



# ***Rodney's Take***

December 28, 2020

## **Bridging the Gap to Biden**

President Trump is ending his time in office just like he started, unpredictably kicking and screaming. Whether you view him as a scrappy fighter willing to buck the system or a petulant man-child unable to accept defeat, there's no doubt that he's going out with a bang, not a whimper.

His latest fight over the size of the relief measures took me by surprise. Or at least, it did for about five seconds. Then I remembered that this is Donald J. Trump, who rarely sees legislation or any situation that can't be improved by his touch. Potentially shutting down the government and throwing more than 20 million people off of unemployment benefits while risking millions of evictions was just part of the leverage he was willing to use to get his way.

I don't know why he finally signed it. Maybe someone convinced him that risking all of those bad outcomes was a bad look, that it might hurt the Republican efforts in the Georgia Senatorial runoff elections, or that he'd be leaving office on a down note, which would hurt his election chances in 2024. Whatever the reason, he signed off, so Americans will get some cash in the mailbox, the unemployed will get their benefits (hopefully without a hiccup) plus bonus benefits, and the eviction moratorium will remain in effect through at least January.

The short-term rush of money from the relief package will flow through the economy over the next few months, which will give consumers and businesses more spending power even as the virus continues to spread. After that, we'll be looking for other sources for the stock market's drug of choice, free money. We'll find it in Biden's plans for fixing the nation, which involve spending a lot of cash, and the continued printing and spending of the Federal Reserve.

President-elect Biden proposes to rain money and regulations on green energy initiatives, forcing consumers and companies to adopt technologies that aren't yet ready for prime time. I've written several times about electric cars, the electric grid, and renewable power. We don't have enough of any of it to meet Biden's stated goals, so we'll be spending buckets of money in relatively small corners of the market, which will lead to outsized demand for shares in companies that stand to benefit. For an example of what will happen, just look at companies like Sunpower (Nasdaq: SPWR) and Plug Power (Nasdaq: PLUG), not to mention Tesla (Nasdaq: TSLA). These companies are wildly overvalued when you consider how much money they might earn over the next decade, but that hasn't stopped investors from plowing money into them.

And then there's the Fed.

Our central bankers have received a lot of attention lately as they wade into the climate change conversation. They might adopt regulations requiring companies to account for the risk of rising temperatures or the changing composition of energy production, which would be a windfall for securities lawyers, regulators, accounting firms, and consultants. But that's a side show. The real power still resides in the digital printing press, where the Federal Reserve is plunking out \$120 billion per month to buy securities.

To put that into perspective, consider that the Fed is printing 50% more money per month today than it did at the highest point of money printing after the Great Financial Crisis, when it printed about \$75 billion per month. There was a time in the not-so-distant past when if the Fed had embarked on a path to print \$1.44 trillion in the course of a year, investors would have convulsed with inflation fears. Now it's just seen as part of the financial landscape. But the money must go somewhere. As the Fed buys Treasury bonds and highly rated securities, investors who used to hold such securities buy the next rung lower, as they try to meet their investment objectives of growth and income. The process repeats, driving more investors into riskier investments, which drives equity markets well beyond historical valuation norms.

I don't know when it will end. It probably won't be pretty when it does. But by signing the appropriations bill, which includes the relief measures, President Trump likely pushed any reckoning into the Biden presidency and gave investors a bit more time to continue their spending spree.

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*Got a question or comment? You can contact us at [info@hsdent.com](mailto:info@hsdent.com).*