Holiday 2020

Gore Capital Management

Our only client is you.

It is with a mix of trepidation and relief that we publish the last newsletter of 2020. Like so many others, we entered the year full of optimism with the economy hitting on all cylinders, unemployment at record lows not seen since the late 60s, and the stock market at all-time highs after finishing 2019 up more than 30%. In addition, the fixed income markets had built on this optimism with an increase of better than 8.7%, well above the previous decade's average. We remained optimistic through February, hoping this COVID outbreak was more like the 2002 SARS outbreak (less than 800 deaths worldwide) than the 1918 Spanish Flu. That optimism started to wane in March as we began to realize the extent of the threat, and turned to a strange combination of confusion, concern, and optimism as the news has unfolded since. As we enter the final few weeks of the year and begin to look towards 2021, we're reminded of an old cliche you have all no doubt heard at one time or another. The word for "crisis" in Chinese (displayed to the right) is made up of two characters: one symbolizing "danger" and the other "opportunity."

To COVID first. Positive case counts, hospitalizations, and deaths are on the rise across parts of the United States and Europe. We won't know the full impact of Thanksgiving gatherings for another week or two, but experts have identified this holiday season as a major potential catalyst for spreading the virus. The good news is that Pfizer, Moderna, and AstraZeneca have all announced very positive results (90%+ efficacy) from their vaccine candidates. The UK and United States are in the early stages of rolling out Pfizer's vaccine to frontline workers and high-risk individuals. The fact that these vaccines have been developed in record time with historic levels of support and cooperation from governments, corporations, and individuals around the globe is a testament to humankind's ability to collaborate when the situation calls for it. In a year when it seems like all we can agree on is how divided we are, this is a nice reminder of what we can achieve when we come together.

At least we can put the election behind us. What's that, you say? There are still two Senate races in Georgia that will decide whether Democrats control both houses of Congress? The races in Georgia are predicted to be two of the most expensive political contests in history. Raymond James's DC policy analyst Ed Mills made the quip that ad spending may eclipse the GDP of the country of Georgia. Republicans currently control 50 Senate seats and Democrats control 48 (technically 46 but the two independents usually side with Democrats). If Democrats win both Georgia seats, they will have 50 plus Vice President-elect Harris as a tie-breaker. When coupled with the White House and House of Representatives, a Democrat majority (albeit a slim one) in Washington will have a relatively clear path to passing many kinds of legislation without a single Republican vote.

One of the top items on that list is tax reform. President-elect Biden has made it clear that raising taxes on the wealthy and those with significant investment assets is a high priority for his administration. Although Democrats are not likely to pass extreme measures with such a slim Congressional majority, there's a fair possibility that income tax rates could rise a few percentage points, capital gains tax rates could change, and some of the tax deductions often employed by wealthier individuals (charitable contributions, certain types of business write-offs) may be reduced or eliminated. Whether that takes place in 2021 or 2022 is uncertain at this point, and we won't even have a clear idea of how likely a tax reform bill is at all until at least January 5th, election day in Georgia. Many pollsters are predicting Republicans will win at least one of the seats, but we know how accurate pollsters have been recently… none of us is willing to bet money on either outcome.

Market Statistics	YTD (as of 11/30/2020)	2019	3-Year Annl.	5-Year Annl.
S&P 500	13.44%	30.70%	12.52%	13.30%
Dow Jones Ind. Avg.	5.43%	24.43%	8.62%	12.72%
Russell 2000 (Small Cap)	10.02%	25.00%	6.67%	9.81%
MSCI EAFE (Foreign)	3.03%	22.01%	3.26%	6.19%
MSCI ACWI (Global)	11.10%	26.60%	8.99%	10.84%
MSCI Emerg. Mkts. Equity	10.20%	18.42%	4.92%	10.72%
Barclay's Aggregate Bond	7.36%	8.72%	5.45%	4.34%
S&P GSCI Gold (Spot)	16.93%	18.87%	11.73%	10.82%

Source: Morningstar

The way the market has been rising recently, it seems participants are pricing in the expectation of a GOP win in Georgia and a split Congress. Put simply, division is good for the market because it means not much is going to change, at least legislatively, over the next two years. Investors and businesses tend to like the status quo because they can plan for it. Furthermore, the only type of legislation a purple Congress is likely to pass is the bipartisan kind, the kind of change that almost everybody can agree is a good thing. Perhaps the clearest example of this is the infrastructure investment bill we've been promised for years. Almost everybody can agree that improving our roads, bridges, electricity grid, broadband internet access, and so forth will benefit all of us.

Looking at things more broadly, the economy seems to be recovering at a faster pace than was expected. The Institute for Supply Management tracks two popular indexes of economic activity: one measuring the manufacturing sector and one measuring the services sector. Both indexes have been in "expansion" territory since the summer, indicating that businesses are buying, hiring, and producing despite COVID. (Data from ISM, 12/3/20)

Homing in on publicly-traded businesses, specifically constituents of the S&P 500 index, third quarter earnings declined 6.3% year-over-year according to Factset. That's considerably better than the expected third quarter decline of more than 20% as reported by Factset back in August. Here's what's interesting about this figure, though: if the airline, hotel/leisure, and energy industries are removed from the aggregate result, third quarter earnings were actually *positive* year-over-year, with growth of more than 4% versus the third quarter of 2019! This not only tells us how severely those three industries have been impacted by the pandemic, but also how unexpectedly strong other areas of the economy—tech and communications in particular— have rebounded. (Data from Factset, 11/20/20 and 8/7/20)

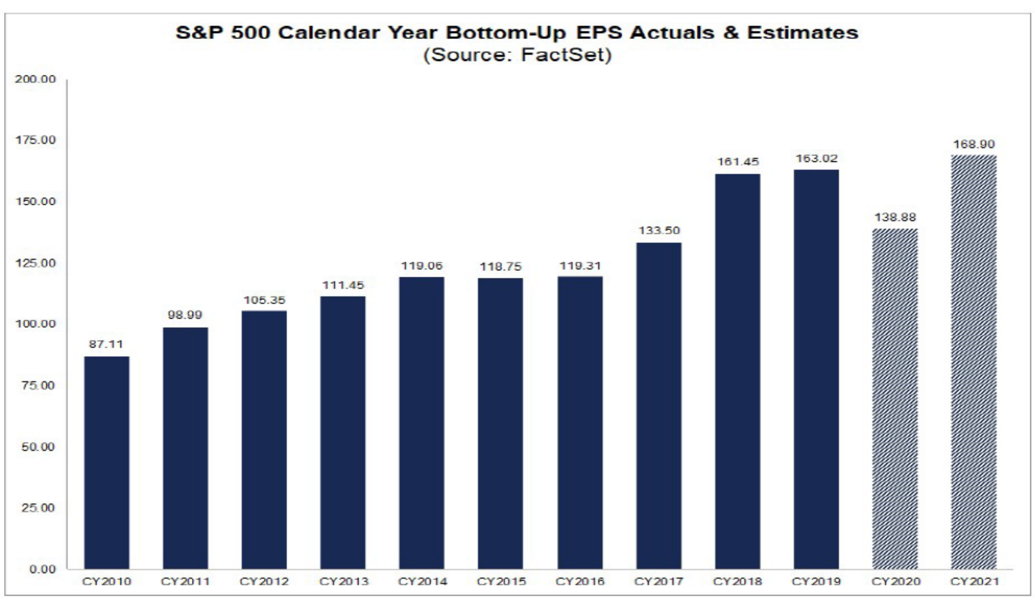
This is not to minimize the very real challenges that many small businesses around the nation are facing, nor is it to ignore the plight of millions of individuals out of work and struggling to pay their bills. The official (sometimes called U3) unemployment rate is hovering around 7% (versus 3-4% last year) and that is likely a low estimate because it does not include individuals who have exited the workforce or are working jobs below their potential. U6 unemployment, a broader measure including discouraged workers and the underemployed, is around 12%. This is 4-5 percentage points higher than in 2019 (7.2%) and in 2018 (7.7%). There is still a large contingent of people that need help (see attached), and it's disappointing to us that Congress has not stepped up to the plate to renew the Payroll Protection Program and other fiscal measures that clearly made a difference earlier this year. It's our hope that perhaps Congress will begin to take things more seriously once the Georgia races are concluded, but we may be too optimistic.

To summarize, the economy is showing signs of an upward trajectory but there's still room for further recovery, especially among small business (often identified as the backbone of our economy). The expected continuation of the recovery is leading many analysts to forecast positive market returns next year. According to Factset (11/20/20), analysts are forecasting earnings growth of 21.9% for calendar year 2021. Raymond James's analysts issued a 2021 year-end price target for the S&P 500 of 4,025, representing an increase of 11% from the 11/30/20 close of 3,622. Of course, a moderate and supportive Congressional agenda and a herculean distribution of COVID vaccine doses are critical components to this forecast being realized.

With so much going on, we're choosing to focus on the reasons to be hopeful and thankful this holiday season.

All the best,

Peter, Ben & Keri



From Factset *Earnings Insight,* 11/20/20

Peter's Corner

This was shared with me via social media by my daughter, who works in the restaurant & bar industry. It was originally posted by Carlsbad Brewing Co in California. Restaurants are challenging businesses to run during the best of times and have been some of the hardest hit establishments during the COVID crisis. This message couldn't be more to the point. Reach out to your favorite local restaurant and…HELP OUT with TAKE OUT!!!

An important share.

We are severely underestimating the number of restaurants that are on the brink of closing. The majority are in grave and imminent danger. If you can afford to, get take out, buy gift cards.

When restaurants close, the comments on the posts are ALWAYS full of people saying things like "If I had known my favorite spot was in trouble, I would have ordered more." This is me telling you: your favorite spots are in trouble this very second! Don't wait, they don't have time. This is it. Now through the next few months, do everything you can if you want these places to survive this pandemic.

Our note: And PLEASE order direct! Third party delivery apps generally take 1/3 and these big companies will be the nail in many small restaurants coffins.

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