KEEN ON
RETIREMENT

What Divided Government and Potential Covid Vaccines Could Mean for 2021

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody and welcome back to another episode of Keen on Retirement. I'm your cohost, Steve Sanduski. And with me as always is Bill Keen and Matt Wilson. Gentlemen, how are you today?

Bill Keen: We're doing good, Steve. It's been quite a year and we're just progressing through it day by day. And it's not so bad.

Steve Sanduski: That's right. Yeah. We have a lot of news that's happened here since we recorded our last episode. I think we're probably going to jump into it, but Matt, any thoughts from you on what's going on here?

Matt Wilson: Yeah. I had a webinar at the end of October, kind of pre-election what's going to happen and a lot of things are unfolding post the election. A lot of things to talk about today. I guess we could jump right in.

Steve Sanduski: Yeah. And of course we just got some very exciting and encouraging news on a potential COVID-19 vaccine.

Matt Wilson: Pfizer just released results stating that their COVID-19 vaccine is more than 90% effective in preventing COVID-19 infection among people who had not been previously infected. And that's a big market moving event that we're recording this on the day that actually was announced. Market is performing very well in light of that. And what the next step is, they will have enough safety data, which is specified by the FDA to go for emergency use authorization by the end of November. Actually I'm reading here the third week of November. Pfizer has said that they have 50 million vaccine doses. Their goal is to have 50 million available in 2020. By the end of the year.

Bill Keen: Wow. Now, I've had a few questions already come up today just to make this clear, Matt, this is not like remdesivir, which is an antiviral, a viral treatment. This is the actual vaccine itself.

Matt Wilson: That's right. Yeah. This is to prevent infection.

Bill Keen: I remember when we talked about the vaccines on a podcast two or three episodes ago, you did a great job explaining the different types of vaccines. And you mentioned that in some cases, certain vaccines were required to have two shots. And is that the case with this particular one?

Matt Wilson: Yeah, the Pfizer vaccine is a two dose vaccine that takes 28 days to achieve effectiveness. You have the first dose and then 28 days later, you have another dose and it is one of the vaccines that requires refrigeration. It does.

Bill Keen: Very cold too, negative 100 degrees or something very cold.

Matt Wilson: Almost unbelievable. It's like, well, how are we even going to make that work? But that's the Pfizer vaccine and the Moderna and the two others, there's three more that still have phase three trials going on right now. Moderna has said that they expect to announce at the end of November and then the other two have all both hinted at the end of the year. And those other ones, they all had little different characteristics around them. There were some that were single dose. Johnson and Johnson, I believe was single dose and ones that didn't require as much refrigeration. There's, I believe, by the end of the year we're going to look up and have multiple options when it comes to the vaccine and the administration of it.

Bill Keen: And the concept of us being back to some semblance of normal is more realistic than maybe a lot of us could consider not that long ago.

Matt Wilson: Yeah. Two weeks ago, the news about all the increase in cases and the daily case numbers going up significantly, not only here in the US but across the world. And we're seeing lockdowns in other places around the world. It really did impact the markets. I believe that impacted the markets probably more than the election did in that week before the election was just, all right, are we ever going to get rid of this thing? And are we going to have to shut the economy back down? And this is providing some light at the end of the tunnel, so to speak when it comes to COVID and the potential cure for that, or at least the vaccine.

Bill Keen: I think that it's a legitimate indication when you come in and you see on Monday morning when we came into the office and we're seeing the Dow called up what? 1500, 1600 points, the Russell Small Cap Index, six, 7% on the day. A lot of those positions, the cruise lines, the airlines, energy companies, certain companies that you had been talking about this too, Matt. In fact, you just talked about this in your most recent quarterly update, this exact information that those were the companies that we could see some of the biggest turnarounds in that had lagged the tech stocks. Of course, they had lagged the tech stocks, but you said that those could be the areas that we see the most explosive move from where they were. And literally just a week later or so here, that's actually, that's playing.

Matt Wilson: Yeah. The initial kind of move is to see those areas bid up. Airlines, cruise lines, hotels, travel booking sites, movie theaters, rental car companies, theme parks, those are because Hey, the outlook for them has changed dramatically. We're going to see more people travel and more people go out and about and do things that they haven't been been able to do. And the other kind of issue too, is that one, the Pfizer announcement is greater than 90% effective. The initial indication was 60 to 70% was what they were looking for. That means, as people take it, the likelihood that they're immune to it is significantly higher now. And we've already seen mortality rates, not necessarily, they've gone up a little bit, but they weren't peaking in the most recent surge in new cases like they were in March, April.

And so the vaccine, we talk about the herd immunity and we don't need that many people to get it to at least bring the deaths down. The most compromised people, whether they take the vaccine or not are most likely going to be the ones that are prioritized to receive it, and then it kind of goes around the rest of the demographics after that.

Bill Keen: That's right. When we've managed portfolios through this year of 2020 and we've managed portfolios much longer than that, but through some very difficult times, 2000, 2001, 2002, 08, 09, other times in that timeframe where things were difficult, but especially in 2020, when things were about as difficult as you could get with the varying factors. I still say the fact that we stick to our guns, we talk about diversified portfolios. You don't just because in the course of some stressful event, take all of someone's long term assets that they're going to be living on for the rest of their lives and shove them over into the technology sector, because that's the sector that's temporarily running wild because of a pandemic. No way I would recommend someone doing that. And we knew that the way that things ebb and flow, the way that cycles and sectors work, that the diversification and the rebalancing was the way to go. And we're starting to see that play out over the last few weeks and especially this week.

Matt Wilson: Yeah. It's been an interesting thing to see the kind of market response to what the vaccine really does to the economy and everything else going forward. But, also the economic data that's been coming out, that's been very, I wouldn't say it's great data, but the trend of the data is still showing signs of improvement. It's not like economic data has been getting worse. It recovered here in the summer and it's still recovering. We saw the jobs number come out under 7%, 6.9. Now, earlier this year before the pandemic, it was three and a half was the percent of the workforce without jobs. It got up to 14. We basically, we went from lowest level since 1969 to the worst level since the great depression in four months.

And and now we're though we're below 7%. And that does speak to the interventions that the government did via fiscal monetary policy, the stimulus that they put out, what the Fed did with backstopping certain areas of the economy and the market. It's gotten to this point, but we're seeing manufacturing data come out strong, factory orders are strong, services data's strong. All the economic data's still pointing to this V-shape recovery. Now the COVID-19 vaccine just shows us that well, let's expect that to continue. No reason to expect that not to continue with the rollout of this vaccine.

Steve Sanduski: Yeah. And I think what I find fascinating about all of this is just the resilience of the US economy. And so when we did have the initial shutdown here earlier in the year, there were some pretty draconian estimates in terms of what was going to happen to the economy. And I think the worst fears that were out there, even though it was really bad, what actually happened, the worst fears were certainly not realized. And I think we're also coming back a lot faster than a lot of people were thinking. And yes, we still have a lot of people that are unemployed. We still have a lot of people that are really hurting out there. There's no question about that. But I think the government stepped in, the Federal Reserve stepped in and provided a lot of support, which has super helped. And now with this great news on the vaccine, the markets are roaring again. Yeah, I think we've got a lot of positive momentum going into the end of the year here.

Matt Wilson: Yeah. The election, I hate to say that it's not over yet. It seems like it's clearer that it's a Biden Harris victory, but it's not technically over yet. I believe that President Trump is going to contest it. Now, all the research that I've read, analysis that I've read about it in the market too, I think the market response is that it probably isn't going to go very far in terms of the how contested is it because there's so many variables that have to happen to kind of push the vote count over from Biden over to Trump. Whereas, in 2000 it hinged on one state. There's a lot of different states that would have to change if we were to see that happen.

That was one of the things I talked about as a potential volatile event was that it's going to be contested and the markets might react in a negative way, but so far markets are not reacting in a negative way. And I believe it's because the market's kind of view that as a very small likelihood that all of these things would change to where Trump would win. But also that, well, either way, we know a little bit, a little bit more clarity on what's happening with the president. And then also who's in control of the Senate because, that is a big thing, that the market's looking at is, do we have a divided government or not?

The divided government, basically tells us that if Biden is the winner of the election, then Republicans are in charge. We probably won't see many things change that I think the market was afraid of. I believe we won't see any significant changes to the tax code over the next couple of years. Most likely not going to see any moves or discussion on a Medicare for all, or a Green New Deal. Those definitely seem to be off the table with the setup that we're currently seeing with the administration.

Bill Keen: And you might recall again, a number of podcasts ago, we walked through completely objective historical perspective on how markets performed, how GDP performed under these different scenarios and the data all pointed back to a kind of gridlocked Congress and White House, as being the best for markets and GDP. Do you recall that, Matt?

Matt Wilson: Yeah. And the bottom line was, it really didn't matter who was in charge. Just the fact that most of the time the market goes up and the policies that one individual or one party can put in place still tend to have, they're muted compared to what the rhetoric is. Not to say that doesn't matter and politics don't matter, but the market always seems to find a way in light of whatever the situation that's thrown at it.

Bill Keen: I've seen many different administrations since I've been a professional in this industry and I've seen business change their plans and be able to be nimble around whatever the environment dealt them, whether it was regulation, whether it was taxes, whether it was tariffs, whatever it might've been. I've seen business, good strong business, change their plans and be nimble to work with whatever is there. And that's exactly what we have to do with our clients. Is when we're managing someone's life savings and partnering with them, walking alongside them on their journey, we have to be nimble. We have to help our clients to be nimble and pivot to the things. We have to be looking for what's happening with taxes. We have to be looking at these items and issues, whether it's in this case, maybe estate planning changes. We know that taxes, you say may not change. To some extent they might, there could be another act or bill that comes out that we have to pivot for and be prepared for.

That's I think one of the key themes to this is yes, we want to talk about this information objectively, we want to be clear. We want to be up to date, but we have to make decisions on the ground, in the trenches for each of our clients and ourselves, of course and our families on how to deal with what we've been dealt, whatever that might be that tomorrow brings.

Matt Wilson: Yeah. And what I would say to that too, is that even if there isn't any expectation of major tax changes in the code over the next couple years, there's still lots of opportunity for tax planning because the outlook for taxes, maybe even over the next 30 years are probably higher. Just over the next couple years, yeah, maybe we weren't going to see a significant change where it's at today, but there's very high likelihood that we're going to see higher taxes in the future. It may not happen, but we have to make a plan for that or at least have those conversations so that we're setting ourselves up, our clients' families up for the best possible outcome in the future.

Bill Keen: That's right. That's right. I think it might be interesting for our listeners to hear, I get asked this too, this question, how are you all doing? How are your clients doing? Or is everybody nervous on the edge of their seats? Are they full of anxiety, riddled with fear? Do they want to get out of the stock market? Sell all their investments? And I say I get asked that a lot. I get asked that every so often and the reality of it is, 99% of our clients have been on the road, on the journey for a while. They've built wealth by going through market dips and by experiencing the up sides and going through every so often a bear market. And they see it, they understand it and they're not on the edge of their chairs.

They're not riddled with anxiety, but every so often we do get a call. And I think we got maybe two this time, a couple weeks ago before the election, when we were experiencing a little volatility on the downside there, asking if we should sell everything, go to cash till after the election. And hey, we tell folks, "There's no silly question. If it's on your mind, ask us and we'll very respectfully answer the question." But could you imagine, had someone sold all their investments two weeks ago, Matt? At this point, would they be down 10%? off 10% or so? I'm just throwing a number out. What would it be? Somewhere like that.

Matt Wilson: Yeah. The market was down that week before, six to 7%. And then last week it was up six to 7%. And then, the first day, the day we're recording this, it was opening at up 5%. It just, it goes to tell you that. And we've talked about this a lot. Our viewpoint, our emotions, the market doesn't really care about any individual person. And we have to especially when it comes to politics, I believe the best investors, they divorce their investment decisions from their political views.

Bill Keen: That's right.

Matt Wilson: It's not easy to do, but it is something that I've never seen a successful person, a successful investor who has just made all of their decisions based on what's happening in the political realm.

Bill Keen: I have not either.

Matt Wilson: And that doesn't mean, again, it doesn't mean it's not important. There's not planning opportunities and there's not issues. Right now, we're looking at a Biden victory and we have a Republican controlled Senate, worst case scenario, we don't know. There's two Senate seats up in another election, a runoff in January. Those could both go Democrat and that means we'd have a 50/50 Senate, which then the tie goes to the vice president at that point. The odds are that it's going to be a split so it's still Republicans have a majority, but not a significant majority, but Biden supposedly has a good relationship with Mitch

McConnell and they believe that they can have productive conversations and maybe a better deal than they've been able to do in the past.

Also there's fears over the stimulus and what's going to happen with that. COVID-19 though is the reason for the stimulus. Doesn't mean we don't need any more stimulus, but we're coming up with a solution to at least prevent us from just this unlimited stimulus forever. And the jobs report too, that came out at the early part of November was very good and kind of tells us, well, maybe there's not as much stimulus that's needed. Maybe it's only a trillion dollars in stimulus that might get passed.

Bill Keen: Only a trillion, Steve.

Matt Wilson: Interesting how all that kind of shakes, comes together, but that's all those variables kind of impact too, the day to day view on the markets that weren't necessarily getting a lot of viewpoints or a lot of talking points pre-election. You look at other things that might change within the government. Right now the treasury secretary, Steven Mnuchin, he's most likely not going to be around if it is a Biden victory. And so who's going to take that role over? The market probably wouldn't like Elizabeth Warren and I don't think Biden has tapped her, hasn't really tapped anybody, but it isn't looking like he's going to choose her either. That's a positive view from the market standpoint. They have former undersecretary of the treasury that they're looking at for that pick.

And then who's going to run the Federal Reserve? Powell will be up for, I guess, renomination and it's likely that he does actually get the nod again. He did, I believe he did a very good job. Most of Wall Street has been very positive with Powell and how he's handled everything. At times, President Trump didn't like Powell, but I think he navigated the crisis pretty well and it's not uncommon for a new administration to actually continue with the same Federal Reserve chairman. That happened with Obama. President Obama gave Ben Bernanke a second term on top the Fed, who was first hired by George W. Bush and then Alan Greenspan, he served five terms. He was nominated by Reagan. And then he was in there with George H.W. Bush, Clinton and then George W. Bush. Even though Powell's a registered Republican, there's very good, good odds that he will continue in that role. Which from a market standpoint, again, that's a positive sign that things will continue on the same course as they have been.

Bill Keen: Do you think that Biden would be okay or even lean to being happy if we have a Republican controlled Senate that would allow him to stay more centrist?

Matt Wilson: Yeah. I don't know. I guess we could try and ask him, see if he'll field the question, I don't know. Yeah. Maybe that he's almost wishing for that. Are you trying to say that without saying it, he may prefer that?

Bill Keen: Sure. Sure.

Matt Wilson: Yeah. Maybe, the markets do like the divided government side of things and it may be he would get more pressure to be more on the left. I think he isn't as left leaning as some of the other candidates that they came out, Sanders and Warren specifically. This allows him to kind of blame it on the other party, but not have to go as far to the extremes on some of those policies. Because if it was a Democratic controlled Senate yeah maybe they would be pushing for things that he wasn't really in favor of.

There's definitely still a lot of things to talk about, a lot of things to look at, but we look a lot on, well, okay, well, why is the market rallying? And where could the blind spots be? But there are several reasons why the market's been performing well over the last few weeks and partly the election by and large is behind us. Again, there's still going to be some discussion around a recount and pushing that to potentially the Supreme Court, but it's still unclear as the time of this recording. And we may see Trump concede, who knows? Time will tell on that one, but market's kind of viewing that the election is behind us and we do have a divided government most likely and we're not going to see any significant tax increases or many very progressive measures rolled out.

Also we have just central banks again, the federal reserve here, but across the globe are very accommodative. Global central banks are re-engaging and really looking at more stimulus. We're hearing that in Australia and the Bank of England, both doing more quantitative easing. Two weeks ago, the ECB signaled that it's increasing its quantitative easing. The Federal Reserve here didn't necessarily mention anything. I think they were waiting til. After the election. But the market here is assuming, the Fed's going to keep doing what it's been doing, which has been very accommodative. We have the COVID-19 vaccine. The announcement of that is very, very good. Markets have been anticipating in announcement, but I believe the Pfizer announcement was much better than expected.

That is another big positive. And then, we've got good economic data and I think good earnings too. Yes, earnings are coming off a low level, but earnings are still, they're recovering. And that is really the viewpoint that the market's looking at. And it's looking like earnings for this year, when you take all the companies within the S&P 500, about $170 a share, which back in March, April was considered, not even possible, remotely possible. To see all of that kind of in the midst of the pandemic, the shutdown, we have the election. Talk about how many hurdles this market, everything we've gone through this year, Pretty crazy.

Bill Keen: To Steve's point up front, it demonstrates the resilience of the economy here in the United States. It demonstrates again why we like to say, "We have to have that plan in place for folks and keep our head down and work the plan." And yes, we do need to be informed about what's going on politically and economically and with the news of the day, if you will, but it's really having that plan in place, isn't it? And sticking to that plan. That man, I'll tell you it's during the toughest of times, if you've got something to fall back on like that, where you've thought through where you're wanting to head, it sure as heck reduces the likelihood of you making a bad mistake that can blow your family off track, doesn't it?

Matt Wilson: It does. And that's I encourage folks, reach out. Of course we want to chat with you, especially if you are concerned about the election. We're not telling people not to worry about things and definitely, talk to us, but we'll provide you our perspective and definitely come up with the plans and go through the scenarios. It's just making those kind of, I almost want to say knee jerk reactionary decisions. Those just, those are very difficult to unwind in a lot of times because markets will do things that no one anticipates, no one expects and they will do them for much longer than anyone realizes either.

Bill Keen: That's right.