Market View

This commentary was issued recently by money managers, research firms, and market newsletter writers and has been edited by Barron's.

"With literally a 'shot in the arm,' the job market may come back to life much quicker than almost anyone anticipates."

–JAMES W PAULSEN, The Leuthold Group

Too Much Stimulus, Too Few Shots

Paulsen's Perspective
The Leuthold Group
leutholdgroup.com

Jan. 21: The broad U-6 unemployment rate is currently 11.7%, and the regular U-3 rate is still 6.7%. Unemployment is higher today than about 73% of the time since 1950, so it is understandable why both monetary and fiscal policies remain full tilt.

Economic programs traditionally take time to improve unemployment after a recession. However, the Covid-19 crisis created a unique divergence within the job market that will not be solved by customary economic policies, but instead by vaccinations.

Consequently, with literally a "shot in the arm," the job market may come back to life much quicker than almost anyone anticipates. Should this occur, policy officials will be left with a nearly fully employed economy and massive, excess stimulus—potentially creating additional problems down the road.

The fastest route to economic recovery—and perhaps the best approach to minimize unintended consequences longer term—is not another round of relief checks, but instead greater resources behind President Joe Biden's desire to "put shots" in 100 million arms within 100 days.

–JAMES W. PAULSEN

Nutty Speculation

Investor Advisory Service
ICLUBcentral
investoradvisoryservice.com

Jan. 20: Outside of imperiled commercial real estate, almost no asset class looks cheap right now. Bonds certainly do not impress, with safe yields still near zero while inflation knocks on the door. Equities look better. The Wall Street Journal estimates the S&P 500 index's forward price/earnings ratio at 25, almost exactly where it stood a year ago at this time. Investors will need to be selective. Corners of the market are clearly in bubble territory. This doesn't have to end badly for investors, as the 2000-01 "tech wreck" left many stocks unscathed even as speculative stocks fell sharply.

Some of the stories we are witness to right now can scarcely be believed. The CEO of a fashionable growth company with a P/E over 1,000 and a market cap of almost $1 trillion recently tweeted his support for a social-media upstart called Signal. Investors responded by blasting money into an unrelated penny stock called Signal Advance, which saw its share price increase from $0.60 per share to a high of $70.85. Again, this is a totally unrelated company with a similar name. The stock cooled off somewhat, but as of this writing, Signal Advance remains up more than 1,000% from its unaffected price. The market is littered with similar stories of rampant, uninformed speculation.

Investors who stick to reliable companies backed by solid fundamentals still have a good chance to grow their purchasing power over time, even in an elevated market. Investors who throw their money into the wind will lose it. It is as simple as that.

–DOUG GERLACH

Goodbye, Financial Crisis Funk

2020 Fourth Quarter Investor Letter
Pelican Bay Capital Management
pelicanbaycap.com

Jan. 14: We believe that the theme for 2021 will be optimism. Society is poised to emerge from isolation and deprivation wrought by the pandemic. We collectively faced a crucible, and while it still may be hard for many to recognize it, we are all stronger and better prepared for the future....

Looking back at the pandemic, it may prove to be a blessing for society, providing the trigger that shakes us out of the funk we have found ourselves in since the financial crisis. The digitization of work and productivity is a boon for workers everywhere, as many are finally free of the 9-to-5 grind and daily commute to a large, stuffy office building. The interior of the country will have a renaissance, as high-quality jobs no longer require a cubicle in unaffordable city centers along the coasts. Suddenly, the immense challenge and costs of reversing climate change seem less daunting. Most important, we have unlocked a medical miracle that will have a profound impact on health care and longevity, akin to the engineering gains ushered in by the space race of the 1960s.

–TYLER HARDT

Covid Relief Could Shrink

Special Commentary
Wells Fargo
wellsfargo.com

Jan. 22: We view Biden's $1.9 trillion proposal [for Covid-19 relief] as an opening bid and not necessarily an outline that will be translated into bill language verbatim. But, the 19-page outline is fairly detailed for an opening bid, and it firmly signals that another Covid relief deal will be a day-one legislative priority for the Biden administration.

Our expectation is that a deal will eventually be struck, probably in March, but that the final legislation will be much smaller than what is in Biden's proposal and more along the lines of the $900 billion package that was enacted in December.

We think that the balance of risks is skewed towards a smaller deal, or no deal at all, rather than a bigger deal closer to the initial Biden proposal. That said, when paired with the $900 billion package enacted at the end of December, this should be plenty of fiscal support to see the U.S. economy through to the summer when, hopefully, vaccine distribution is well on its way to completion.

–MICHAEL PUGLIESE AND HOP MATHEWS

Needed: More Houses

December Existing Home Sales
Amherst Pierpont
apsec.com

Jan. 22: Existing-home sales ended the year in a familiar place—stronger than expected. The December sales pace increased to 6.76 million units, up slightly from November though down somewhat from October's 14-year high. For the year, existing-home sales totaled 5.64 million, up by more than 5% from 2019. It would have been hard to foresee that back in April!

The release strikes an optimistic tone, as the National Association of Realtors, or NAR, expects demand to remain robust in 2021, which seems like a good bet to me, as well. The biggest impediment to higher sales at this point is a dearth of available supply. The number of existing homes on the market fell by 16% from November and by 23% from a year ago. The months' supply figure dropped to 1.9%, the first time ever below two months (going back to 1982). The NAR release applauds the sharp increase in housing starts in recent months but argues, as I have, that starts will probably need to remain vigorous for at least another year or two to catch up to the once-in-a-generation rise in demand for homes that occurred in large part because of the pandemic.

–STEPHEN STANLEY

In Japan, Ouch!

Daily Notes on the Global Economy
High Frequency Economics
hifreqecon.com

Jan. 22: Here is more bad news about Japan's overall economic situation: National department-store sales in December were 13.7% lower than a year ago, according to figures this morning from industry association JDSA. In November, they were 14.3% lower than a year ago. Sales are not only depressed by public health measures, but also the population is aging fast and shrinking. That means fewer young households establishing new homes and families, and fewer customers for large-scale retail stores overall. Declining retail spending as the nation depopulates is a secular crisis, upon which the pandemic has been overlaid. Ouch!

–CARL B. WEINBERG

To be considered for this section, material, with the author's name and address, should be sent to MarketWatch@barrons.com.