PALUMBO WEALTH MANAGEMENT
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PWM Weekly Observations

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Redefining Normal in 2021

The pandemic had barely begun when speculation began about how this pandemic would change our world on a more permanent basis. That speculation has been non-stop ever since, but with the first two vaccines approved and now being administered, the bulk of the pandemic is hopefully in the rear-view mirror. This seems like an appropriate time to revisit these thoughts and consider them more carefully.

We would summarize the consensus view of how COVID affects us in the future as follows:

> **Working from home:** Employees like it and eliminating or reducing the size of offices will save overhead. Conclusion: working from home is here to stay.
>
> **Virtual doctor visits:** A survey by the University of Michigan's National Poll on Healthy Aging (cosponsored by AARP) found that only 4% of people over 50 had seen a doctor virtually in 2019. It is now commonplace. Conclusion: Virtual doctor visits are here to stay for routine care.
>
> **Shopping for groceries:** On-line shopping had already taken a strong hold for many items, but adoption for groceries was slow, until the pandemic. Conclusion: On-line grocery shopping is a here to stay.
>
> **Traveling by air (or cruise ship):** Will we ever get back on Planes for business and/or pleasure? Most think no. Conclusion: a combination of fear and technology (Zoom meetings) will limit any recovery in business and pleasure travel.
>
> **Wearing face masks:** Something that is generally acceptable in Asia could become more common. Conclusion: This will become more common, but probably not broadly practiced.
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> **Riding public transportation:** Will we refuse to get on the crowded subway car or a bus or even Uber? Riding public transportation will come back somewhat by necessity as there is no other reasonable way to get around for many people. This one is substantially dependent on how much we continue to work remotely.

Whatever the topic, the thoughts have been fairly consistent. But as we thought about all these things, we wondered how the world adjusted to other disruptive events. Many of us here are old enough to recall how air travel would 'never be the same' after the 9/11 attacks. In retrospect, air travel not only recovered fully, but eventually, continued to grow. We only found one article on the subject that cared to look at past experience and that was from an unlikely source: Morningstar.

Morningstar took an unusual approach to the subject viewing the subject from the perspective of Habits, Fear and Sunk Costs and extended that analysis to other events, including food rationing in WWII, women in the workforce during WWII, the 1970's oil price shock, 9/11 and air travel and recent pandemic experience. The full article *"What History Can Teach Us About the Post-COVID Economy"* can be found in the **What' We're Reading** section below.

We found this story useful as it allowed us to think about this issue in a different way and our conclusion is that many of the 'permanent' changes envisioned by prognosticators are unlikely to be so. We think a key difference in assessing the post COVID future is whether a trend was already in place when the pandemic hit or whether it was new. In general, we think that exiting trends will be accelerated by COVID, but 'new' trends, are more susceptible to being reversed.

Online Shopping

The on-line shopping trend was well underway when the pandemic hit and was accelerated by the pandemic. Older, more at-risk individuals that were not using, or barely using, on-line shopping, now had ample reason to adopt the technology, and have had the time to become more comfortable with the technology. We see this as a trend that is unlikely to reverse.

Travel

After a year-plus of pandemic, we will be anxious to get away and the vaccine allows that to happen safely. As a result, we would expect consumer travel to recover quickly. Business travel could recover more slowly, but in the long-run, ZOOM is not a replacement for face-to-face client contact. Once one company sends its salesforce on the road making personal visits, the rest will follow in order to remain competitive. We think travel recovers fully.

Remote Workplace

The acceptance of working remotely was new to the pandemic and while much has been made of how much people like working from home, we don't find this surprising. We also think it is logical that productivity did not suffer during the pandemic. There was little else to do over the last 6-8 months and the result is that many people actually worked more rather than less. We don't expect that to continue. Teams that work well now, tend to grow apart over time. There are always periodic additions and deletions from teams and new members have no foundation with the team. Networking in offices is instrumental to younger employees growing within an organization. We strongly suspect that once vaccinated, and the freedom to safely move about returns, at-home productivity will decline and this will trigger a return to offices. However, what we do envision, is a much greater acceptability to occasionally work from home, for those days when the kids are sick, the washer needs to be repaired, etc.

Office Space and Population Flows

If our belief in the remote workplace is accurate, the flow of population out of cities will likely reverse over time. Early movers back into cities will experience more affordable rents and the convenience of the city. A return to offices will support a re-birth of small businesses that serve that market. Thus, commercial real estate in cities, while currently comatose, is unlikely to die. The thousands of small businesses that support city life and the city workplace will also recover, albeit many with different ownership.

Retail Disruption

On the retail side of real estate, we see the potential for major disruption. The on-line trend was already well established and the pandemic appears to have accelerated that trend rather dramatically, as the use of on-line shopping now supports a much wider range of goods and many late adopters are now full converts. Once the convenience is realized, it is hard to go back.

The acceleration of on-line retail is a more permanent change in our view and that places enormous pressure on local brick and mortar retail that was already having a difficult time competing with on-line outlets. The logical implication is a growing list of permanent closings and empty 'Main St' store fronts.

That could create a massive excess of retail space. Empty stores that can't find tenants won't continue to pay real estate taxes for long. We expect this to be the major challenge for local governments that are reliant on property taxes (less so if they rely on sales tax). Long Island was probably 'over-retailed' before the pandemic, and this should make the situation worse. We would expect an acceleration of redevelopment projects of retail space to mixed or completely different uses, especially local strip malls but including some major malls too.

Municipal Finances

Government finances have been an issue in the pandemic and some help is expected to be on the way in the form of more stimulus, but that would only address the direct pandemic impact. How government responds in the long-term still hangs in the balance. It will take visionary local government to navigate this difficult path, something that has historically been in short supply.

Although we see no current threat now, a poor governmental response could lead to increased risk in municipal bonds over time. That is not a condemnation of municipal bonds, but we expect bond selection will become increasingly important and analysis of the quality and vision of municipal management will increase in importance. As a result, we see passive muni bond investing as unlikely to be the preferred vehicle for municipal bond investments.

Is The 2021 Recovery Fully Discounted?

The Up and Down Wall St. column in this week's Barron's (All the Good News Is Already Baked Into Stocks. How to Stay Safe.) written by associate editor, Randall Forsyth, was particularly interesting this week. Rather than summarize the entire story, we'd thought we'd provide some of the more interesting quotes and provide some side commentary.

> "After this annus horribilis, it's almost impossible not to expect a better year ahead. Strategists forecast equity returns around 10% for 2021, as our annual survey of predictions indicates. In most years, however, the median call is for such returns, given that few seers will stray very far from the consensus. As John Maynard Keynes observed, "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."

The PWM team has many years of experience on the institutional side of Wall St. and our wisdom confirms Keynes observation. Polls like this are more inclined to produce projections that are near consensus. There is no penalty of being wrong if you are part of the consensus opinion. It's the best and easiest way to keep your job! We always take these survey projections with a large grain of salt.

> "Yet in a pithy Morning Porridge daily note, Bill Blain, a banker at Shard Capital in London, offers this take on the obligatory forecasts: 'Basically, the message is: To make returns next year, just join the never-ending stock-market upside. While rates will remain low in the long term, money flowing into stocks will ensure that they trade up on ever higher multiples. To generate returns, I have to take increasing risk—that feels like a massive trap!'"

The ‘Don’t fight the FED’ mantra has a long history of success, but this time we are taking it to such extremes, that in the long run it is difficult to envision how the FED reverses its largesse and returns to what used to be called normal. Ultimately, that is indeed a trap.

> “… the professional fund managers responding to Bank of America’s latest survey appear to be all in, or nearly so. Cash holdings were down to 4%, the lowest level of 2020 and the first time the respondents were underweight cash since May 2013.”

> “While the pros have been moving out on the risk spectrum to produce returns (and preserve their employment), the amateurs have gone full tilt into trading for fun and, in this bull market, presumably profit. Individual investors’ trading of single stocks and options has gone parabolic, Jim Bianco of Bianco Research points out. They are purchasing shares directly, as opposed to taking diversified positions in exchange-traded funds, and making leveraged bets in options.”

In general, bull markets don’t turn into bears until they have pulled in all of the skeptics and they can produce the most pain. It appears we are on the correct trajectory for that to happen again.

> “Deutsche Bank’s recent survey of investors found what its head strategist Jim Reid called possibly “the biggest consensus in history,” favoring U.S. equities, followed closely by emerging-market stocks.”

The survey also identified the three biggest risks the respondent’s see, which are 1) Virus Mutation into a form that makes the vaccines ineffective; 2) Serious side effects emerging, and 3) a substantial number of people refusing the vaccine. Forsyth’s conclusion?

> “That doesn’t imply widespread worries that the Covid-19 vaccines will fail. But it suggests that the markets already have largely discounted their success and the much-anticipated second half recovery. So investments that depart from the bullish consensus and offer yield might be worth considering.”

Well said.

What We're Reading

- What History Can Teach Us About the Post-COVID Economy
- U.S. Employers Can Require You to Take the COVID-19 Vaccine: EEOC
- Let Them Eat Cake: Congress Passes a $900 Billion Stimulus Package, Billions in Pork
- Trump leaves Congress with holiday cliffhanger on COVID-19 stimulus bill
- Fed Backstop Masks Rising Risks in America’s Corporate Debt Market
- Apple Targets Car Production by 2024 and yes 'Next Level' Battery Technology
- Midtown Is Still Empty, and Landlords Are Sounding the Alarm
- Robots Encourage Risk-Taking Behavior in People
- Brexit: What you need to know about the UK leaving the EU
- Republicans block higher stimulus cheques in Congress

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Markets This Week

It was a mixed week for the major stock indexes as most hardly budged, but small caps led the way for the week. The dichotomy in the market is clear in the sector data with only a couple performing well, but largely offsetting the declines in other sectors. Energy was again the big laggard. Bonds generally rallied for the week with long term Treasuries leading the way as the yield curve flattened.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	-0.05%	16.79%	20+ Yr. Treasuries (TLT)	0.64%	17.85%	Consumer Disc. (XLY)	-1.13%	27.29%
Dow (DIA)	0.04%	8.24%	Barclays US Aggregate (AGG)	0.17%	7.29%	Info. Technology (XLK)	0.87%	42.56%
NASDAQ (QQQ)	0.03%	46.44%	Intermediate Municipal (MUB)	0.22%	5.10%	Financials (XLF)	2.15%	-3.50%
Russell 1000 Growth (IWF)	0.20%	36.96%	US Corporate Bonds (LQD)	0.44%	10.68%	Health Care (XLV)	-0.95%	11.33%
Russell 1000 Value (IWD)	-0.04%	1.50%	Barclays US High Yield (HYG)	0.43%	4.16%	Utilities (XLU)	-0.91%	-1.88%
Vanguard Mid-Cap (VO)	-0.45%	17.75%				Industrials (XLI)	-0.53%	10.22%
Vanguard Small-Cap (VB)	1.06%	19.39%				Energy (XLE)	-1.95%	-32.28%
						Materials (XLB)	-0.38%	19.12%
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	-0.96%	8.91%
MSCI EAFE (EFA)	-0.43%	6.71%	Commodities (PDBC)	-0.98%	-8.57%	Comm. Services (XLC)	-1.10%	24.62%
MSCI Emerging (EEM)	-1.69%	13.54%	Gold (GLD)	-0.05%	23.41%	REITS (VNQ)	-1.24%	-7.28%
						Homebuilders (XHB)	0.13%	31.82%

The table above is an analysis of the weekly and year to date returns of various markets/sectors that we follow (More RED = worse performing markets/sectors; More GREEN = best performing markets/sectors). Source: IEX Trading & PWM Research.

Retirement Planning:

Retirement and Investing Lessons from My Grandfather

Little did he know that he taught me much more about investing and retirement planning than the training program at a major Wall Street bank early in my career.

Tax Planning:

Some teleworkers could be hit with surprise tax bills

A Harris Poll found that 55% of respondents who worked remotely this year aren't aware of the potential tax consequences of not changing their state tax withholding to reflect where they worked remotely.

Health:

Seven Surprisingly Valuable Assets for a Happy Retirement

If you want a long and fulfilling retirement, you need more than money.

Entrepreneur:

How to Improve Your Work-Life Balance

With fewer Americans commuting to workplaces during the coronavirus pandemic, many are using that time to work even more, leading some to feel burned out.

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