

A Strong Economy Predicted for 2021

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Jeremy Schwartz, Executive Vice President, Global Head of Research for WisdomTree, hosts a weekly discussion with Professor Siegel, typically on the Wharton Business Radio podcast. The notes below summarize their conversation along with further commentary and context.

We had a marginally better than expected jobs report on Friday, but Professor Siegel re-emphasized that he sees all of Friday's economic reports as backwards-looking and of marginal importance. The unemployment rate was a little lower than expected—the participation rate has fallen significantly, which means a lot of people are just not looking for jobs (mostly because of high unemployment insurance). There was little reaction from the market to the jobs report.

What is more important to the market are forward looking indicators—the virus trends, developments for therapeutics and vaccines to treat the virus, and what additional stimulus will be provided.

The stimulus package is still in a standoff. On Saturday night, US President Trump signed an executive action to provide \$400 of additional unemployment aid (against \$600 the Democrats wanted) and eliminate the payroll tax for low income workers. Hopefully this action will spur a more permanent agreement this week.

Money supply continues to increase, albeit at a slower rate than before. It now stands 35% higher than where it did on March 1st when this virus hit.

On the virus front, we have good news and stabilization in the 4 hot states of Arizona, California, Texas, and Florida. It looks like the wave is ebbing. Death rates, even age-adjusted death rates, are noticeably better than when the pandemic first struck, as we've learned how to treat the disease.

For the vaccine, not much more news here. Many of the vaccines are in stage 3 trials awaiting further results. Two months ago, Professor Siegel said he thought a vaccine would be available for high risk patients by year-end, and many were surprised and asked him to retract that statement. But now many, including Dr. Fauci, are repeating that take.

We have a new feature for the weekly commentary where listeners can email AskSiegel@wisdomtree.com and have questions answered in our podcast. We'll repeat those answers here as well.

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Question 1: Is the value factor dead? This has been one of the worst 10-15 year stretches for the value factor since 1926. It started with the financial crisis and continued with this pandemic, as the information technology sector received an extra boost. The valuation gaps are getting wider between many of these technology stocks and the rest of the market. Professor Siegel sees the development of vaccines and re-opening of the economy as one factor driving value stocks in 2021. Secondly, interest rates are expected to stay low, so dividend paying value stocks will get a boost from income investors looking forward.

Question 2: What past period will the next cycle look like? Professor Siegel thinks the next period will look a lot like the post-World War II environment, where we also had a big increase in the money supply and a tremendous increase in debt. People were worried a recession would come back but all the built up liquidity caused a boom instead. This was very good environment for stocks and terrible for bonds. Professor Siegel thinks we will have a very strong economy in 2021.

Question 3: Are the election polls showing Biden's lead under-counting Trump's chances? Trump's numbers have come out of the depths and his odds in the betting markets have risen from as low as 35% to 44%. Right now, the odds-making sites are showing higher odds for President Trump keeping Presidency than the Senate staying Republican—a very unusual development. While the polls were wrong on the 2016 election, they were quite right for 2018—predicting the switch of the House and Republicans keeping the Senate. Perhaps the pollsters made sufficient changes to prevent the bias that caused the 2016 upset.

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