Insights and Observations: Third Quarter 2020

Pew Research Center, after polling nearly 15,000 residents worldwide, found 73% on average see China in an unfavorable light … China's worst score since the survey began. The survey also found 78% of respondents had little or no confidence in President Xi Jinping.

The coronavirus pandemic has turned China as a faraway idea into a real topic in people's lives.

Francois Godement, Institut Montaigne – WSJ 10/6/20

The number of people who are "acutely food insecure" has doubled to 270 million during the pandemic, according to the United Nations World Food Programme. Food aid is expected to be at a record high, reaching nearly 140 million people with food and cash assistance.

We have hunger going up, we have poverty going up, we have unemployment going up, we have income going down, and we have prices going up. All of this put together means that lots and lots of people in this world can no longer afford a decent meal.

Arif Husain, UN World Food Programme – WSJ 10/6/20

Children below the age of 2 are of particular concern, since malnutrition can impair brain development and ultimately their earning ability as they get older.

That then perpetuates this whole cycle of poverty.

Ann Veneman, UN Children's Fund – WSJ 10/6/20

According to the Labor Department, workers with bachelor's degrees have recovered most of the jobs lost in the early days of the pandemic. Those with high school diplomas held 11.7% fewer jobs, while high-school dropouts had 18.3% fewer jobs. Those last two groups account for 27% of the workforce, but they have shouldered 40% of the jobs lost during the pandemic.

Evercore ISI estimates that nearly 27% fewer people were employed in jobs paying less than $16 per hour. Feeding America, which runs 200 food banks, says that 17 million more people now lack consistent access to enough food compared to last year … about a 50% increase.

A two-track recovery is emerging from the country's pandemic-driven economic contraction. Some workers, companies and regions show signs of coming out fine or even stronger. The rest are mired in a deep decline with an uncertain path ahead.

Morath/Francis/Baer – WSJ 10/5/20

The pandemic has forced about 100 million more people into extreme poverty, according to the World Bank's biennial estimates of global poverty. This marks the end of a two decades-long streak of declines in the extremely impoverished … defined as those living on less than $1.90 a day, or about $700 annually. Currently, about 700 million people are in extreme poverty.

> **This is the worst setback that we've witnessed in a generation.**
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> **Carolina Sanchez-Paramo, World Bank's Poverty and Equity Global Practice – WSJ 10/7/20**

Interest rates are at rock-bottom levels, and the Fed has told us that rates aren't going up anytime soon. In fact, real yields … what you are left with after adjusting for inflation … are negative. Investors debating the purchase of a 10-year U.S. Treasury Note, for example, should expect to lose annually (after factoring in inflation) about $1 dollar for every $100 invested.

> **The risks of much higher inflation and alternatively, of deflation, are both greater than in the past. That is partly why the classic balanced portfolio is unlikely to function well for a long time, so investors need different solutions.**
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> **Christian Mueller-Glissmann, Goldman Sachs – WSJ 10/5/20**

Core bonds generally have been used to reduce volatility, while generating returns that outpace inflation. PIMCO believes that even with rates this low, the defining features of core bonds – diversification and return potential – will continue to be important elements of a well-balanced portfolio.

Even with interest rates somewhat range-bound at lower levels …rates could still go lower in a negative growth scenario when equities and risk assets underperform.

Mather/Sinha, PIMCO – Advisor Perspectives 9/11/20

Looking ahead, investors will probably want to incorporate the strategies and concerns of both PIMCO and Goldman Sachs. This can be accomplished by trimming back on core bond exposures and utilizing some alternative strategies to better position portfolios for what potentially could be a more challenging investment environment.

Global population is expected to peak in 2064 at 9.7 billion, before declining to 8.8 billion by 2100. New research suggests that as many as 23 countries (including Japan and Spain) will see their 2017 population cut in half by 2100. The populations of another 34 countries could decline by 25-50% … most notably, an anticipated 48% drop by China.

Sub-Saharan Africa will see considerable population growth. Nigeria's population, for example, is expected to grow nearly fourfold. Even with a declining fertility rate, the U.S. is still expected to see some growth … thanks to immigration.

A much higher proportion of the world's people will be of African origin, compared to people of European, American, or East or South Asian origin. And, as a result of migration, many societies will be much more heterogeneous in origin, language, religion, customs, and expectations. However many of us there turn out to be, we will have to learn to live together peacefully, or we will not live at all.

Joel E. Cohen, Professor of Populations at The Rockefeller and Columbia Universities – Project Syndicate 8/13/20

China's GDP grew from 11% of U.S. GDP in 1997 to 63% today. Their labor force, however, is in decline and is expected to lose 174 million workers by midcentury. In contrast, the U.S. should be the beneficiary of steady immigration-driven growth.

The Chinese population over 65 should double by 2050 to nearly 400 million. Many will need some form of public housing or other assistance.

China's next 20 years are unlikely to repeat its past 20 … A heretofore young, productive and risk-taking China budgets for essentially no social safety net. Successive generations of only children – as early as 1990, four-fifths of Shanghainese children had no siblings – have upended the traditional family model of caring for the elderly. And selection of boys during the era of the one-child policy means that now the country has a shortage of women. That doesn't amount to a no-child policy, but it may produce a no-child result.

George P. Shultz, Hoover Institute (and former U.S. Secretary of State/Treasury Secretary) – WSJ 8/26/20

The world economy has become heavily dependent on constant government help. Easy credit and sizable bailouts are being used to soften every crisis and boost growth in good times. Easy credit helps fuel the rise of giant firms and keeps heavily indebted businesses alive at the expense of newer startups. The end result … low productivity.

Zombie companies basically do not earn enough profit to cover the interest payments on their debt. In 1980, only 2% of publicly traded companies were considered zombies … more recently, that description fits 19% (amazingly, that's not a typo) of U.S. listed companies

Another result … growing debt. The world's debts – households, governments and nonfinancial companies – have more than tripled between 1980 and 2007 to more than three times the size of the global economy. By the end of 2019, the world's total debt burden stood at a record 320% of global GDP.

Our growing intolerance for economic risk and loss is undermining the natural resilience of capitalism and now threatens its very survival.

At the same time, easy money has juiced up the value of stocks, bonds and other financial assets, which benefits mainly the rich, inflaming social resentment and growing inequalities in income and wealth. It should not be surprising that millennials and Gen Z are growing disillusioned with this distorted form of capitalism and say that they prefer socialism. The irony is that the rising culture of government dependence is, in fact, a form of socialism – for the rich and powerful.

The idea of government as the balm for all crises is appealing in the short term, but it ignores the unintended consequences.

For all their good intentions, they (our politicians) will continue to feed the dysfunction that is alienating younger generations and deforming capitalism.

Ruchir Sharma, Morgan Stanley's Chief Global Strategist – WSJ 7/24/20

Research links kindness to considerable physical and emotional benefits. When people are kind, they're generally less depressed, less lonely and happier … they have better cardiovascular health and live longer.

Our attention isn't something that is infinitely expansive. What we are feeling at any given moment is related to what we are doing, so if we are behaving kindly, that experience will occupy our emotion.

Emiliana Simon-Thomas, University of California – WSJ 8/11/20

Being kind can bring purpose and meaning to life by allowing us to put our values into practice … and it diminishes our negative thoughts.

The key to our success is not the survival of the fittest. It's survival of the friendliest.

Jamil Zaki, Stanford University – WSJ 8/11/20

According to an August survey of individuals between the ages of 50 – 64 by Edward Jones/Age Wave, confidence about having enough saved for retirement has fallen to 48% from 65% before the pandemic. A financial-wellness survey released in July from Prudential Financial found that almost a third of small-business owners and 8% of baby boomers said their household income had fallen by half or more during the pandemic.

In addition, a Willis Towers Watson survey of 543 employers found that 15% had either suspended or cut matching 401k contributions … and another 10% of employers were considering doing so.

For near-retirees, the Covid-19 recession marks the second major setback in little more than a decade – and this one strikes as many are hitting peak earnings and savings years. Now, they find themselves grappling with ways to preserve their retirement security – with fewer years to bounce back.

Reshma Kapadia – Barron's 9/8/20

Our insights and observations have highlighted the many challenges of our coronavirus world … including job losses, growing poverty levels, and food shortages. Fiscal and monetary stimulus has helped ease some of the short-term pain, but higher debt levels along with an aging demographic have amplified longer-term anxieties.

For people working to secure their financial futures, the backdrop of high asset values and historically low interest rates has further complicated their prospects for a comfortable retirement. As always, let us know if we can be of any help.

Daniel G. Corrigan, CPA/PFS, CFP®