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## **2021 Outlook – Reflating The Global Economy... & US Democracy**

**If you lie down with dogs, you get up with fleas. Whither the GOP?**

As the Trump's pack their bags and head for the exits, they leave in their wake a swathe of destruction through the Capitol Building, the Republican Party and the not so United States of America.

Certainly the most divisive president in my lifetime, he's viewed either as a malignancy that was excised through the electoral process or as a near-deity who was cheated out of a win. There is not a lot of middle ground with this guy.

As I write he's just been impeached for a second time and faces an uncertain legal future. Financially, like many businesses in the entertainment and hospitality space, the Trump Organization has been hit hard by the pandemic. Following events in Washington DC on January 6<sup>th</sup> corporate leaders and political donors were tripping over themselves in their haste to [sever ties](#) with the Trump Organization & GOP. Whether or not he's convicted of 'Incitement of Insurrection' in a Senate trial is the least of his problems.

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*Trump lost the popular vote in two elections by an average of 5 million votes.*

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He lost Congress in 2018, the Senate in 2021 (losing 2 Senate run-off seats in Georgia) and of course the White House. Conviction in the Senate would come with a punishment that he already appears to have visited upon himself: he'll likely never be president again.

Any remaining hope may be extinguished by current Senate Majority Leader, and former staunch Trump ally, Mitch McConnell. McConnell's political kung fu is equaled only by that of Congressional leader Nancy Pelosi. Pelosi has had him impeached (twice) in Congress & McConnell is taking the unusual step of allowing his GOP colleagues a free vote on conviction in the Senate.

Many hard core MAGA Senate and Congressional Republicans are now hilariously calling for unity, a time to heal. Apparently, the real crime would be to prosecute the president for his actions. The cognitive dissonance and clutching of pearls at this late stage is laughable.

This bifurcated thinking is tearing the Republican Party in two. Given how hard they've fallen I suspect it may be easier to repair the Capitol Building than to put the GOP's Humpty Dumpty back together again.

There may end up being a traditional GOP built on conservative ideals, small government and low taxation and a GOP 2.0, built on a foundation of lies, free of ideals and lead by a twice-impeached narcissist in their increasingly fervent search for free-dumb. Perhaps they could combine forces with OJ Simpson in his search for the real killers.

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It's a sad time in the US right now. Empires (now superpowers) fall from within and there is certainly potential for further political violence.

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From our sometimes-smug observation post here in Canada what we've been witnessing these past years in the US is surreal. Most of us, not all, don't understand how so many people can be so completely hoodwinked by such an obvious charlatan. What is wrong with them?

Well, the people who stormed the Capitol Building may not be stupid, but they do appear to be ignorant. They have utterly sealed themselves off into a far-right wing media ecosystem. Nothing can get in to alter their views or beliefs in even the most [bizarre conspiracy theories](#), including *stolen* elections.

I read Fox News opinion hosts, OAN, Newsmax, Breitbart and a host of other right wing and far right websites on a regular basis. It's like watching a science experiment & I admit to being fascinated. What I read is nearly always a truth

sandwich – stories with grains of truth surrounded by lies & conspiracy theories.

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*The truth draws you in & the lies around the truth shape your views.*

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If your views are far right then by definition most other views are left or far left, even moderates. In this environment for example, the idea of healthcare for everyone in the US becomes a ‘dystopian socialist nightmare like Venezuela’. If this is all you’re reading and viewing, you may feel that storming the Capitol Building is the only way to save America.

Trumpism isn’t going away but with their leader no longer being president, they will be much diminished as a political force. It remains to be seen whether the GOP will be able to heal its wounds or die from the infection. I hope for the sake of political & market stability it is the former.

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*While the Capitol Building was being stormed the markets were going up!*

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They looked past the riot at the fact that the Democrats were now in control of the Senate, Congress and the White House. This wasn’t an expression of political favoritism so much as a relief rally based on a political party’s ability to walk their talk and enact legislation, without needing to rely on the opposition.

Biden’s agenda includes a massive [stimulus package](#) of US\$1.9tn, including \$400bn to directly combat the virus, \$1400 in direct payments to individuals & significant assistance to Main Street businesses. It also includes proposed spending on [infrastructure and renewable energy](#) amongst other things.

Control in the Senate means that Biden will be able to secure approval for his cabinet choices, who would collectively, and perhaps ironically, be right of centre. A professional government led by a man with nearly 50 years of experience will hit the ground running with Covid-19 being top of the agenda.

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*Biden recognizes what Trump did not. Dealing with Covid is synonymous with growing the economy.*

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Recovery in the US economy is of great importance to Canada. We send 75% of our manufactured goods to the US. If they do well, we stand a much better chance of growing our own domestic economy. Growing Canada's economy is also very [dependent on immigration](#).

Canada has a mature, slow-growing economy. Low fertility rates are part of it. Further, Covid has stripped immigration out of [the picture](#) for the time being and the result is a negative compounding of the growth lost to Covid at a time when we're borrowing more than ever from future generations to shore up our economy today.

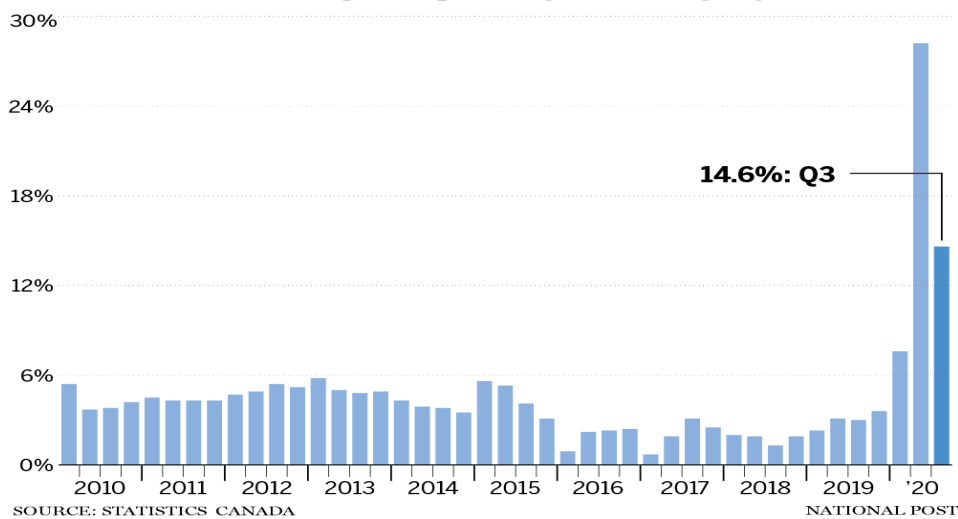
The flip side is that as we gain control over Covid, and we will, the immigration spigots will be opened up wider than in the past to back-fill what we missed.

This in turn may lead to a mini-boom as some 1.2M+ new immigrants are expected to arrive in 2021-23. I myself am an immigrant (25 years in February). My wife and I have made 3 more Canadians, started businesses, bought property & paid taxes. Future immigrants will endeavour to do the same and contribute to the growth of this awesome country.

Further, [savings rates have soared](#) during the pandemic as people feared for what lay ahead.

### CANADIANS SAVING LIKE CRAZY

*Household saving rate, quarterly, seasonally adjusted*



Many Canadian's will feel a lot more secure about going out and spending some of these funds once they and most other Canadian's have been vaccinated.

Not every sector will benefit equally – we won't get 3 haircuts in the first week to make up for the ones we missed – however this excess spending will further fuel the economy boosting sectors that thus far been denied to us in 2020. We'll once again be eating at restaurants, attending arenas for sporting & concerts events, and of course travel.

Canadian's can also look forward to our own [infrastructure spending](#) as we look to replace lost youth employment with higher paying jobs. It should also be a boon for base metals and other commodities.

Around the world I want to briefly look at Emerging Markets and compare their valuation to that of the 'big daddy' index, the S&P 500. By almost every metric EMs offer us a much less expensive alternative to the S&P 500. I think it's time to take some money off the table and away from the historically expensive S&P 500 and look to invest in the faster recovering, less expensive Emerging Markets.

Valuation	Emerging Markets	S&P 500
Price/Earnings	15.7	25.0
Price/Book	1.7	3.4
Price/Sales	1.4	2.4
Price/Cash Flow	9.3	14.4
Dividend Yield	2.7%	1.8%

Source: Vanguard. Data as of 7/31/20

Proxies: EEM and SPY

Finally, with all that has happened in 2020 & is yet to happen in 2021, a note of gratitude.

To quote Churchill,

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*'If you're going through hell, keep going.'*

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Our enemy this time is an unseen virus and our own thoughts rather than a uniformed soldier.

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*My deepest gratitude & respect is reserved for the front-line workers.*

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Our nurses are the backbone of our hospitals. They, alongside the doctors, cleaners, catering staff, care home workers & many others have consistently placed our health and that of our families above their own as wave after wave of Covid-19 patients have arrived.

I'm deeply grateful to you all and wish you a belated very happy & healthy 2021.

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