Fed Chair Jerome Powell told the, this year "virtual", Jackson Hole central bankers' clambake that, after "robustly updating" the Fed's position on inflation, it will henceforth, rather than targeting a fixed 2% inflation rate, have a policy of "average inflation targeting" (that would let "inflation run ... above its 2% goal for some time"). Secondly, the pandemic is said to have created much "pent-up" consumer demand while goods production has been at best been flat as the Fed has been 'creating money' at an unprecedented rate; so, once things settle down, there could be a great deal of money chasing fewer goods. And finally, the weakening US dollar<sup>6</sup> will give rise to 'imported inflationary pressure'.*

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**WALL STREET JOURNAL EDITORIAL BOARD KNOCKS TRUMP'S 'EMBARRASSING' ELECTORAL HUSTLE** (The Hill, Jordan Williams)

- It did so in a December 30<sup>th</sup> op-ed as Trump was pushing Congressional Republicans to support Rep. Mo Brook's (R-AL) long shot bid to object to the Electoral College vote in Congress (*on Sunday January 6<sup>th</sup>*) that is unlikely to get majority support in the House (& *won't have a snowball's hope in hell in the Senate?*). And it warned that the Democrats will use this to "excoriate Mr. Trump a final time in his way out the door ... *and the grown-ups in the Republican Party are unlikely to play along.*"
- Trump & his allies have now turned up the heat on Vice President Pence, who Trump claims has the power to invalidate the Electors' choice, *a judgment not shared by many prominent legal minds (of which Trump is not one)*. And in its op-ed the Board says "he is pushing his loyal Vice President in a terrible spot and what do Republicans think would

<sup>6</sup> After rising from about 89% of the value of a basket of six other currencies (Euro, Yen, Pound, Canadian \$, Swedish Krona & Swiss Franc) to 103% last April, the US\$ had at last report slid back to the 89% level.

happen if Mr. Pence pulled the trigger, Mr Biden was denied 270 electoral votes and the House elected (*by a vote of 30-20, since the voting would be by state rather than by representative?*) Mr. Trump as President? ... Riots in the street would be the least of it", adding that the scramble would "tarnish" the Trump legacy & "undermine any designs he has on running in 2024".

*Two things are interesting. One, the Editorial Board is more critical of Trump than has often been & its "Riots in the street" call is disconcerting and, hopefully 'over the top'.*

### **IS THE GREAT VACCINE DRIVE DOOMED ALREADY? (Daily Mail, Luke Andrews)**

- In Britain a 'Dad's Army' of 40,000 retired doctors & nurses have volunteered to help administer the planned 2MM/week Covid vaccination program. But they are now upset about the red tape involved in applying. For it requires the submission of no fewer than 21 documents, one of which would verify they had undergone "Prevent Radicalization Training" to ensure they're not terrorists (retired doctors & nurses?). And the military's offer that it "stood ready" to deliver 100,000 doses of vaccine a day has so far had no response.
- And NHS data released on New Year's Eve showed that the number of vaccinations done had declined from 292,000 in the week before Christmas to 243,000 in the week ended December 27<sup>th</sup>. And even if the rate were to be 'ramped up' to 1MM a week it would still take till August to complete 'Phase One' of the vaccination program (administering at least one shot to the most 'at-risk' members of society). And the original 30MM doses promised by Oxford/AstraZeneca by yearend, has been scaled back to 4MM due to 'manufacturing changes' while according to Health Secretary Matt Hancock on December 30<sup>th</sup>, as of January 4<sup>th</sup>, Britain will have just 500,000 doses ready for use & the interval before the second dose is administered has been tripled to 12 weeks.

*Government incompetence in the fight against Covid-19 seems to know no bounds in the Western world (which augurs badly for an early rapid economic recovery).*

### **GERMANS EYE OTHER COUNTRIES' CORONAVIRUS CAMPAIGNS WITH ENVY**

**(FT, Guy Chazan)**

- Vaccination rates in Germany lag far behind those in, *among others*, the US, UK & Israel (*as shown in the table* above). This caused Health Minister Jens Spahn to tell reporters, & plead with his fellow Germans, to have patience since "supplies of the vaccine are tight."
- To date in Germany 78,000 people (0.09% of its population) have been jabbed vs. 640,000 (7.2%) in Israel and rates are higher in the UK (that had an earlier start) & the US. This prompted the opposition Free Democrat MP Marco Buschmann to observe on Wednesday December 30<sup>th</sup>, after Israel had announced it expects to have most of its 8.9MM population vaccinated by the end of March, "Sometimes German politicians are so proud of themselves that they forget to learn from the best in the world."
- According to Dilek Kalayci, the Berlin Health Minister, as of Wednesday December 30<sup>th</sup> the capital had received only 58,500 doses (for a political entity with a population of 3.6MM) & that delivery of 29,250 more doses in the first week of 2021 had been cancelled. And her colleague in the State of Brandenburg (that surrounds Berlin) reported that day that it too wouldn't be receiving vaccine shipments promised for the first week of January.
- Germany's ability to get more doses of the vaccine is constrained by an earlier government conscious decision to "take the European path" & not negotiate bilaterally with vaccine producers (although it did hedge its bet by volunteering to buy all doses not claimed by other EU members).

And the government's position hasn't been helped by the UK government approving the Oxford-AstraZeneca vaccine & Health Minister Matt Hancock announcing it now expects to exit the pandemic "by the spring". And *what really rots the German people's socks is that their country is home to the Mainz, Rhineland Palatinate-based BioNTech<sup>7</sup> firm that has been working with Pfizer to develop the COMIRNATY Covid-9 vacciner.*

## **FITCH RATINGS UPDATES CORONAVIRUS SCENARIOS FOR U.S. STATES AND LOCAL GOVERNMENTS**

- In a "Non-Rating Action Commentary" dated December 16<sup>th</sup>, 2020, it lays out two possible scenarios for the US in the period ahead :
- **Baseline** - 3.5% GDP decline this year (2020), followed by 4.5% in 2021 & 3.5% in 2022, resulting in Real GDP recovering to its December 31<sup>st</sup>, 2019 level in 3Q/21 (on the assumption that the States' & local governments' revenue shortfalls will be offset by direct & indirect federal stimulus); and
- **Downside** - This assumes repeated 'circuit breaker' lockdowns, unrelenting pressure on the healthcare system, lessened voluntary social distancing and/or delays in the rollout of vaccines. This would result in GDP declines of 3.9% in 2020 & 1.6% in 2021 & GDP growth of 3.8% 2022, and a delay until 2023 in the GDP recovery to the 2019 level.

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<sup>7</sup>

This company was founded in 2008 by two doctors of Turkish descent who met while studying to be doctors in Germany. Apparent they designed the drug in one day last January 23<sup>rd</sup>, using the mRNA (messengerRNA) technology (that also was used by Cambridge MS-based Moderna, whom it, however, took two days to do so).