MORNING BRIEFING
July 23, 2020

Biden's Brave New World: Utopia or Dystopia?

Check out the accompanying chart collection.

(1) Another plague in China. (2) US-China Cold War heating up. (3) Dispatches from the trenches. (4) Setbacks on the health front. (5) Nice rebound in existing home sales, but gasoline usage stalling. (6) S&P 500 forward revenues and earnings bottoming. (7) Joe Biden: A man of the (left-leaning) people. (8) A crib sheet of the Biden-Sanders agenda prepared by AOC and other Illuminati. (9) Should we care if wind turbines kill birds, bats, and bugs?

Strategy: Three-Front War. On Monday, I wrote about the escalating Cold War between the US and China. I also wrote about the latest plague to hit China, i.e., the worst flooding in decades, coming right after the COVID-19 plague. Yesterday's *WSJ* reported: "Two months of unusually powerful rains in central and southern China have swelled the Yangtze River, triggering the worst flooding in decades and raising concerns about the Three Gorges Dam, the world's largest hydroelectric facility."

Also yesterday, we learned that the US State Department abruptly ordered China to shut down its consulate in Houston "in order to protect American intellectual property and Americans' private information." In addition, the Justice Department announced criminal charges against hackers, working with the Chinese government, who targeted firms developing vaccines for the coronavirus and stole hundreds of millions of dollars' worth of intellectual property and trade secrets from companies across the world.

The stock market mostly ignored these negative developments along with the latest round of bad news about the pandemic. We may be having significant setbacks in the war against the virus on the health front, but the dispatches coming from the economic front continue to be mostly favorable (for now). Meanwhile, we seem to be winning on the financial front (thanks to the Fed's B-52 campaign to carpet-bomb the economy with cash). Here is some of the recent news from the three fronts:

(1) *Health front.* According to the COVID-19 Tracking Project, the 10-day moving average of new positive test results rose to a record 64,000 through July 21. On this basis, current

hospitalizations rose to 54,000, up from a recent low of 29,037 on June 23. New deaths remained relatively low at 786 (*Fig. 1*).

Those numbers come at a time when more is being learned about the virus and how the US collects data on cases. A new study by the Centers for Disease Control and Prevention concluded that coronavirus antibody tests vastly undercounted the true number of COVID-19 infections in the US from March to May. The study showed that COVID-19 rates were more than 10 times higher than what was reported. That might actually be good news since it indicates that the death rate is much lower than widely reported.

(2) *Economic front.* Yesterday's report on existing home sales showed that they rebounded 20.7% m/m during June (*Fig. 2*). Sales of single-family dwellings jumped 19.9%. Demand has been boosted by the historically low 30-year fixed mortgage rate, which has been hovering around 3.00%, the lowest since 1971. As Debbie and I noted yesterday, people seeking homes away from densely populated cities are swelling the demand for single-family homes. On the other hand, the supply of such dwellings has tightened up as homeowners in the sought-after suburban and rural locations are staying put.

The bad news is that the four-week average of gasoline usage stalled during the July 17 week at 8.6mbd, following a V-shaped recovery from 5.3mbd during the April 24 week (*Fig. 3*). This coincides with the surge in cases, particularly in the Sunbelt states in recent weeks, forcing their governors to slow the pace of reopening their economies.

(3) *Financial front.* On Tuesday, the S&P 500 turned slightly positive for the year, having soared 45.6% from the March 23 bottom. Instead of retesting that low, as was widely predicted, the index is on track to revisit and perhaps exceed its February 19 record high of 3386.15 (*Fig. 4*). The rebound in the S&P 500 has been led by an extraordinary meltup in its forward P/E from 12.9 on March 23 to 22.4 currently (*Fig. 5*).

Our year-end target of 2900 for the S&P 500 was exceeded back on April 29. The index clearly could reach our 2021 year-end target of 3500 well ahead of schedule too. As you know, Joe and I are increasingly of the opinion that we are in a meltup situation that could set the stage for a meltdown. It's hard to call this market. Ask us again when and if the S&P 500 gets to 3500. We've been rooting for a consolidation around 3000 (plus/minus 100) in the market's gains, but the market isn't listening to us. The bottom line is that we remain bullish but are worrying that a meltup could be followed by a meltdown.

The stock market is clearly accentuating the positives and ignoring the negatives, for now. A very important set of positive developments is that industry analysts have been cutting their revenues and earnings estimates for this year and next year at slower paces in recent weeks (*Fig. 6* and *Fig. 7*). As a result, S&P 500 forward revenues bottomed during the May 28 week, and has been up each of the past seven weeks through the July 16 week by 2.0% (*Fig. 8*). Similarly, forward earnings bottomed during the May 15 week, and has been up every week since then.

US Politics I: Progressive Task Force. On Tuesday, Melissa and I reviewed some of the key policy proposals outlined on Joe Biden's webpage titled "Joe's Vision for America." We also reviewed an analysis by the Tax Policy Institute of Biden's tax proposals. If enacted, they would amount to the biggest tax increase in American history.

It is unclear how many of the policies now listed on Biden's website would make it into the administration's official agenda, but many overlap with recommendations detailed in the "Biden-Sanders Unity Task Force Recommendations" released on July 8. After Biden won as the Democratic presidential nominee on a centrist platform over Bernie Sanders (I-VT), a self-proclaimed "democratic socialist," the duo combined forces to create their Unity Task Force, and this document sets out its policy recommendations for a Biden presidential administration.

The recommendations suggest that Biden is aiming to appeal to a more progressive left audience than he did during the Democratic primaries. The task force document is a blatant push for bigger government and more public spending than seen in decades. Sanders told MSNBC that the task force document's policies, "if implemented, will make Biden the most progressive president since FDR." But he hasn't moved as far left as some task-force members would like to see him. Here's more:

(1) *To the left*. Several of the task-force contributors stand far to the left. Some have a history of promoting socialist ideals. Six smaller groups compose the larger task force that devised the policy recommendations.

Co-chairing the committees on climate change, a cornerstone of the Biden campaign, are Representative Alexandria Ocasio-Cortez (D-NY)—a.k.a. AOC—and former Secretary of State John Kerry (D). Former Obama administration Attorney General Eric Holder holds a seat on the criminal justice committee. On the "stronger, fairer" economic committee are Jared

Bernstein, former Obama administration Chief Economist and official at the liberal Economic Policy Institute, and Stephanie Kelton, Modern Monetary Theory advocate. The American Federation of Teachers union's president, Randi Weingarten, is an education contributor. Contributing on "universal healthcare" policy is Abdul El-Sayed, a former medical doctor and second-place candidate in Michigan's 2018 Democratic gubernatorial primary election, endorsed by Sanders and AOC.

(2) *Not so far, yet*. While the task-force policies don't include some of the more progressive policies previously proposed by some contributors, the recommended steps suggest a clear left direction. Notably absent are the federal job guarantee that Kelton wants to see (see our July 8 *Morning Briefing* for more), the Green New Deal (AOC), and Medicare for All (Sanders). But there is a massive push for public job creation and fair labor standards, an extensive climate change agenda, and a healthcare plan that is closer to Sander's than Biden supported during the Democratic primaries, as a July 12 *Washington Post* article discussed. While the group wouldn't defund the police, it does advocate for federally funding an unarmed first-responder civilian corps.

US Politics II: Task-Force Crib Sheet. The task force's stated mission is to "use federal resources and authorities across all agencies to accelerate development of a clean energy economy and deploy proven clean energy solutions; create millions of family-supporting and union jobs; upgrade and make resilient our energy, water, wastewater, and transportation infrastructure; and develop and manufacture next generation technologies to address the climate crisis right here in the United States." Scattered amid impassioned rhetoric within the 110-page document are the key policy proposals. Please see our three-page summary of the progressive proposals.

Disruptive Technology: Killer Turbines? The Biden-Sanders program promises a clean-energy future. For example: "To reach net-zero emissions as rapidly as possible, Democrats commit to eliminating carbon pollution from power plants by 2035 through technology-neutral standards for clean energy and energy efficiency. We will dramatically expand solar and wind energy deployment through community-based and utility-scale systems. Within five years, we will install 500 million solar panels, including eight million solar roofs and community solar energy systems, and 60,000 made-in-America wind turbines."

That's great. However, we should beware of unintended consequences, which always seem to pop up when the government fixes our economy. I asked Jackie to investigate whether anyone is looking into the unintended consequences of building so many wind turbines. Here is her report:

Wind energy is the fastest-growing source of renewable energy in the US, with 300.1 billion kilowatt hours (kwh) generated last year, up from 5.6 billion in 2000. As a result, wind turbines produced more energy than any other renewable source, including hydroelectric (273.7 billion kwh), solar (72.2 billion kwh), and biomass (58.4 billion kwh), according to the US Energy Information Association.

Less discussed than the amount of energy wind turbines are producing these days is the impact they are having on the environment as they do so, particularly on birds, bats, and bugs. Wind turbines are certainly cleaner than traditional power plants require, but they do kill winged creatures that cross paths with their giant blades, which can reach more than 300 feet into the sky. Let's take a look at the dark side of green energy:

(1) *Flying into trouble.* A big impediment to understanding how problematic wind turbines are is the lack of definitive data on the numbers of birds, bats, and bugs affected. The US Fish & Wildlife Service website, which was updated in 2018, estimates that bird/turbine collisions killed between 140,000 and 500,000 birds per year. As the number of turbines increases, the agency predicts that the mean number of bird deaths by turbines could reach 1.4 million annually. The American Wind Energy Association estimates that there are 328,000 birds killed by turbines annually, a small fraction of the 2.5 billion birds killed annually, according to its website (bigger threats are cats, which kill roughly 2.4 billion birds a year, followed by building windows, automobiles, and power lines).

While wind turbines don't endanger most bird populations, there is concern about their impact on the populations of hawks, falcons, and eagles. Those birds are slow to mature and reproduce, and some populations were in decline before wind turbines proliferated. Steps can be taken to mitigate the impact of wind turbines, according to the US Fish & Wildlife Service, including building them away from birds' migratory routes or building them smaller so they don't interfere with birds' flight zones—but that would reduce the amount of energy they generate.

(2) *Bats crashing too*. While the thought of bats flying into turbine blades doesn't elicit the same emotional response as that of birds meeting with the same fate, bats are important members of the ecosystem because they consume insects and act as pollinators. The bat

population was already under stress before wind turbines popped up, owing to disease, pesticides, and habitat destruction. Wind turbines exacerbate the population's situation, threatening migrating bats in particular, such as the hoary bat, eastern red bat, and silver-haired bat, a 2019 report by the National Wildlife Federation stated.

An oft-cited 2013 study published in the *Wildlife Society Bulletin* by K. Shawn Smallwood estimated that there are 880,000 turbine-related bat deaths annually. Bats may be attracted to wind turbines because insects that the bats eat gather around turbines, but some simply fly into turbines during their annual migration.

The notion of bats crashing into wind turbines may be counterintuitive, as bats are known to be exceptional navigators owing to their echolocation abilities. They "see" by sending audio signals into the air and react when the signals bounce off objects. But that process may not leave time enough to avert a turbine's fast-moving blades. And even if a bat doesn't physically hit a blade, the air pressure generated by the moving blade can collapse the bat's ear canals and lungs, causing instant death, explained a 2015 paper by University of Massachusetts students dubbed "Wind Turbines or Giant Bird Blenders?"

A study by Sweden's University of Lund suggested that bat deaths in Sweden could be reduced if wind turbines stopped operating for at least 10 nights between June 15 and September 15, according to a May 10, 2017 article in Engadget. Because the wind blows more slowly during those months, only 1% of total output would be cut. The National Wildlife Federation suggests changing wind turbine speed to mitigate the problem, particularly during times of migration. Acoustic deterrents and ultraviolet illumination of turbines are also being studied.

(3) *A pesky problem.* The declining population of insects in general—and honeybees in particular—has captured scientific and general news headlines. Bees are of utmost importance due to their role in crop pollination. Most scientists attribute the population decline of insects to the increase of urbanization, farmland, pesticides, and disease. Wind turbines could be having an impact too.

Roughly 1.2 trillion insects per year may be killed by German wind farms, a number large enough that it could affect insect population stability, concluded a 2018 German study cited in a June 26, 2019 *Forbes* article. The study based its conclusions on literature about insects and calculations about the number of insects that would pass through wind turbine blades.

Because insects migrate, bugs that travel through Germany from other countries in Europe and Africa could be affected.

Conversely, a researcher in Poland reported last year that bees near a wind farm were not affected. One group of honeybees was placed near a wind farm, and another group was placed 11 kilometers away from the farm. After watching them for two years, the researcher didn't notice any negative effects in the group near the windfarm; in fact, they produced more honey.

Another Polish study done in 2014 found the area surrounding wind turbines "supported equal species richness, diversity and abundance of pollinating insects" as exists in grasslands and better richness, diversity, and abundance than in farm land. The researchers attributed the disparity to a greater diversity of weeds near the windmills than the farms, creating "biodiversity hot spots."

(4) *Bigger picture.* Beyond the deaths of birds, bats, and bugs, humans may want to consider the overall impact wind turbines are having on the broader environment. A study recently found that most birds avoided flying into a wind farm in India. But because the birds no longer flew around the wind farm, the lizards the birds used to eat no longer had a predator. Without a predator, the lizard population increased. The lizards, however, were skinnier and less colorful than the same lizards living elsewhere. That's because the larger lizard population near the wind farm had to compete harder to secure food. There were more lizards, but not more food.

"[W]ind farms can create a cascade of unintended effects within an ecosystem by essentially acting like top predators," a November 14, 2018 *Scientific American* article concluded.

Clearly, more study is called for to better understand the myriad impacts of wind turbines on nature; it's somewhat concerning that wind farms are sprouting up before scientific conclusions are reached. Rightly or wrongly, scientists seem to be concluding that a wind farm is less destructive to the environment than the coal- or gas-fired power plant that might have otherwise been built.

In one case we know of, however, the cart isn't being put before the horse. A study of bugs, birds, and bats is being done prior to the construction of a proposed wind farm by scientists at the University of Wyoming. They now have baseline data and can return to study the area after the wind farm is built … if their project is funded.

CALENDARS

US: **Thurs:** Leading Indicators 2.1%, Initial & Continuous Jobless Claims 1.300m/17.067m, Kansas City Fed Manufacturing Index, EIA Natural Gas Storage. **Fri:** M-PMI & NM-PMI Flash Estimates 51.5/51.0, New Home Sales 700k, Baker-Hughes Rig Count.(DailyFX estimates)

Global: **Thurs:** Eurozone Consumer Confidence Flash Estimate -12, Germany Gfk Consumer Confidence -5, France Business Confidence 85, UK Gfk Consumer Confidence -26, Guindos, Haskel. **Fri:** Eurozone, Germany, and France C-PMIs 51.1/50.3/53,5, Eurozone, Germany, and France M-PMIs 50.0/48.0/53.2, Eurozone, Germany, and France NM-PMIs 51.0/50.5/52.3, UK C-PMI, M-PMII and NM-PMI Flash Estimates 51.1/52.0/51.5, UK Retail Sales Headline & Ex Fuels -6.4%/-3.7% y/y, Italy Consumer & Business Confidence 103.8/85.5. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) moved further above 3.00 this week. The BBR recorded its 16th increase in the past 17 weeks, climbing to 3.28 this week (the highest since the January 21 week); it had dropped from 2.89 to 0.72 (the lowest since February 2016) over the prior five weeks. Bullish sentiment dipped to 56.7% this week after soaring 28.0ppts (to 58.1% from 30.1%) over the prior 16 weeks to its highest percentage since mid-January. Meanwhile, bearish sentiment fell 24.4ppts (to17.3% from 41.7%) the past 17 weeks—indicating the fewest bears since January. The correction count has been in a volatile flat trend the past several weeks, fluctuating between 22.5% and 26.5%. It rose to 26.0% this week from 23.8% last week—as the former bulls and bears migrated to the correction camp this week. The AAII Ratio climbed for the second time last week from 32.6% to 40.5% over the period. Bullish sentiment rose from 22.2% to 30.8% over the time span, while bearish sentiment rose to 45.4% last week after falling the previous two weeks from 48.9% to 42.7%.

S&P 500 Q2 Earnings Season Monitor (*link*): With over 14% of S&P 500 companies finished reporting revenues and earnings for Q2-2020, revenues are beating the consensus forecast by a whopping 3.0%, and earnings have crushed estimates by 13.4%. The large upside surprises are primarily due to a lack of financial guidance from the companies that analysts follow, which mirrors the experience of the Q2-2009 earnings season on the heels of the Great Financial Crisis. At the same point during the Q1 season, revenues were 1.1% above forecast, but earnings missed by 3.6%. For the 72 companies that have reported through mid-day Wednesday, aggregate y/y revenue and earnings growth are below the similar Q1 measures, but the percentages of companies reporting positive revenue and earnings surprises actually improved. The small sample of Q2 reporters so far has a y/y revenue decline of 3.2%, and earnings are down 45.1% in the worst quarter since Q1-2009. The percentage of companies reporting a positive revenue surprise (74) is slightly below those reporting a positive earnings surprise (76). However, more companies are reporting positive y/y revenue growth in Q2 (46) than are reporting positive y/y earnings growth (36). That's the lowest rate for earnings growth since Q2-2009. These figures will change markedly as more Q2-2020 results are reported in the coming weeks, but the y/y revenue and earnings growth results are expected to remain dismal. Now more than ever, what companies say about the state of their business and their plans to ride out the COVID-19 crisis will be investors' main focus. However, many companies still are not providing guidance about their future financial periods.

US ECONOMIC INDICATORS

Existing Home Sales (*link*): "The sales recovery is strong, as buyers were eager to purchase homes and properties that they had been eyeing during the shutdown," said Lawrence Yun, NAR's chief economist. "This revitalization looks to be sustainable for many months ahead as long as mortgage rates remain low and job gains continue." Existing home sales—tabulated when a purchase closes—rebounded a record 20.7% in June to 4.72mu (saar), after a three-month plunge of 32.1% to 3.91mu—which was the lowest sales pace since October 2010. It was at a cyclical high of 5.76mu before the pandemic hit. Both single- (+19.9% to 4.28mu, saar) and multi-family (+29.4 to 440,000 units) sales posted sharp gains last month after plunging 30.8% and 43.3%, respectively, during the three months through May. Existing home sales rose in every region in June, though continued to fall on a yearly basis: West (+31.9% m/m & -13.6% y/y), South (+26.0 & -4.0), Midwest (+11.1 & -13.4), and Northeast (+4.3 & -27.9). Total inventory on the market was at 1.57mu at the end of June, 18.2% below last June's 1.92mu. Yun noted that markedly low inventory was a problem even before the pandemic and says such circumstances can lead to inflated costs: "Home prices rose during the lockdown and could rise even further due to heavy buyer competition and a significant shortage of supply." Median home prices were above year-ago levels in all four regions in June: West (5.4% y/y), South (4.4), Northeast (3.6), and Midwest (3.2).

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