

GLEANINGS II - 864
Thursday December 10th, 2020

GDP growth outlook - Goldman has cut its forecast First Quarter 2021 annualized GDP growth rate in half, from 7.0-, to 3.5-, percent and, while the Atlanta Fed's GDPNow rate 'soared' from 3.9-, to 11.0-, percent in the latter half of November, it has since stalled at that level.

Government of Canada's fiscal performance - In 2016 now Prime Minister Trudeau came to power promising three years of \$10BN deficits for 'investment purposes' & a balanced budget in the fourth. This has since been proven utter hogwash; for the annual budget deficits have been more than twice that magnitude even though the Canadian economy grew by as much as 3% annually. After last year's \$27BN deficit (1.6% of GDP & almost 6% of budgeted expenditures), early this year, in anticipation of a serious coronavirus effect, the banks forecast a \$180BN deficit (8.4% of GDP). But that was first revised to \$343BN (20% of GDP) & the other day to \$382BN (23%), at which level the share of government expenditures paid for from borrowed money will be almost 60% (*a ratio that would put the Government of Japan to shame*).

Now I have seen everything! - I came across an obituary of a US resident who was not buried in-, but "under the care of-, New Albany IN's Kraft-Graceland Memorial Park"!

State of the US Nation - On Tuesday December 8th the US Supreme Court gave Trump a reality check when, by a vote of 9-0 (with even his three appointees to the Court voting against him) it dismissed in a single sentence his bid to nullify Joe Biden's certification by Pennsylvania as having carried the state (*by 81,000 votes*) & hence getting its 20 Electoral College votes. In what legal experts deem a non-starter "Hail Mary pass" ¹, this prompted a bid the next day by Ken Paxton, the Texas Attorney-General, supported by 17 other States' Republican Attorney-Generals ², to have the Supreme Court nullify the election results in four 'swing states' (PN, GA, MI & WI) that had voted for Biden [so as to have the election of the President go to the House (where Trump c.s. presumably believe his re-election can be 'bought')] ³.

That day also Kim Ward, the Republican Majority Leader in the Pennsylvania State Senate, supported the effort by hardline Republicans to call on Congress to reject President-elect Joe Biden's win in their 'key battle ground state' that helped to secure his victory. And, when asked in an interview with the NYT, why she had signed the letter urging the State's Congressional delegation to "object, and vote to sustain such objection to the Electoral College votes received from the Commonwealth of Pennsylvania" at the January 6th Congressional when it is scheduled to certify the Electoral College vote, she said that if she didn't, she would become the victim of a violent attack & "I'd get my house bombed tonight."

The Trump gang may have made it easy for the Supreme Court to add insult to injury by tossing the Texas proposal without much ado. For while normally such cases are within the purview of Kyle Hawkins, the

¹ According to Rick Hasen, a law professor at the University of California at Irvine, "I may need to take back what I said about Rep. Kelly's Pennsylvania suit being the dumbest case I've ever seen filed on an emergency basis at the Supreme Court ... This new one from the indicted Texas Attorney-General Ken Paxton ... probably should have won that prize."

² AL, AR, FL, IN, KA, LA, MS, MO, MT, NB, ND, OK, SC, SD, TN UT & WV but, interestingly enough, not GA.

³ For if, as seems to be the case, the Republicans were to gain as many as 15 seats there, this would reduce the number of Democrat seats to as few as 218, i.e. to just a single seat, a fact that makes Speaker Nancy Pelosi's claim that "we still have the gavel" for all intents & purposes irrelevant, especially since that likely will the end of her tenure as House Speaker.

Texas Solicitor-General, he & his Deputies wouldn't take the case, forcing the Trumpist Paxton ⁴ to do so & bring in outside counsel ⁵ to be the one to submit its proposal to the Supreme Court.

But Trump may be leaning on 'slender reeds' indeed. For Paxton's choice, James Eastman, has been accused of racism (see footnote 5) & Paxton himself has legal troubles. For according to The Hill ⁶ in 2015 a Texas grand jury indicted him on felony securities fraud charges (& he paid a fine & he remains under indictment even though friends in the county government defunded the prosecution & his wife, a State Senator, has a bill pending to allow him as Attorney-General to issue exemptions from the securities laws he is alleged to have violated). In addition, last October seven of his senior staff members asked federal law enforcement agencies to investigate him for "violating federal and/or state laws including prohibitions related to improper influence, abuse of office, bribery and other potential criminal offenses."

By the Supreme Court Thursday 3: 00 p.m. deadline for filing their reaction to the Texas move, Pennsylvania's Republican Attorney General Josh Shapiro had called it "a cacophony of bogus false claims" & his Michigan Democrat counterpart Dana Nessel "The challenge here is an unprecedented one, without factual foundation or valid legal basis", while Chris Carr, Georgia's Republican Attorney-General, noted "The novel and far-reaching claims Texas asserts, and breathtaking remedies it seeks, are impossible to ground in legal principles and unmanageable" & Josh Kaul, his Wisconsin Democrat counterpart, "There has been no indication of any fraud, or anything else that would call into question the ... election results".

Meanwhile Dave Yost, Ohio's Republican Attorney-General filed a brief that disagreed with Texas seeking to have the election results in the four states tossed, saying it would "undermine a fundamental premise of our federalist system : the States are sovereigns, free to govern themselves" ⁷, while 20 other States & the District of Columbia were publicly backing the four states targeted by Texas (and Trump retweeted his hoary & long-discounted claim that "The Supreme Court has a chance to save our Country from the greatest Election abuse in the history of the United States."

Tesla's shares are "dramatically overvalued - Thus spake JPM analyst Ryan Brinkman on December 9th, noting they had risen 8x in price in two years & analysts had raised their price targets 5x in that time, while lowering their earnings' growth estimates for the Company for the years 2020-2024, "strongly suggestive ... of something apart from fundamentals (speculative fervor?) driving the shares higher".

The company 'went public' at US\$17.00 in June 2010 & last January 3rd hit US\$88.60; so its share price more than quintupled in 4½ years & this year it went on a **real** tear, hitting US\$641.76 on Monday November 30th (up 12.8% in just three days); in other words, its price increased 7x in just 11 months. And the next

4 Who in recent years has, among others, sought to prevent people from voting by mail, threatened to prosecute Texans who voted on an absentee basis, prevented counties from sending out absentee ballot applications & prohibiting them from offering more than one ballot drop-off box, and sought to prevent drive-through voting.

5 His choice, John Eastman, is a serious right winger (apparently there is a growing scarcity of lawyers willing to have anything to do with the Trump campaign). Age 60, he is a former Dean of the School of Law of the Orange CA-based pricey but reasonably well-regarded Chapman University. And earlier this year, in a column in Newsweek he wrote "I heard today that she (*Kamala Harris*) doesn't meet the requirements (*for Vice President*) because her parents are immigrants) ... but I have no idea if that's right", forcing Newsweek to issue a statement denouncing his 'birtherism' & saying his column had been "intended to explore a ... legal argument about the definition who met the requirements as a natural-born citizen."

6 A Washington DC-based website, that, according to the Miami FL-based Knight Foundation is read by "a moderate audience leaning slightly to the right", and is part of the Washington DC-based News Communications Inc. media stable that includes the Washington Times.

7 This was only one on a number of complaints emanating from a number of states that the Texas proposal was running roughshod over States' Rights".

day, on Tuesday November 1st, the Company 'hit the bid' with a US\$5BN offering of new shares, its second such offering in three months.

One of the first things I learnt about the stock market was in university from a fraternity brother who was an investment analyst at Great West Life, namely that if shares traded outside the 10-20 P/E band ⁸, it's wise to 'tread carefully' (& in the sixty years since it has proven sound advice). So I would not touch a stock like Tesla that trades at a P/E ratio of nearly 1,300x with a barge pole of any length & not even with a 1,300 millimetre pencil. Moreover, analyst Brinkman not long ago raised his price target from US\$80 to US\$90, and the average price target in the US analyst community is in the US\$360 range (in other words no professional sees any upside potential in the stock) & last June the influential JD Power Annual Survey of complaints about new cars in the first 90 days of private ownership rated Tesla cars the worst of the 32 major brands in its survey, with 250 complaints per 100 vehicles, compared to an average 166 for all 32 & lows of 136 for Dodge & Kia.

The current Tesla share price levels are likely the result of novice investors 'chasing the stock' since it has "momentum" [i.e. on a "Greater Fool Theory of Investment" basis - 'I may be a damned fool for buying this stock at this price but there must be an even greater fool out there somewhere to whom I can sell it at a profit', an investment methodology that seldom 'has legs']. And a now long-dead large & very successful professional money manager friend of mine called such stocks "owl stocks" since, when the time comes to sell, the echo goes "to Whom, to Whom?"),

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CYBER RISK IS THE NEW THREAT TO FINANCIAL STABILITY **(IMF, Jennifer Elliott & Nigel Jenkinson)**

- We take for granted our ability to bank, & pay bills, on line and now, amid the global pandemic, have seen how much digital connection matters in our everyday life. But what if a cyber attack were to take a bank down & online banking failed to deliver? (Cyprus had an experience a few years ago when the country's ATMs quit dispensing cash).
- The number of cyber attacks has tripled in the past ten-, & *grown more than seven-fold in the last fifteen-*, years. With financial services the most targeted industry, cyber security has clearly become a threat to financial stability. For, given strong financial & technological interconnections, a successful attack on a major financial institution, or on a core system or service, could spread quickly and cause a major loss of confidence as transactions fail, and households & businesses lose access to deposits and/or the ability to make and/or receive payments. And, with hacking technology now cheaper, simpler & more powerful *than ever*, lower-skilled hackers can do more damage at a fraction of its one-time cost, while the expansion of mobile-based services (the only technological platform available for many people) has increased the opportunities for them.
- So fighting cyber crime & reducing risk *in the world of finance* must be a shared undertaking inside, & across, countries at a time that in our view *too many national financial systems aren't ready to seriously manage cyber attacks & international coordination is still weak.*

Both authors are IMF staff members in the Monetary & Capital Markets Department, Elliott as Chief of Technical Assistance Strategy & Jenkinson as Chief of Financial Regulation and Supervision. And they offer, & briefly expand on, six possible strategies for making the system safer (Cyber Mapping & Risk Identification, Converging Regulation, Capacity to Respond, Willingness to Share, Stronger Deterrence & Capacity Development). But the fact remains that today we live in an "Asymmetrical Warfare" world in which defenders of the status quo have vast numbers of possible targets to defend while attackers need to pick only one target from a vast multitude to do real damage. And the same principle may well apply that I was taught many years ago in the Canadian Army's Armoured Corps about tank warfare, namely 'you can never build a tank so strong that an even stronger anti-tank weapon cannot be developed to defeat it'.

⁸

P/E stands for Price/Earnings, i.e. the ratio of the company's share price to its earnings per share outstanding

The curse we face today is that ever since WW II governments' tax policies have made capital cheap & labour expensive; so there have been seventy years of substituting machines for labour (that the era of ultra-low interest rates has accentuated). But things like the One Hundred Mile Diet are harbingers of a new societal structure along the lines of the KISS (Keep It Simple Stupid) principle of yesteryear.

TRUMP BLOWS A HOLE IN THE GOP ON HIS WAY OUT (Politico, David Siders)

- His efforts to overturn the presidential election results have met with defeat in nearly every state & court. But his campaign to pressure GOP officials to support his baseless claims of a rigged election, & his success in convincing the party faithful that widespread voter fraud occurred, will have far-reaching consequences that will reshape society for years to come.
- In recent weeks Kelli Ward, the Arizona GOP Chair ⁹, in a feud over the integrity of the election in their state, told Doug Ducey, its Republican Governor, on Twitter to 'shut up'. In Georgia her counterpart, David Shafer, joined the state's two Republican Senators in attacking its Secretary of State, leaving it to Trump to tear into GOP Governor Brian Kemp (*who had appointed one of those Senators to the Senate against Trump's wishes*). And in Michigan GOP Chair Laura Cox stood by the Trump campaign as he pressed Republican law makers to override her state's popular vote.
- According to Michael Brodkorb, a former Deputy Chair of the Minnesota GOP. "This is *pure Hatfield & McCoy stuff (a decades-long family feud on the KY/WV border in the late 19th century that killed dozens of members of both families for little material gain)* ... albeit more of the McCoy & McCoy, or Hatfield & Hatfield variety... to see activists across the country ... armed with pitch forks and torches at the Capitols ... It's just bonkers."
- Enmity between the GOP's populist & establishment wings has existed *below the surface* for years in some form or other. But Trump's domination of the party has exacerbated the gulf between them, & his persistent demand that Republicans must choose sides has left no room for compromise.
- Last month, Michael Burke, the Chair of the Republican Party in Arizona's Pinal County sent Gov. Ducey a letter on behalf of 13 of the state's other GOP Chairs calling on him to reconvene the legislature to address GOP concerns about the vote in their state. While Burke conceded that "chances are slimmer by the day" that Trump will succeed in his election result challenges, he says "it's still Donald Trump's party. He is probably, I believe, going to be the most consequential former president in our lifetime". And, as to the tension in the party, he thinks it will be "long-lasting".

*Looking 'outside the box', there are other, possibly more hopeful, outcomes. Alpha males typically make enemies who after their downfall often engage in 'pile-ons'. Trump is in his mid-seventies & has 'medical preconditions'. For the first time in his life he faces unequivocal public failure that likely to shorten his life span, the more so since he may well spend his remaining years embroiled in endless costly litigation (thus it was just reported that New York State prosecutors have been interviewing Deutsche Bank employees in pursuit of evidence that will justify aying criminal charges against him once he's out of office). And one can only hope that in due course politicians will realize that, if only for reasons of self-preservation, politics should return to being "the art of the possible" rather than "it's my way or the highway" & that winning elections takes more than having a 'base' of 35% of the electorate, and that, as Biden just proved, they're all about appealing to a majority (It's interesting in this context that Biden beat Trump handily while his party made fewer gains in the Senate than expected & actually may have lost as many as 15 seats in the House because a sizeable number of voters voted for **him** over Trump but for the GOP rather than for the Democrat Party & its 'progressive' loudmouths.*

BANK OF CANADA IS NOT FUNDING OTTAWA'S DEFICIT SPENDING (G&M, David Parkinson)

- In a Thursday November 26th meeting of the House Standing Committee on Finance Conservative freshman MP Tamara Jansen (from the BC constituency of Cloverdale-Langley), possibly prompted by a recent observation by her colleague Pierre Poilievre, the Conservative Finance critic, that the

⁹ Age 51, she is a former State Senator who in 2016 challenged John McCain-, and in 2018 first Jeff Flake & then Martha McSally, in the State primaries for the US Senate.

Bank was in danger of becoming “an ATM for [Prime Minister Justin] Trudeau’s insatiable appetites”, grilled the new Bank of Canada Governor Tiff Macklem on its weekly purchases of \$4BN of Government of Canada bonds. This caused him to assure the Committee not just once or twice, but three times, “We’re not financing the government”, saying it was buying these bonds to provide the monetary stimulus needed to enable the government to help the economy recover & return the inflation rate to the Bank’s 2% target, not to “finance the government’s debts”.

- And in her subsequent questioning, when she asked him “Are you saying that you need to keep buying government debt -basically printing money - for Canada to remain solvent?”, he told her “No. That’s not what we’re saying at all” and then, when she followed that up with “So what you’re saying is, you would not have to continue that [program] - we could remain solvent without it?”, he confirmed “That is what I am saying”, reiterating that the Bank is expressly committed to end its purchases under the program “once the recovery is well underway.”

Macklem was misrepresenting the situation. At last report the Bank held \$276BN in Government of Canada bonds, as well as \$59BN in Government of Canada Treasury Bills (& another 345BN in Government of Canada-issued mortgage bonds that presumably are ‘secured’ by assets). And, given the Bank’s \$4BN weekly Canada paper purchase rate, it has purchased close to \$150BN of it since April 1st, i.e. funded about half the government’s deficit this year. QED

TRUDEAU’S HALF-BROTHER IS AN ANTI-VAXXER, BITCOIN ENTREPRENEUR AND (AFFECTIONATE) CRITIC OF THE PM (NP, John Ivison)

- Born in 1984, when Justin was 12, Kyle Kemper is the son of Margaret Trudeau & her second husband, real estate developer Fred Kemper, someone more her age, whom she had married in April of that year two weeks after her divorce from Trudeau père came through & whom she divorced in 1999 (after having two children with him, Kyle & his sister Alicia).
- He believes a “global corporatocracy” is taking advantage of the coronavirus crisis to diminish democracy & tighten control over people’s lives, agreeing with the Carolina Panthers’ defensive tackle, & fellow Bitcoin collector, Russell Okung, that “the real battle is not simply left or right. It is authoritarianism vs. libertarianism”. For him humanity is at a tipping point where people have a choice between taking control of their physical & digital lives, or succumbing to a “top-down dystopic system of total control, in a society where our every move is tracked ... our ability to travel is a privilege, not a right and ... our data is ¹⁰ used & sold without our knowledge, and then weaponized against us to influence our behaviour, beliefs and purchasing decisions.”
- While not overly partisan, he does not shy away from views the Prime Minister would disown, retweeting conspiracy theories about election fraud in the US & promoting the idea that COVID vaccination is “human experimentation”, These are ideas the Trudeau Liberals find so reprehensible that they sought to have Derek Sloan, the Conservative MP advocating them, kicked out of the Conservative Party caucus. And he is opposed to ‘human rights being stripped in the name of protection’ & deems what has happened since 9/11 the product of “Orwellian thinking”.
- He acknowledges that his views are at odds with his half brother’s & would love to talk with him about them, but says there is “very clearly a firewall”. And, while he deems party politics a “glory path, a power path, and an ego path”, he says “I love my brother - he has taught me so much...” (although someone who knows them both says “They both like attention.”)

I agree with him about the “tipping point” part. But I am more optimistic. The Vietnam War confirmed a lesson of France in the 1780s, one that his “global corporatocracy” seems to be overlooking, namely that masses of hoi polloi (that in the Vietnam War case, were wearing black pyamas & thongs on their feet), can beat the world’s mightiest military machine of their time. And their obtuseness is bringing the day closer & closer when, as I heard a young African once observe “Death cannot be any worse than living like this” (at

¹⁰ Having had the privilege of at least a passing acquaintance with the Latin language in high school, I shudder whenever I see/hear the phrase “data is used”. For “data” is the plural of “datum” (that my trusted ‘Concise Oxford dictionary tells me is a word in the English language) & “data are” is thus the proper English usage.

which point fire arms & tear gas cease to have the crowd-repellent/control effect they've long had. So once the elites realize they must quit living in their hedonistic make believe world, a less gloomy world than he envisages may evolve for my grandchildren to raise their children in, one that will be more Nature-friendly, & hence more environmentally sustainable-, than that of the last half century, & one in which rights will have to be "earned" & can no longer taken for granted & in which entitlements will be a thing of the past (since any 'free good' by definition has zero value). And in that context the current US healthcare system 'overload' problem could be solved very simply; for in the summer of 1941, after Hitler invaded Russia, the roadways in Western Russia were chock a block with people trying to flee from the invading forces, causing major road blockages. Stalin's solution was simple but effective, a few signs were erected along the roads warning all & sundry that 'anyone who gets out of line gets shot', & just a few bullets later order was restored. Ditto today, if anyone who insists on not wearing a mask in public were to be made to dip his/her thumb in indelible ink (as is done in developing countries to make sure people don't vote twice) & told that with two black thumbs they would last in line if they ever needed hospital care, much, if not all, the controversy about wearing masks would go up in smoke overnight.

BUYERS' REMORSE : HOW THE RUSH IN ONLINE SHOPPING HURTS THE PLANET **(G&M, Maddy Ewing)**

- Online shopping is skyrocketing. Canada Post reported that in the first three quarters of this year parcel volumes were up 24.5% YoY, according to FedEx Express Canada 35% of Canadians who had never done holiday shopping online plan to do so this year and, to keep up with the surge in demand for parcel traffic by air, UPS had to add 11 planes to its fleet last year.
- But online shopping has a carbon footprint. In the Greater Toronto area delivery vans in their "last mile", the run between depot & customer, are estimated to generate as many emissions as three passenger vehicles. And according to PwC Canada's 2020 Consumer Insights Survey Canadians want climate action, with 49 percent saying business is accountable for the emissions their vehicles produce. So to cut their carbon foot print, delivery services & freight companies are adopting more environmentally-friendly methodologies, incl. electric vehicles, cargo bikes & using off-peak hours to avoid congestion. And while online shoppers can lower their online shopping's carbon foot print, this effect is eroded when they demand fast delivery options such as air transport.

In addition, on average 30% of all online purchases are 'returned to sender', creating more pollution. A friend of mine recently had an interesting experience with this'; wanting to return something he had purchased on line, upon contacting the company he was told "Just keep it and we'll credit you; that's easier." And a CBC program last October entitled Hidden Cameras and Secret Trackers Reveal Where Amazon Returns End Up found that "perfectly good items are being liquidated by the truck load ... or sent to the land fill ... and don't end up on the e-commerce's website for resale ..." ¹¹.

And I learnt a lesson in this respect a decade ago when I visited my No. 1 daughter & No. 3 grandson who at the time were living in Renfrew ON, an old town of 8,000 in the Ottawa River Valley. A few years earlier a developer had built a shopping centre strip along the highway outside the town limits which included box stores like Wal-Mart, Superstore & Canadian Tire. At the time I was shopping for Christmas & was in the Main Street haberdashery looking for a jacket for my No. 2 son. Out of curiosity I asked the owner (as I am wont to do since small business owners for me have long been 'leading economic indicators') "How's business and how did those new megastores on the highway affect it?" Somewhat to my surprise his response was "It did for a while but customers have come back. For here they can get something they cannot get at Wal-Mart, like getting my opinion on whether a purchase they are considering is good value or looks well on them." And in the years ahead, as money gets scarcer, optimizing the cost of our 'wants' will become more of a consideration, and zeroing, rather than just reducing, the rate of growth of our carbon

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foot print growth will become society's 'Leit Motiv'. So I expect that within ten-, if not five-, years, the online shopping industry will be in serious decline, if not actually outlawed. And it likely is relevant in this context that Amazon's Jeff Bezos has been a persistent seller of Amazon stock for the past decade and on several occasions in the recent years has warned people "One day Amazon will go bankrupt"