



# FFG Market Pulse Newsletter

3Q July 2020 Edition

Newsletter  
Highlights

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Latest Developments/  
Covid 19 Updates

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Chart(s) of Month

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The November Election.  
How is it shaping up?

## Latest Developments

Since our last newsletter, we have seen the markets grind higher on the news of the country re-opening, historic level of stimulus/liquidity provided from the Federal Reserve and continued fiscal stimulus assistance from the government. The main driver has been the Federal Reserve who has increased the money supply exponentially and has not just become the lender of last resort but also the buyer of many different credit assets. This has created an environment where the worst financial case scenario was likely taken off the table. The speed and the size of their stimulus was unprecedented. If you consider that back in the Great Recession of 2008-2009, it took the Fed more than a year to finish their rounds of stimulus which ended up being less in total value than what the Fed completed in 1 month in 2020. We have seen a slow decrease in jobless/unemployment claims, an increase in mobility and consumer spending coming off the historic low levels we saw in March and April with all states now reopened partially and an increase in economic activity has continued. That is all necessary news for the economy to start to normalize. However, as COVID cases and hospitalizations continue to rise in several warmer-weather states then this should bring some thought as to what the future will hold. With hospital beds filling up with COVID patients again, and more asymptomatic people being diagnosed with the disease, the recovery will likely be bumpy and uneven. We should expect a push and pull between the country wanting to re-open versus the realization of the health data. Restaurants, Travel & Leisure will be obviously more affected than other industries as it will take quite some time before normalization take place in those fields. While certain tech names have flourished in this new world as profitability and market share has actually increased in specific industries(I'm looking at you Amazon!).

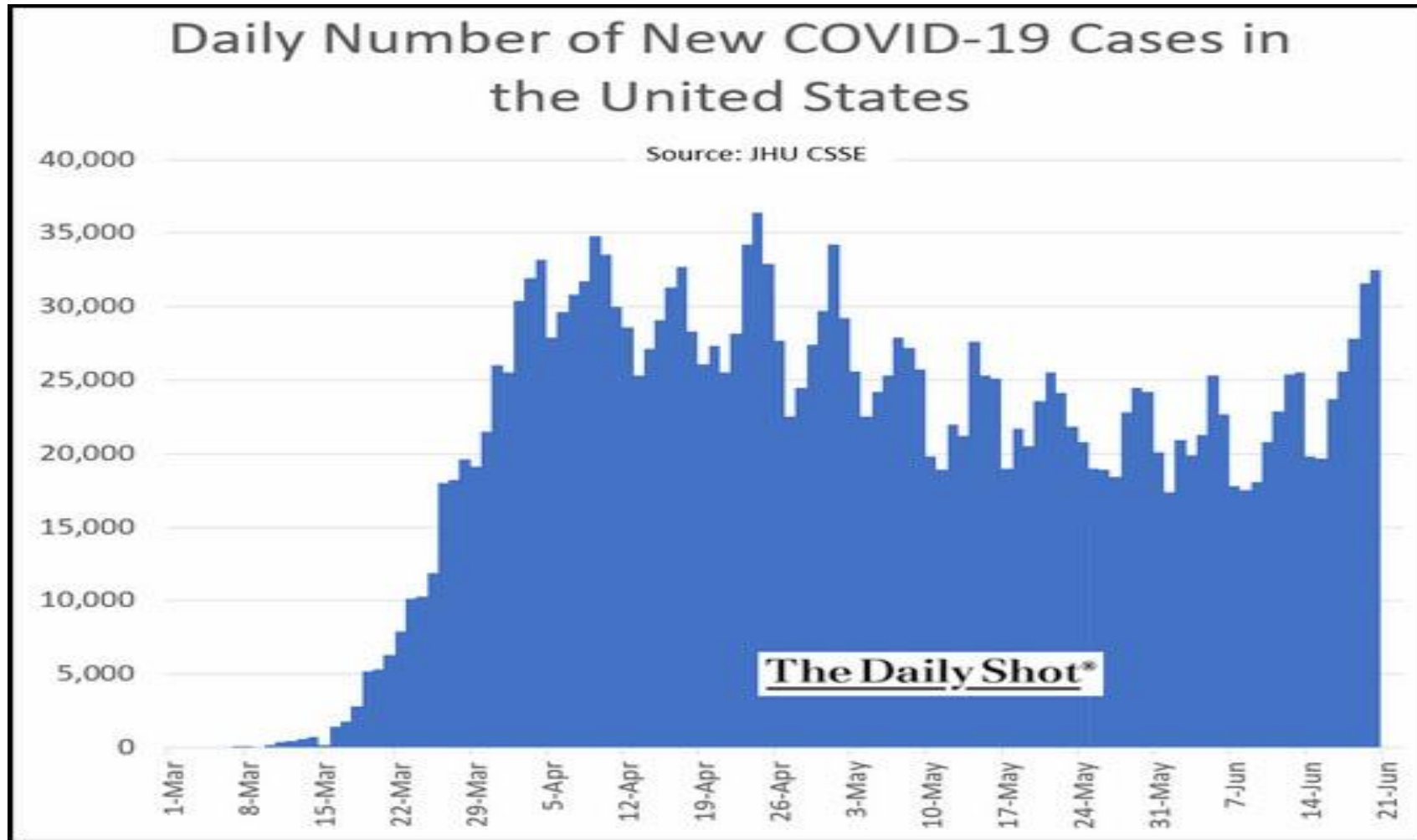
The new cases and hospitalizations from some of these big, southern states need to be monitored closely. Until then, if the market continues to make new highs it will need to look past the health data and focus on the Fed's stimulus and buying of credit bonanza. An important point to make about our portfolios is because of this deficit spending spree continuing this should create a tremendous tailwind for our Gold holdings. Gold should thrive in this global currency debasement that is proceeding around the world. This is being confirmed in real time as Gold is at a 8 year high.

One last aspect of note during the run up has been a clear case of speculation in a "dash for trash" in some of the beaten down areas of the market. In addition, some bits of FOMO (fear of missing out) in parts of the market. This stems from the rise of Robinhood and retail traders who no longer have an outlet of sports betting or casinos to frequent that also have far more time on their hands. For example, the buying of Hertz Rental Car up to \$6 per share even though they declared bankruptcy and was trading for pennies days earlier. There are other examples of this and it has only added to day to day volatility swings. These momentum swings have also been exacerbated by the algorithmic trading programs which track momentum and price action and then deploy its own strategic orders. It is yet another reason why focusing on fundamentals is an essential in a long-term investment thesis and why we are adamant about owning quality assets and ones that are non correlated to the markets to assist with the reduction of the day to day noise.

Let's now tackle some incredibly important charts in this chapter of Chart(s) of the Month:

More COVID testing has resulted in more cases of the virus...

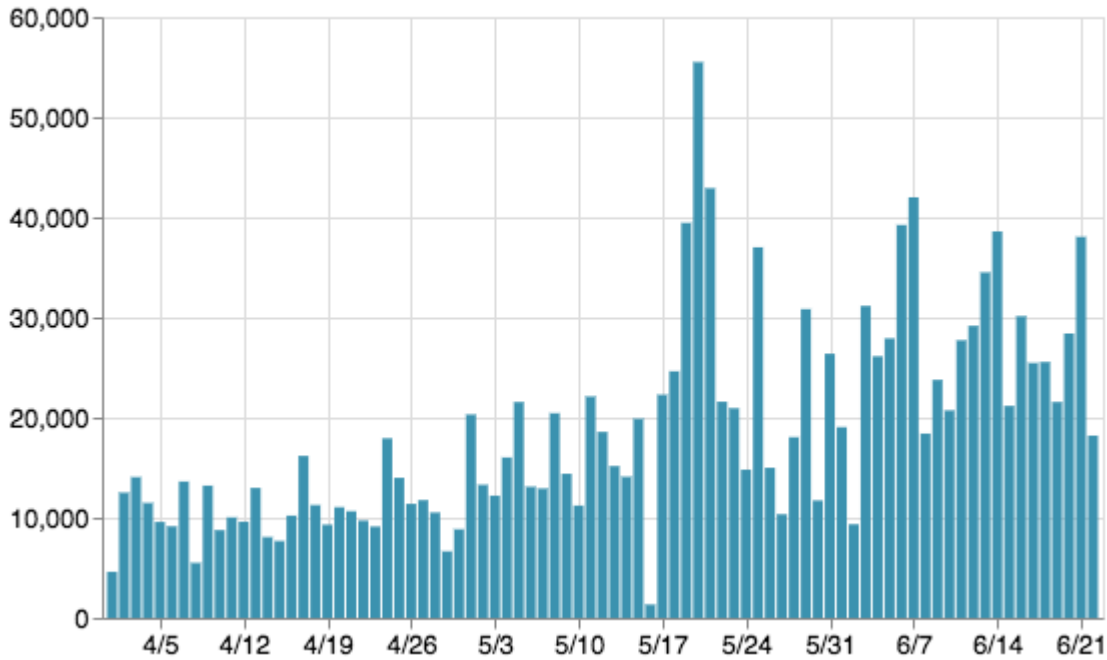
However, it doesn't tell the whole story.



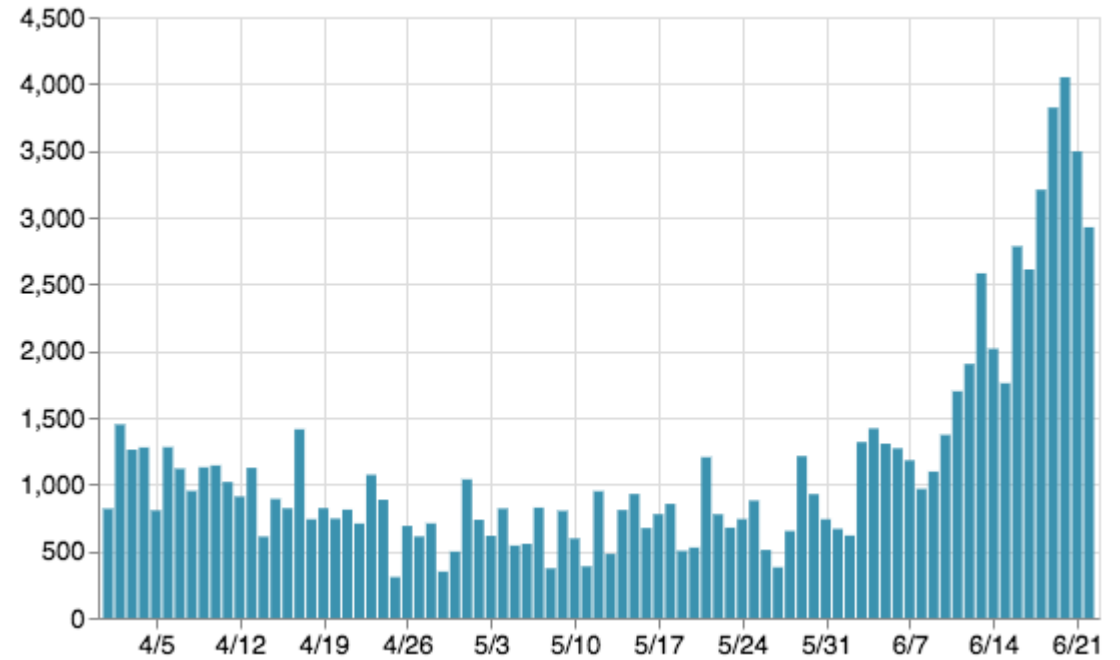
Unfortunately, as we investigate the data from the Florida Department of Health, the level of testing has stayed elevated yet constant over the last couple of weeks. However, we clearly have seen a rise in new cases that more testing doesn't explain.

If cases were going up and the percentage of positive tests were remaining stable that would be good news. However, the data is going in the wrong direction.

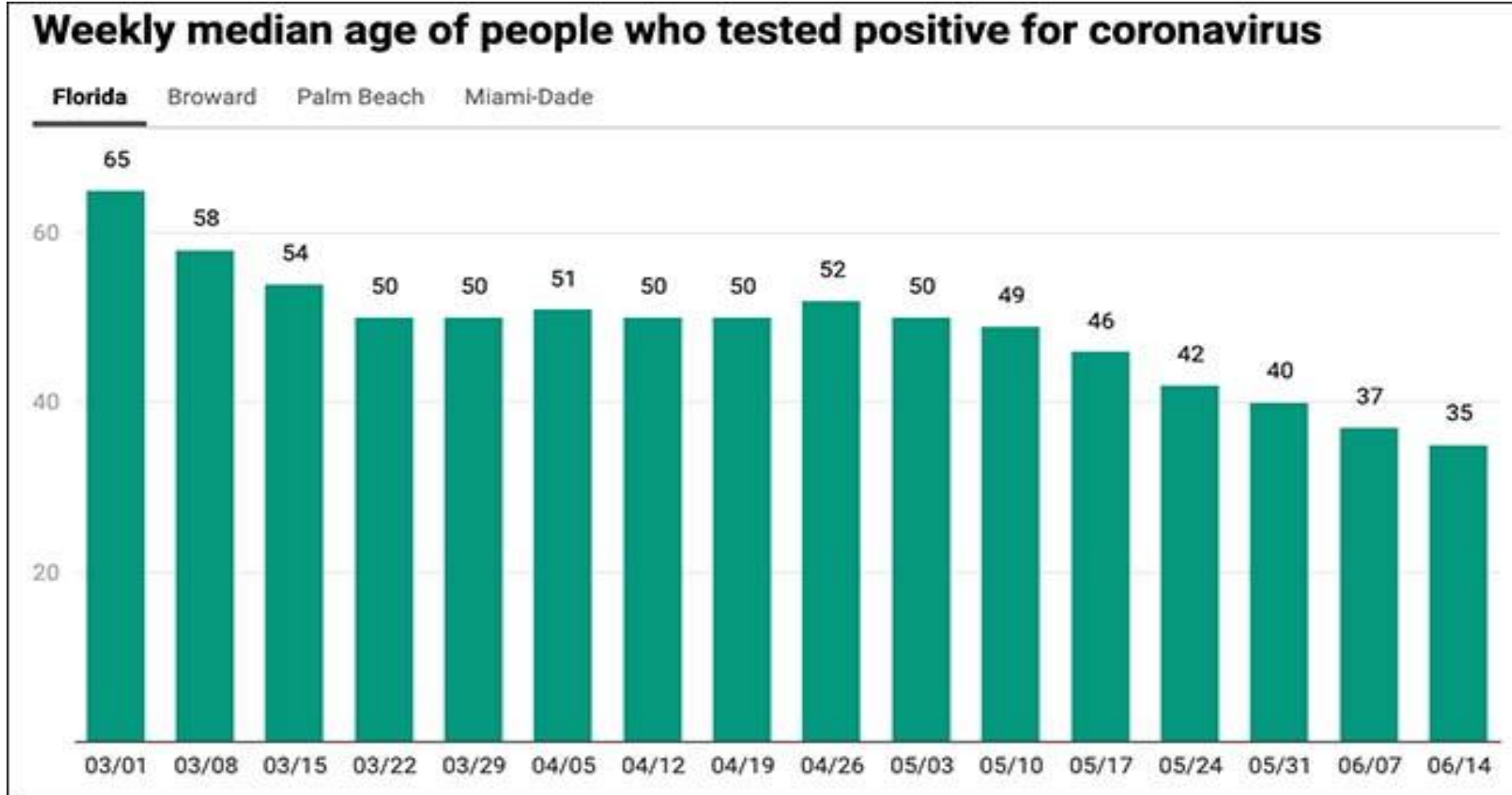
**New tests**



**New cases**



Again, per the Florida Department of Health, we are seeing an age shift lower in the cases being identified, which is a positive for the overall death rate. However, it may not be great news for community spread as the younger are more likely to congregate and be asymptomatic.





## 2020 Election Update: Democrats Surging

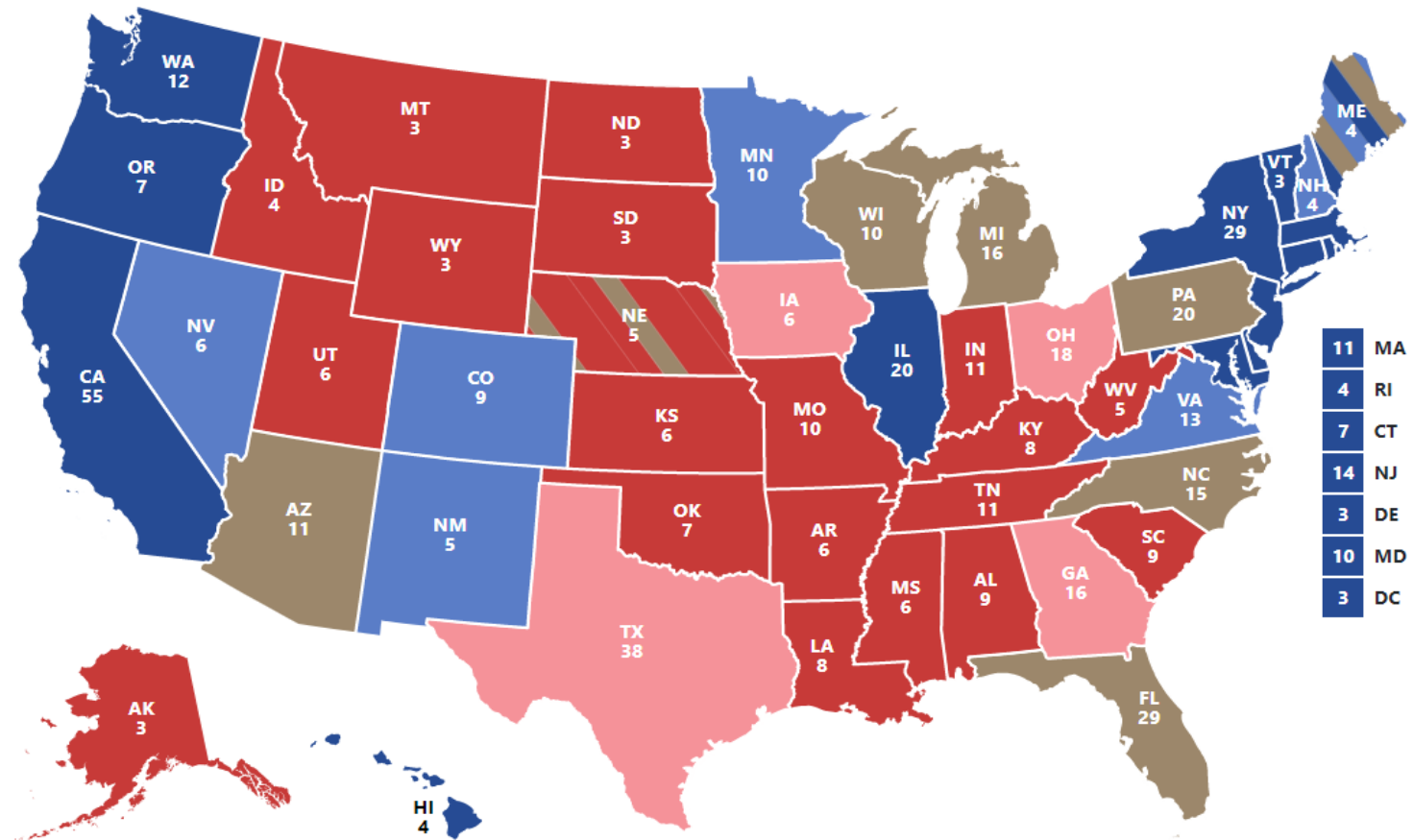
*Dems gain the edge, but long road to Election Day. Still many unanswered questions.*

Let's turn our attention to politics. If the election were held today, Biden would likely win given the recent polling; However, the campaign has largely not started because of the virus and still much time until November for things to change. Here is a list of the many important questions that will be answered over time.

- How will the market react to a change in administration? Likely, there would be implied volatility due to the potential increase in corporate tax rates.
- Unclear how employment trends and market prices will evolve that could paint the economy in different lights.
- Unclear how social norms and polling protocols will evolve.
- Will the election be a referendum or a choice? Especially given the recent protest and civil unrest.
- Seniors who have leaned right in recent elections, but fear over virus could lead them to the perceived “steady hand” of Biden; but may be hesitant to come to the polls.
- Base enthusiasm becomes more important. Will Trump's base be enough to overcome if voter turnout is greater than historical norms.
- Uncertainty in turnout = uncertainty in polling.
- Biden “not an outsider,” but his female running mate may help win some of those “outsider votes”
- More left VP - capture Bernie fans, increase base enthusiasm, ostracize swing voters
- Moderate VP - ostracize Bernie fans, capture swing voters

## A LOOK AT 2020: ALL EYES ON BATTLEGROUND STATES

- Democrats begin with 183-125 base advantage and 232-203 advantage with leaners.
- Six battle ground states: Arizona, Florida, Michigan, North Carolina, Pennsylvania, Wisconsin – Trump won all in 2016 with less than 50%.
- Three states were won by Trump by less than 45,000 votes in 2016;
- Dem flipping these states (MI, PA, WI) likely wins the White House;
- All three elected Dem Governors in 2018.



The states in Dark Blue are Solid Democratic  
The states in Dark Red are Solid Republican  
The states in Light Blue are leaning Democratic  
The states in Light Red are leaning Republican  
The states in Brown are the Toss Up state



**It is not just the Presidential election that is important as both the Senate and House have the potential for changes. Here are how the odds are stacked up in the current day.**

**Here are the 2 most likely scenarios (80% probability of one of these 2):**

- 1.) The Status Quo (GOP President, GOP Senate, Dem House): This is probably the most likely scenario if Trump get re-elected. It is also likely the best-case scenario for the Republicans because the composition of the House is unlikely to leave Democratic majority.
- 2.) Democratic Sweep: (Dem President, Dem Senate, Dem House): There is a potential for this to happen if certain swing states fall in specific ways. This would create the greatest change in policy

**Here are the 3 most unlikely (only 20% probability of one of these 3):**

- 1.) Divided Government (Dem President, GOP Senate, Dem House): Of these 3, this one has the best chance to get into a more likely scenario.
- 2.) GOP Sweep (GOP President, GOP Senate, GOP House): Highly Unlikely
- 3.) Divided Government (GOP President, Dem Senate, Dem House): Highly Unlikely

## **Some Final Notes about all 3 races**

### **PRESIDENTIAL**

- Both Trump (incumbents facing a recession lose) and Biden (Democratic outsiders lose) are fighting historical trends in their race for the White House.
- Biden is surging as public polling shows voter disapproval of Trump's handling of the pandemic and protests.
- Biden, though more moderate than some of the other Democratic candidates for President, if elected will still have a significant impact on different sectors of the market.

### **SENATE**

- Democrats have successfully expanded the playing field with a strong recruiting class and underperformance thus far by Republican incumbent senators.
- Trump reelection = likely Republican Senate. Close election = Tossup. Biden election = high probability of Dem Senate.

### **HOUSE**

- Democrats are well-positioned to retain a House majority and would need to lose all toss-up races plus three races they are favored to win in order for Republicans to reclaim the majority (a significant uphill battle).
- Republican opportunity comes with large number of Democrats in Trump-won congressional districts.
- Democrats are currently favored by notable margins in "generic ballot tests," traditionally the best indicator for overall House results.

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