

Year of the Gripping Hand

By John Mauldin | January 9, 2021



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This week's letter is the first part of my 2021 forecast. There is simply too much to cover in one letter, and today we'll start with the most important factor, a known unknown, that I think will be the driver for 2021.

Before beginning, I want to make two points, one about my personal investment position and one about recent events.

First, when I read articles about myself, I'm usually called "bearish." I never know whether to be amused or mystified. If you looked at my portfolio, you would see I'm almost fully invested, not in gold and/or survival stocks but a full range of assets. I have fixed income and private credit and I also participate in the stock market, but through active traders.

Then there is a smaller portion of my portfolio that is what I call the "long humanity" portion. Typically, technology of one form or another, and I don't pay attention to volatility. I am long the "idea."

So I am not bearish at all. I am quite optimistic. I may be currently bearish about long-only index funds at today's unreasonably high valuations, and not terribly enthusiastic about bond funds at today's low yields, but my portfolio and thoughts are quite optimistic. I just choose to express my optimism in different portfolios than mainstream managers usually suggest. I am a full-cycle investor, and we have not reached the conclusion of this current cycle.

Second, on this week's events.

Thoughts from the Frontline is an economic/investment newsletter. I focus on larger macro themes. I try to not let my politics intrude, except when politics affects our portfolios and the economy, which is actually rare. The *sturm und drang* of the markets, as we certainly see now, tend to have their own rationale apart from politics.

As my friend David Bahnsen said, "Confusing what one WANTS to happen in POLITICS, with what WILL happen in MARKETS, is perhaps the most dangerous and avoidable mistake around. History can't be any clearer."

That being said, I know from my inbox and Twitter feed readers want to know what I think about the current events and their effect on the markets.

Frankly, I think the debacle we witnessed this week will have a major impact on the country's psyche and the way the world views us. I have been talking and writing for quite some time about Neil Howe's *The Fourth Turning*, George Friedman's *The Storm Before the Calm*, and most recently Peter Turchin's theories about societal dynamics and how societies tear themselves apart. I have my own concept of The Great Reset. I have long thought the 2020s will be tumultuous. What we are seeing may just be the beginning of woes.

It's hard to express the emotions I feel right now. From an economic and investment standpoint, which is the purview of this letter, recent events may be less significant than the impact of the incoming Biden administration. It is not yet clear to me how that will play out.

To really grasp that will require some time and thought. Shooting from the hip today would be a huge disservice to you, and disingenuous for me. Frankly, your portfolio should be invested in such a way that whatever the outcome you have the potential to maintain if not grow your investments.

I know that is not sufficient for many of you. My good friend George Friedman's first note simply said, "There are moments in history best grasped by silence. Silence is the best I can do now."

There are others who have more eloquently said what I feel and are more qualified to do so. Let me offer a few links that express some of the emotions I feel, even though I know they have inconsistent conclusions as to what should happen.

My country has been attacked, there is a deep political divide but at the same time we are still family who share the same country. We have been through such times before, with much loss and sorrow, but the Republic survives. I have no reason to think this time will be different.

But meanwhile, here are three perspectives that, in different ways, helped me process what is happening.

- Peggy Noonan, probably the greatest essayist of our generation, in [an elegant and passionate column](#) describes the need to bring justice to those who stormed the capital.
- George Friedman, a Hungarian immigrant who has been passionately involved in the American experiment for all of his adult life, tries to express his own emotions in his [latest essay](#).
- And finally, [Trump's Rebellion Against Reality](#) is Yuval Levin's historical analysis of the dysfunctions that brought us here.

I also think today's *Wall Street Journal* [lead editorial](#) is on target. When the *WSJ* editorial board calls for a sitting president to resign, no further comment is needed. It should give you reason to pause and reflect.

I don't know about you, but I find myself running the gamut of emotions then trying to take a deep breath and reflect. Each of the above expresses some of what I feel.

Now, on to my forecast for a Year of the Gripping Hand.

One reason humans love to divide everything in half is the two-handed design of our bodies. Thinking in pairs is a simple, intuitive mental shortcut. Harry Truman famously asked for a one-handed economist so he could stop hearing, "On the one hand, but then on the other hand..." But what if we had three hands?

That's exactly the kind of strange scenario science fiction writers love. Larry Niven and Jerry Pournelle related one in their 1974 book *The Mote in God's Eye*. The story features an alien species with three arms—two "normal" hands and a stronger, but less dexterous one called the "gripping hand." So when humans might describe a question as "On the one hand/on the other hand," these aliens would add a third alternative, "On the gripping hand." The strong gripping hand was their most powerful alternative.

That seems simple but it opens up a profoundly different thought process, one the authors explored in a later sequel, *The Gripping Hand*. Today I will do the same in a smaller way. Every January I give you my yearly forecast, but this time two hands simply can't capture the nature of the forces we face.

On one hand, we have some extraordinarily good reasons for optimism. On the other hand are several potentially severe problems. On the far stronger gripping hand, we have the coronavirus that last year overwhelmed everything else. And could do so again, if we let it.

Reasons for Hope

We'll start with the good news. There's plenty of it out there, but I'll focus on four key points.

First, we now have weapons against the virus. The US has two approved vaccines. England, China and Russia have developed their own vaccines. Additional options are under development, and will likely be available later this year. These will be game changers if we manage to deploy them widely and quickly. Which, I admit, is a big "if."

The initial rollout has been slow almost everywhere. (Israel and surprisingly West Virginia being impressive exceptions. West Virginia was the one state that did not use the federal nursing home rollout plan. They ran their own process, showing how this is really a state-by-state problem.) But I think the logistical issues will get solved and people will gain confidence as side effects prove minimal.

Moreover, we will see improvement long before the "herd immunity" threshold. Protecting the most vulnerable groups will reduce pressure on hospitals and hopefully let governments lighten business restrictions. I don't expect anything like normalcy until the second half of the year, at the earliest, but we should feel a difference sooner.

Second, the recently passed fiscal package will give some relief to unemployed workers and small businesses. The process was late-night political sausage-making at its worst. It took way too long. I dislike some of it but had the bill not passed, I think we would certainly be looking at a double-dip recession in early 2021.

With the Democrats controlling the Senate, we will probably see more cash payments, at least an increase to the \$2,000 many wanted (adding to the \$600 that passed). It will aggravate an already high national debt but should also boost consumer spending, as we saw with similar payments last year. And, if the vaccines do their part, this time people will be more inclined to spend it in the hard-hit restaurant, entertainment, and travel sectors. We are also likely to see a major infrastructure bill as well as additional stimulus. Again, this will blow apart any thought of budget restraint. Sigh.

Third, 2020 was (of necessity) a year of massive innovation throughout the economy. Businesses forced into an "adapt or die" position worked hard to adapt. A disturbingly high number didn't make it but many did, finding creative ways to operate under new constraints. Those investments having been made, we can now begin to reap the benefits.

I talked with Richard Fisher this week, former president of the Dallas Fed, who is on the PepsiCo board. He noted that under the urgency of COVID-19, consumer goods companies like PEP have accelerated innovation, productivity, and brand positioning over the past nine months that would otherwise have taken five or more years.

It is not just consumer goods companies. An enormous amount of innovation has been pulled forward in a wide variety of businesses and industries. Hundreds of teams of brilliant scientists singularly focused on one problem. The incredible discoveries they are making and the knowledge that they have developed will be applied in scores of different fields.

We would be in a far worse position right now if not for the hard work of millions, everyone from healthcare professionals to farmers, warehouse and delivery workers, store clerks, and others who risked their health to keep society going. Add to that list the scientists and entrepreneurs who developed the vaccines that will get us out of this, and figured out how to do business in tough conditions.

Fourth, US trade policy should change for the better this year. President Trump's tariffs—one of his worst mistakes, in my view—won't disappear instantly but hopefully the Biden team will take a much more nuanced and focused approach and ditch the tariffs. They are attacks on American consumers, and specifically the Walmart nation.

The president-elect says, at least, he will continue taking a hard line against China's unfair practices. He should. But I think he will be more conscious of minimizing the collateral damage to our own nation, and will return the US to organizations like the WTO. This will be critical as we try to get the world economy back on its feet in 2021.

Note: I am an unapologetic proponent of true free trade. But I also recognize that we need to help workers that are caught in the crossfire. The benefits of free trade cannot accrue only to a portion of the country. They must be shared widely, even if that means government assistance for some workers for a period of time.

So those are some reasons to be hopeful about 2021. But remember, we have three hands.

Four Challenges

This year will bring challenges—some we may not yet foresee. But I can already identify at least four.

First, the pandemic is permanently changing certain parts of the economy. I'll start with the one most familiar to me: business travel. It came to a screeching halt last spring. Airlines, hotels, and so on since recovered a little but are nowhere near normal, nor are most profitable. They're just holding on.

The problem is their best customers have now learned how to do business with significantly less travel. I, for one, look forward to flying again, though I doubt that many of us will do as much as we did in the past. I don't see large conventions (that require months of planning and preparation) returning until late 2021, at best. And even beyond that, I bet they'll be smaller. This is bad news for that industry and entire cities, like Las Vegas, that depend on it.

Second, these changes will cascade through the economy. When a restaurant or hotel closes, its workers, suppliers, and landlord suffer, too. The impact on commercial real estate has barely started but I think will be gigantic. The post-pandemic economy will need fewer shopping malls, retail strip centers, hotels, and office buildings. At the same time, we'll see higher demand for warehouses and shipping infrastructure. It will all sort out but will take time. And there will be losers.

As for housing, close to 40% of rental homes and apartments in this country are owned by small investors who now have difficult choices. Are they better off working with distressed tenants, particularly when stable tenants are in short supply? As I've repeatedly said, the world, and by that I mean almost everything, is going to be repriced.

Third, after almost a year of radical, unprecedented Federal Reserve action, it's not clear whether we actually have functional capital markets anymore. The bond market, at least, is totally at the Fed's mercy. Their purchases of Treasury bonds and corporate bond ETFs have let the government and large companies borrow huge amounts on some of the best terms in recorded history. This cash isn't necessarily being used productively, though, which is going to be a big problem at some point.

Further, the Fed is making the wealth and income disparity divide even worse. Their financial repression is crushing savers, almost forcing retirees to choose riskier alternatives at precisely the time in their lives when they shouldn't be. And given today's valuations, this could have disastrous effects.

Fourth, a lot of fiscal and monetary aid found its way into the stock market, driving share prices far above any remotely fair valuation. As I've said, these manias can continue longer than we expect, but eventually something triggers a collapse. We have multiple plausible candidates, too, not least of which is the prospect of higher corporate tax rates. Biden and the Democrats basically want to reverse the 2017 tax cuts. If they succeed, it's fair to expect some of the market gains since then to reverse as well. That, in turn, could have a negative "wealth effect" by making investors save their cash instead of using it to buy stocks. This would remove some of the market's fuel and put even more downward pressure on prices.

So we've looked at one hand and the other. Which brings us to...

The Gripping Hand

That alien species with the third limb doesn't have three equivalent hands. One of them is far stronger than the others. They call it the gripping hand.

In 2021, the gripping hand is the virus. It can sweep away every other concern and take control any time it wants—though that's probably the wrong word. Viruses don't have "wants." They have no feelings, they don't want to make money, they don't respond to insults or threats. They just spread until something stops them. Viruses gonna virus.

Now we have the beginnings of what we need: vaccines to deprive the virus of new hosts. If enough of us get vaccinated, it will have nowhere to go and recede to manageable levels. That's probably this year's most critical economic variable. The global economy will recover in direct proportion to our success in vaccinating people.

This is where the news is problematic. Bluntly, potential production of the vaccines approved so far is nowhere near enough to cover the most vulnerable in the US and Europe by the end of the third quarter, let alone emerging markets. This is sadly realistic math.

We desperately need the vaccine Johnson & Johnson is developing, with their enormous potential production capacity. We also need additional new vaccines. Without a great deal of new production, 2020's lockdowns and restricted economic environment may continue long into 2021. The 100,000 small businesses we have lost? More may follow.

The World Bank's [annual forecast](#) was very plain about this. They have four scenarios in which global growth ranges from 5% this year on the upside, to an unspecified below-zero number in their "severe downside" scenario. The primary difference between these scenarios is vaccine progress. If it goes well we could bounce back quickly and strongly. If not, we will stay in recession. That's the gripping hand and it really isn't complicated. And it's why investors and business people ought to be very concerned about the slow start, though fortunately it is improving somewhat. We don't have weeks to waste here.

Just to make matters more interesting, the virus is not waiting for us to get our act together. New variants are emerging that seem to spread faster. They may slow down progress when, as noted, time is not on our side, economically speaking.

What do I think, you ask? Longtime readers may remember I last used this gripping hand analogy 15 years ago in my 2006 forecast. That year turned out okay, but some of the issues I mentioned worsened considerably in the years that followed.

Timing is hard. A month ago, I was fairly optimistic. Even two weeks ago I was glad to see the new fiscal package pass, thinking it would at least keep GDP positive in the first quarter. Now, I really don't know.

On the one hand I'm confident. On the other hand, I'm cautious. But the gripping hand is strongest. It could go either way.

We will get into more specifics in the next two issues. Stay tuned...

Resolutions, Unstoppable Progress, and Whigs

I generally resist making New Year's resolutions. I am not very good at them. But this year I really need to focus my resolve. There are things that must be done.

First, I have to finish my book. Things keep changing and my thought processes evolve. In engineering terms, I need to "lock it down," get the product out and make changes to the next edition.

Second, I am noticing a serious difference in the way I consume information that is impacting my personal thought. I have access to an enormous amount of information, for which I am grateful. But the number of "serious" books I read is down significantly from a decade ago. Books tend to go deep on a single idea, giving you greater understanding of the topic. I resolve to read at least two serious books a month. In addition to my usual recreational reading.

And of course, this year I really mean to get in better shape and down to 185 pounds or less. More outdoor activities with friends.

I have been on a number of calls in the past few weeks focused on new technologies. It is hard not to be optimistic. One amazing new technology could double the production of proteins from chicken and eggs with no additional cost. A new prostate cancer urine test will not only tell if you have prostate cancer, but show its stage with some precision. It would replace many cancer biopsies.

The agricultural world is getting ready to go through a revolution. Non-GMO crops will proliferate with fabulous traits using revolutionary new processes. Cheaper, less need for pesticides and disease control, less need for fertilizer and more nutritious. I hear many such things weekly. How can you not be optimistic about humanity's future?

I had a long talk with Neil Howe Wednesday night. We generally start intending to go 30 minutes and two hours later we hang up. We came to several interesting thoughts, but I will share one: The times in which we are living in the US are historically most analogous to the 1850s and the dissolution of the Whigs. They had a different set of tensions, but a clear trend towards new political and regional coalitions nonetheless. One of the serious books I read this year will be on that period.

And speaking of serious reading, let me suggest, if you're not already, that you subscribe to my friend George Friedman's *Geopolitical Futures*. You can [get his 2021 forecast and an annual subscription for a deeply discounted \\$49 with this link](#).

It is time to hit the send button. Let me end by wishing you the best of 2021, and expressing my thanks for your time and attention. This letter is now 21 years old, and I further resolve to make this the best year ever for my friends and readers. Have a great week and year. Like you, I am so ready to get my vaccine and again enjoy face-to-face time with friends. Perhaps I can one day meet with you. I would like that.

Your actually excited about the coming year analyst,



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