Gleanings II - 870
Thursday January 28th, 2021

Quote of the week - "It's not the institutions that will be left holding the bag ... It's the kids on my basketball team asking me how options work..." - Jason Katz, a Managing Director & Senior Portfolio Manager at UBS Wealth Management in New York – *This is not dissimilar to the earlier observation by a former Goldman Sachs partner who reported that his 10 year-old son's friends don't have time to play computer games since they are "too busy day trading".*

Quote of the week No. 2 - "The single most dependable feature of the late stages of the great bubbles of history has been really crazy investor behavior ... on the part of individuals. For the first ten years of this bull market .... the longest in history, we lacked such wild speculation. But now we have it ... My best guess ... the bubble might survive ... *until* late spring or early summer, coinciding with the broad rollout of the COVID vaccine. At that moment the most pressing issue facing the world economy will have been solved. Market participants will breathe a sigh of relief, look around, and ... realize the economy is still in poor shape, stimulus will soon be cut back with the end of the COVID crisis, and valuations are absurd." - Jeremy Grantham *[age 82 & a Brit by birth, he came to the US for an MBA at Harvard (when the program was still only offered at US universities - Canada's University of Western Ontario was the first university outside the US to launch an MBA program in 1950) & stayed. In 1977 he cofounded the Boston MS-based & well-respected Grantham Mayo & van Otterloo, firm that today has AUM of US$65BN. He believes the forthcoming stock market crash will rival those of 1929 & 2000 & on January 5th wrote an article "Waiting for the Last Dance" in which he noted "Speaking as an old student and historian of markets, it's intellectually exciting and terrifying at the same time ...and a privilege, to ride through a market like this one more time."*

Biden's approval rating - On January 21st & 22nd a The Hill/Harris poll asked 941 registered voters "Do you approve or disapprove of the job President Joe Biden is doing on ..." seven topics. He scored highest on COVID-19 (69-31), lowest on immigration (57-43) & averaged 63-37 – *His US$15 minimum wage XO may come to haunt him & he is shortchanging himself, & the American public, by relegating Kamala Harris (of whom I am not a great fan) to the 'cheap seats' in their public appearances. For, given his age & his sometimes wobbly public appearances, and her friendship with his late son Beau, one would expected to make her hands-on training in case she must fill in a top priority for him . And the optics of having her White House office not close to the Oval Office & her standing at his press briefings demurely, with her hands crossed in front of her, against the back wall, stink!*

Fed's policy stance - During the 2008/09 Great Recession its balance sheet more than doubled from US$899BN in August-, to US$2,239TR in December-, 2008. Then followed a period in which it grew by fits & starts to US$2,878 in July, 2011 & US$4.383TR in July, 2014. It then plateaued at that level until December, 2017 after which it declined to US$3,770 by September, 2019. And since then it has grown by leaps & bounds to US$4.158TR by February 24th ,2020, US$7.082TR by June 22nd, 2020 & US$7,362 by December 14th, 2020.

So if we are to believe Fed Chair Jerome Powell, it will 'double down' on its seemingly ineffective low interest policy stance. For he told Wednesday's usual post-FOMC meeting press briefing not just that the Fed is not exiting its support for the economy, but will leave its benchmark interest rates near zero & keep its bond buying program at its current US$120BN monthly pace (making the Fed in effect **the** US bond market). So overnight the stock market index futures all slid, the Dow by 0.4%, the S&P 500 by 0.7% & the NASDAQ by 1.0%.

Meanwhile, while the first reading of Fourth Quarter US GDP growth came in a 4%, the weekly number of new unemployment insurance applications remains stubbornly stuck in the 800,000+ range, about 4x what it used to be before the onset of the COVID-19 era. And with the preliminary estimate of 2020 US GDP growth now at -3.5%, the US economy will have to grow by 3.6% this year for GDP to be, by the end of this year, back to its December 31st, 2019 level. And two years of excessive Fed balance sheet growth & zero net GDP growth may well herald a return of the 1970's "stagflation" phenomenon [1] (after the global system was discombobulated by the oil price nearly quadrupling in just five months to March 1974).

GameStop - This 37 year-old, Grapevine TX [2]-based video game/consumer electronics retailer in 2019 had revenues of US$6.5BN from 5,500+ outlets in the US & Canada, Australia & New Zealand, and Europe. But hard hit by online competition, it was planning to close almost 10% of them & its outlook was dire.

Since the turn of century its stock price had ranged between US$5 & US$50+. Then last year the company caught the eye of *novice, Robin Hood-type, stay-at-home* day traders looking stocks that appeared undervalued to them, who started piling into it. Meanwhile, some professional fund managers who had been selling it "short" (i.e. sell a stock that seems overpriced when not owning it but having to borrow it from third parties in the expectation of making money when they could be replaced at a lower price), started covering their short positions. So its share price increased more than 4x from US$3.96 on July 17th, 2020 to US$18.84 on December 31st, 2020.

But the short sellers had overdone it. For GameStop's aggregate short position had become 68.1MM shares, **98%** of the **total** number of it's shares outstanding & ***145%*** of the public float (the shares not owned by company insiders). So it became a seller's market bar none & GameStops' share price nearly doubled to US$35.50 in the first two weeks of the New Year & again to US$76.79 by January 25th, again to US$147.98 on the 26th, & again to US$347.51 on the 27th. And on Thursday January 28th it gyrated from US$263.49 at the opening to US$126.01 at 1120 hrs, US$492.02 at 1410 hrs, US$197.44 at the close, & US$315.00 in the 'after market'.

This seriously hurt the shortsellers. One, NYC-based <u>Melvin Capital Management</u>, is said to have lost one-third of its US$12.5BN AUM on this-, & other-, short sales & had to be bailed out to the tune of US$2.75BN by a couple other hedge funds as bankruptcy rumours started swirling around. And at last report short sellers losses on GamaStop alone totaled US$19BN.

GameStop is not an isolated case. For this week a number of other heavily shorted stocks spiked, incl. AMC Entertainment (from US$4.72 to US$20.30), Express Inc. (US$3.90 to US$13.22), Nokia (US$4.19 to US$7.33) & Koss Corp. (US$3.65 to US$58.00). And on Thursday American Airlines, the most shorted airline (with 25% of its float shorted, vs. United's 5%), came next as its share price went from US$15.40 to US$20.33 after it reported "better than expected" Fourth Quarter results, with revenues down 'only' 31%, rather than the expected 34% and its losses US$8.9BN, i.e. 'only' US$3.86 per share, 1.5% less than the US$3.92 expected.

This ought to be a 'red flag' for all American elites. For, while the 'game' has long been loaded in favour of those 'on the inside', it has been wayyyyyy overdone. In the case of the stock market

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1 I.e. higher than usual inflation & stagnant growth

2 A 53,000 inhabitant city in the Dallas-Fort Worth region.

this had meant insiders had access to more (of other people's) money, better information sooner, & could transact at a far lower cost. But the social media & the 'zero commission' phenomenon drastically changed the nature of the stock market game and the 'fat & happy' elite didn't realize the power these changes had given to the masses of the "great unwashed" (just as Hillary Clinton did in 2016 when she denigrated Trump supporters, as a "basket of deplorables"). For how else could a supposedly smart group of people have been so inane as to short sell just about every share in existence of a company?).

This confirms my belief that the elites don't fully appreciate there are far more bodies & guns outside, than inside, their gaited communities [and that we are on the threshold of a period of societal change not seen for 240 years (i.e. since the French Revolution)], although the elite 'inside the Beltway' seems to be waking up to that reality as members of the US House of Representatives are now pressuring Speaker Pelosi to be allowed to bring guns into its chamber.

ILO's reading of the coronavirus impact [3] **-** On January 25th it reported it had caused 225MM jobs to 'disappear', 4x that during the Great Recession. And that this had disproportionately affected low-paid, low-skilled jobs", potentially leading to more inequality in years to come. And according to Britain's Guy Ryder, the ILO's Director-General since 2012, the effect on jobs has been greater than in the Great Depression (*of the 1930s)* - *which may be a flawed yard stick since in 1933, the year of my birth, the world's population was one quarter of what it is today.*

Massively growing inequality - *While the US Congress keeps debating whether some of the hoi polloi really 'deserve' handouts* [4]*,* according to a study by the Universities of Notre Dame & Chicago the COVID-19 pandemic has produced the sharpest rise in the US poverty rate in over half a century. For by November it had increased from 9.3% on June 30th by 2.4% (7.8MM people) to 11.7% (& by 3.1% for blacks); meanwhile the wealth of Forbes' 651 American billionaires combined had jumped by 36% (from US$2.95TR to US$4+TR). And on January 25th Oxfam reported that in 2020 the wealth of the world's richest 10 men had grown by US$500+BN (more than it would have cost to vaccinate the world's entire 7.8BN population).

Growing numbers of American 'bozos' seek to take guns on airplanes! - In 2020 the TSA (Transportation Security Agency) caught 10 passengers per million trying to take a gun, over 80% of them loaded, on their body or in their carry-on luggage, through security at airports, up YoY from 5 per million. Although their actual number was down significantly, from 4,432 to 3,257 YoY, this was because the coronavirus had resulted in 500MM fewer people traveling by air. All in all, at least one passenger was caught at 234 different airports, with the big 'winners' being Atlanta with 220, Dallas/Fort Worth (176), Houston (126), Phoenix (124) & Denver (104).

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<u>WE NEED TO GIVE UP ON 'NORMAL'</u> (NYT, Peter Capatano)

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3 Located in Geneva, it is the oldest of the UN's "Specialized Agencies"; for it was founded in 1919 by the League of Nations with a mandate to "advance social & economic justice" in the world by setting & maintaining international labour *work place* standards (& in 1969 was awarded the Nobel Peace Prize for doing so).

4 The Republicans who are blathering about this had no problems with the <u>Tax Cuts and Jobs Act of 2017</u> that passed out US$1TR of goodies those who didn't 'need' such largesse, nor with running, during the Trump years, deficits of US$3.5TR & ramping up the Debt-to-GDP ratio by almost half to 4.8%

- Roy Scranton is an Iraq War vet, author & Director of Notre Dame's Environmental Humanities Initiative. [5] In our Op-Ed section today (*January 25th*) he looks at the imminent danger of our warming planet in a piece entitled "We Want a 'New Normal' ... It's not in the forecast - Climate change is upending the world as we know it and coping with it demands widespread, radical action."
- 2020 brought us not just the pandemic but also ravaging fires, melting ice & devastating hurricanes, and was the second ever hottest year on record. And he says the worst is yet to come; for everything that long has bound global civilization together is about to be disrupted, if not broken, & we will have more hunger, drought and civil unrest (*& migration all over the world as people move to escape the local backlash of climate change?*).
- And he warns that the new normal people are yearning for after a year with the pandemic would mean returning the world to a way of doing things that would *further* "destabilize the conditions for all human life, everywhere on earth", & that all the stuff about the Paris Accord, business going green, solar power & electric cars is "too little too late" since the climate change crisis is gaining momentum "faster than we are deploying solutions."
- His views are coloured by what he witnessed in Iraq where, as he puts it, "I saw what happens when the fixture of everyday life is ripped apart", leading him to believe "We need to give up on normal and start adapting. The most dangerous response is more optimism".

Wanting the crawl back into the womb is a very human reaction; for adjusting to new rules & circumstances involves hard, & often painful, work (& leave our old habits as "stranded assets"). But our economies' business model of the past 50 years was based on never confronting the consequences of our actions but merrily, & mindlessly, 'rolling problems down the road in front of us', not a long-term sustainable one. And looking back over my lifetime, I can see how we have been evermore abusing Mother Nature to the point where she now is biting back (remember how in 2012 during Hurricane Sandy several NYC subway stations & tunnels were flooded by the rising sea waters?). And I learnt long ago that, given half a chance, she has remarkably recuperative abilities if only we first quit beating her up. Going forward we seem to have two choices. One is "It will last out my life time!", the refuge of many elderly people & the lazy, & the other "it's never too late to change our ways!" & "a thousand mile journey starts with a single step". And it behooves all us grandparents to see the latter going forward as the only sensible 'modus operandi'.

MADE IN THE U.S.A. : SOCIALISM FOR THE RICH, CAPITALISM FOR THE POOR
(NYT, Thomas L. Friedman)

- Trump's Republicans ran deficits of a size hitherto only seen in times of national crisis, thanks to tax cuts (*for the rich?*), military spending (*on a force that now has 8x as many generals than during its heyday in WW II*), & zero fiscal discipline *at a time Trump bragged the economy was strong & the unemployment rate at a decades' low*. But now, when Biden seeks to spend more on pandemic relief & keeping the economy from tanking (& losing as many as 4 more MM jobs?), they have *re*discovered fiscal rectitude.
- Ruchir Sharma is Morgan Stanley's Chief Global Strategist, one of my favorite contrarian economists & author of the book "The Ten Rules of Successful Nations". Last July, in a WSJ essay entitled "The Rescues Ruin Capitalism" he argued that easy money & generous bailouts fuel the rise of monopolies & keep "zombie companies" alive at the

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5 Located on a two square mile campus near South Bend IN (home to its former Mayor & now Secretary of Transportation nominee Pete Buttigieg it is a smallish, high quality (13,000-, one-third of them graduate-, students and a 1 : 9 academic staff to student ratio) university. It was founded in 1842 by Fathers of the Congregation of Holy Cross, five years after the order was founded in Paris, France.

expense of start-ups that drive innovation, all of which adds up to "a shrinking of the pie for everyone", except the favoured few.

- And he uses the above 1960's concept to describe a situation in which government does more to stimulate financial markets rather than the real economy at a time the "TopTen Percent" already owns 80% of all US stocks while the 'Bottom Fifty Percent' must rely on jobs in the real economy to survive & experiences zero gains *in their standard of living* since mediocre productivity growth has limited the scope for economic growth.

Low interest rates are counter-productive; for they divert scarce resources into projects with low RoIs (Return on Investment) which lowers the economy's productivity & potential growth. I was taught that lesson in Ghana in 1994 on a World Bank Mission. For I asked a very successful local businessman in his late fifties of Lebanese extraction, if it didn't hurt to pay 35% interest on his bank loans. And his response was along the lines of "Do you really think I would have spent three decades in this Godforsaken country if I couldn't make more on my money than 35%? - And, as the saying goes "The proof of the pudding is in the eating"; for according to World Bank numbers in the 25 years since then in Ghana, one of Trump's "shithole" countries, GDP has grown at a 5.85 % "real" CAGR (Compound Annual Growth Rate) while in low interest rate America it likely would be a real stretch to have realized even half that.

BLUE STATE, RED TAPE (City Journal, Kerry Jackson)

- A Sacramento Bee headline last October "How liberal politics, COVID-19 & the high cost of living are fueling a new California exodus" could have been written long ago. For the flight from California started long before the pandemic. Back in 2010 already New Geography raised the question "If California is doing so great, why are so many leaving?".
- And in 2012 Investor's Business Daily headlined that Californians were moving away because of its progressive policies while the *conservative* Manhattan Institute for Public Research (that publishes the City Journal) attributed "The Great California Exodus" to policy decisions that had made the state "a less desirable place to live".
- Recently Palatir announced it is moving from Palo Alto to Denver & Hewlett Packard, a Silicon Valley original, that it will relocate to Texas to seek "opportunities for cost savings" & accommodate "team members' preferences about the future of work". In 2019 California lost 453,000 residents, many of them to Texas, Arizona, Nevada, Washington & Oregon.

In 2015 California's annual rate of population growth was 0.82%, better than the national 0.65%. But, while nationally this had declined to 0.62% (& to 0.58% in 2020), in California it had cratered to 0.25% (& to minus 0.18% in 2020). And last year Jim DeMartini, a 3rd generation farmer from, & for 16 years a County Supervisor in, the Jaoquin Valley's Stanislaus County East of San Francisco, moved to Nevada, saying "California is not a good place to live or to do business anymore ... a basket case"

Worse still, actuaries estimate the state has US$85.6BN in unfunded retiree health liabilities. One in 9 Californians now are direct or indirect beneficiaries of public sector pensions plans (with the two biggest, CALPERS & CALSTRS, since 2001 having run their unfunded liabilities up from zero to US$138.9BN & US$107.3BN respectively. It's aggregate unfunded liabilities' load is now 50% of its GDP. And its slower population growth will affect the national balance of power; for as California's population declines, it will become less of a national political powerhouse & erode the quality of its work force (for those leaving tend to have more marketable skills than the new arrivals newcomers (who, as is now happening in Alberta, are attracted by a mirage of days gone by).

<u>GOVERNMENT RESTRICTIONS LEAD TO THIRD NIGHT OF RIOTING IN THE NETHETLANDS</u> (NBCNews)

- To deal with a new wave of COVID-19 infections of the UK variant the Dutch government introduced a nigh time curfew for the first time since WW II. But this was not well received & led to the police on January 25th detaining over 150 people (& in one city deploying a water cannon) during a third night of rioting in cities *large & small* across the country as roaming groups of rioters set fires , threw rocks & looted stores.
- Bars & restaurants have been closed since October and schools & non-essential shops since mid-December. And this unrest had started with calls to protest the tough lockdowns that drove people into violent action as a result of messages on the social media.

The Netherlands has been harder hit than some by the coronavirus. Thus with one-fifth the population of Germany it has had almost half its number of cases & one quarter of its fatalities, and with a population half Canada's, 25% more cases & two-thirds its fatalities.