November 12, 2020

Dear client,

Re: <u>Fall Conference Call on Thursday, November 19, 2020 at 6:30 PM</u>

Surprisingly, the stock market[1] has not been bothered by the contested election. At least contested by President Trump. Although it looks like Joe Biden has won the presidential election, the truth of the matter is that the stock market could care less if Biden or Trump won. The market received its Christmas and Hanukkah presents early, a Republican controlled Senate. With the votes tilting towards the Republicans, it might mean that the progressive platform of the Democratic party will not have much of an effect on the U.S. economy. Stock markets do not like uncertainty and prefer the status quo as long as it is accretive to the economy.

If we look past the presidential winner, we will see that the race was close and that the United States is as deeply divided as ever. I hope that we can come together for the common good, but I am not betting on it. With gridlock being the outcome of the election, it appears no major policy initiative will move forward. President Trump is not a one-time phenomenon, but he will be around for a long time after the election in one form or another.

The rally in bonds and stocks signals three key collective judgements by investors in that a divided government removed major concerns and risks about corporate earnings, taxes and the broad business environment.

It is interesting to note that, at times, the economy will move in one direction while the stock market moves in another. Sometimes, they move in tandem. However, never confuse the stock market with the economy because stock prices reflect interest rates and corporate profits, while the economy concentrates on GDP, employment, and consumer spending. One would think that stock price movements would go hand in hand with the economic fundamentals, but they don't always. This year was one of those rare moments where the economy and the market diverged, but with an improving economy and a stock market that is near record highs, they are now moving in parallel fashion once again.

This year, the economy and the stock market were rescued by easy money supplied by the Federal Reserve and fiscal stimulus by the central government. Much of the stimulus money did not go into consumer spending, but into savings instead. Of course, those fortunate enough to be able to work at home suffered less than the many who were laid off or furloughed. The point, however, is that much of this money was channeled into savings not consumption. In the beginning of the pandemic, there were supply and demand deficiencies. Aggregate demand is still below prior pandemic levels. Therefore, even without additional stimulus, because of extraordinarily high savings rates, we believe the economy can muddle through until the beginning of next year without imploding. A stimulus package is still needed, and I think that Congress will pass a stimulus package, but it will be much less than the one proposed by Speaker Pelosi and President Trump. The investment implications of a lighter fiscal policy mix should weaken the U.S. Dollar, lower bond yields and move gold higher. Real bond yields (nominal yield - inflation = real yield) and the U.S. Dollar are the two most important variables for gold. If the U.S. Dollar moves lower and real yields also move lower, then gold should move higher. We have been adding to our gold positions in the past month or so, and for most accounts, gold represents about 10% of the account value. Unfortunately, with a weaker outlook, the Federal Reserve Bank ("Fed") will be stuck with doing the heavy lifting and if the Fed prints more money, the U.S. Dollar should weaken further against the major currencies. We are staying long Treasury Inflation Protection Securities and gold.

If corporate taxes do go up, the increase proposed by President-elect Joe Biden would raise rates from 21% to 28%. This would be significant in that it would create a headwind just as the rate reduction by Donald Trump caused a tailwind for the stock market. This action would reduce earnings and could cause the market to retrench. We are on the lookout for that scenario.

We are cautiously optimistic and have been buying some selected issues in the non-tech area. In the past week, we have purchased:

- AIMC - Industrial controls and robotics
- KBR - Engineering and construction infrastructure
- NTR - Fertilizer company
- SEDG - Solar inverter manufacturer
- TTWO - Take-Two Interactive (games)

Emerging markets have controlled the COVID-19 pandemic better than the developed countries such as the United States, UK, and those in Europe. Long term growth fundamentals in emerging markets look better than the larger developed markets. We like Mexico, Colombia, South Korea, and Singapore. Until today, we really liked China, but we have closed out all of our Alibaba (BABA) positions.

The Chinese Communist Party (CCP) made it clear that politics and power take precedence over economic growth, corporate profits, and transparency. Communist party officials are placing stringent guidelines on some of the most successful Chinese internet companies for fear that too much dominance may challenge the CCP and that state-owned enterprises such as banks don't like competition from the more able, nimble, and smarter private competitors. As much as it pained me to sell Alibaba, we have moved away from China for the time being. The large internet companies such as Alibaba, Tencent, Baidu, JD.com and others are very vulnerable to government over-regulation and unnecessary control.

I suspect that the global stock markets will be higher in 6 to 12 months from now even though valuations are stretched. Cheap money and more stimulus are on the way and this should prop up corporate earnings and the stock market. We are looking to go global once the time is right.

Please join us for our conference call via Zoom on **Thursday, November 19th, at 6:30 p.m.** We will have an insightful conversation on "*What To Invest In After The Election And Our Pivot Towards Inflation*".

When: November 19, 2020, 06:30 PM Pacific Time (US and Canada)
Topic: BFSG Fall Conference Call Hosted by Steven Yamshon

Link below to join the webinar:
https://bfsg.zoom.us/j/92035008819?pwd=bG9FTm5MZ3pPS2gvNDd0bW5pUGMxZz09

Or Telephone:
Dial: US: +1 669 900 9128
Webinar ID: 920 3500 8819
Passcode: 388235
International numbers available: https://bfsg.zoom.us/u/ab6CbJcAOo

All the best,

Steven Yamshon
Managing Principal

1. The S&P 500 is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.