Sauberan & Co.

Economic & Market Update

April 2021

This past Friday the Bureau of Labor Statistics (BLS) reported US employment gains in March of 900,000 jobs. On the surface this is a very “big number”, however, over the past year there have been numerous “big numbers” both positive and negative. Looking closer the economy only gained about 350,000 jobs net as 550,000 people left the work force (retired, stopped looking for work, unemployment benefits ran out, etc).

Prior to 2020, 350,000 new jobs a month would be very good, in 2021 this is very concerning…

1) These are not new jobs, these are people going back to work.
2) 18 million are still collecting State and/or Federal unemployment benefits.
3) New unemployment claims (first time) in March alone were 2.8 million!
4) The weak employment gains are despite the economy beginning to reopen!
5) Even if employment picks up from here it may take a few years to return to Jan 2020 levels.

This morning (Thurs.) the Labor Dept. reported 744,000 new unemployment claims for last week. It’s now 54 weeks since the economy was partially shutdown, new unemployment filings have been above 700,000 per week for 53 of the 54 weeks. Before 2020 the US never experienced a single week of new unemployment filings above 600,000 (2009). Collectively an unprecedented 38 million workers have filed first time unemployment claims, about 25% of the entire US workforce.

For now stimulus checks and deferred mortgage/rent/student loan payments “mask over” the underlying weakness! Even though there are discussions of an “infrastructure plan” passing through Congress in the next few months, it might be delayed until Jan 2022 by “technical rules" in Congress. As with Obama's "shovel ready" infrastructure plan in 2009 construction takes months/years to plan and implement.

With the S&P 500 trading at all-time highs investors are ignoring and/or looking past the underlying economic weakness. **Even if the economy were to quickly recover over the next several months stock prices are at levels never seen in our lifetime!!!**

The total value of all US stocks are roughly $40 trillion, twice the value of the US economy ($20 trillion), **unprecedented in modern times**! During the "dotcom" bubble of the late 1990's total stock values reached 150% of GDP and during the 2008 "housing" bubble total stock valuations reached 100% of GDP.

Last March (2020) total stock valuations fell from 160% to 100% of GDP, in another words after the market crashed stocks were still extremely expensive. To put this into perspective for the majority of time total stock valuations trade below the value of the economy, **EXCEPT DURING BUBBLES!**

So the past 12 months are the most extreme ever as total stock valuations have risen 100% or $20 trillion while the US economy has actually contracted.

How did we get here…

1) "Heard mentality/FOMO" for many the stock market has become the "economy", with the economy locked down, stimulus money, unemployment, deferred mortgage/rent payments and many Wall St firms providing free on line trading more people than ever trade/own stocks.

"In 1929 the shoeshine boy offered Joe Kennedy some stock tips. Joe decided that, when even shoeshine boys are offering stock tips, it's time to get out of the market. He sold off his entire portfolio immediately…"

2) "Financial Gearing" one example was just in the past week, "Archegos" (a hedge fund) went bankrupt after it was able to parlay $15b of investor funds into a $100b bet on stocks by borrowing from as many as 10 different investment banks without disclosing the relationship with the other banks. The stock bets went bad, investors lost their $15b and the banks are still totaling their losses reported to be between $10b and $20b. Viacom was one of the key stocks

in Archegos strategy, in Nov. 2020 Viacom was a $25 stock. Mainly as a result of “financial engineering” by Archegos, Viacom rose to $100 by late March (a 400% gain) only to crash back to $40 as Archegos went bankrupt.

3) “Complexity” Greensill Capital another recent causality provided “supply chain financing” and “packaged” the loans similar to mortgage back securities in 2008. Many of the loans were too risky for Greensill Capital’s lenders and insurers leading to bankruptcy and billions of dollars of losses. Low interest rates have many firms taking on more and more risk in an attempt to maintain returns for investors.

4) “Belief in the Fed” Last May (2020) Federal Reserve Chairman Jay Powell was on 60 Minutes and in response to the question “Has the Fed done all it can do?” Powell stated ***“There’s a lot more we can do. We’re not out of ammunition by a long shot. There’s really no limit to what we can do with these lending programs…”*** Jay Powell was attempting to project confidence to investors at the time of a Global crisis. However, the truth is closer to what Federal Reserve Charmain Ben Bernanke said in 2015 ***“Monetary policy is 98% talk and 2% action”.*** The Fed doesn’t have the authority or capital to save a $40 trillion stock market!!!

The challenge for investors is the markets are similar to an iceberg, 90% of what happens is below the surface. As in 1999, 2008 and 2020 the market declines are quick and give very little warning.

As always I appreciate your thoughts!

Charles