The nation has moved beyond the political chaos of the 2020 Presidential campaign. Some investors are concerned that the new administration could usher in harmful tax and regulatory changes. Indeed, the Biden agenda will curtail some growth opportunities. But for the time being, investors can look beyond politics and focus on opportunity.

For the next year or so, the economy will soar. The rollout of multiple vaccines assures the end of this pandemic. Workers can return to the office. People will resume social activities, travel, and entertainment. The entire economy… not just the technology sector… will begin to function again.

Long-Term Election Impact… A Partial Reversal of the Growth Agenda

The economic agenda of the Trump Administration rested on a 3-legged stool (deregulation, low corporate taxes, and trade protection) to make American business more competitive.

The Biden Administration will cut all three legs of the stool. But Biden will probably not cut them all the way down. President Biden has already started to impose new regulations. But he lacks the votes needed in Congress to impose the draconian regulation contemplated by the "Green New Deal."

President Biden will raise the corporate tax rate. Despite the slimmest of majorities, Biden can raise the tax rate via the budget reconciliation process. But the planned tax hike will reverse only half of Trump's tax cut.

Biden will also favor the globalist trade policies that predated Trump. He will roll back many of Trump's tariffs. However, he will leave the U.S.-Mexico-Canada Trade Agreement in place, which measurably improves America's trade competitiveness.

To curry favor with the unions, Biden signed a "Buy American" executive order. This order will make no measurable impact. It closes some loopholes in the existing "Buy American" requirements for federal government spending. It amounts to little more than window dressing.

Over time, with the partial rollback of the Trump policies, long-term growth potential will slide … perhaps below 2% per year…. About the same as during the Bush and Obama Administrations.

But for the time being, as the pandemic lockdowns ease, investors can look forward to explosive growth in 2021.

A Powerful Recovery

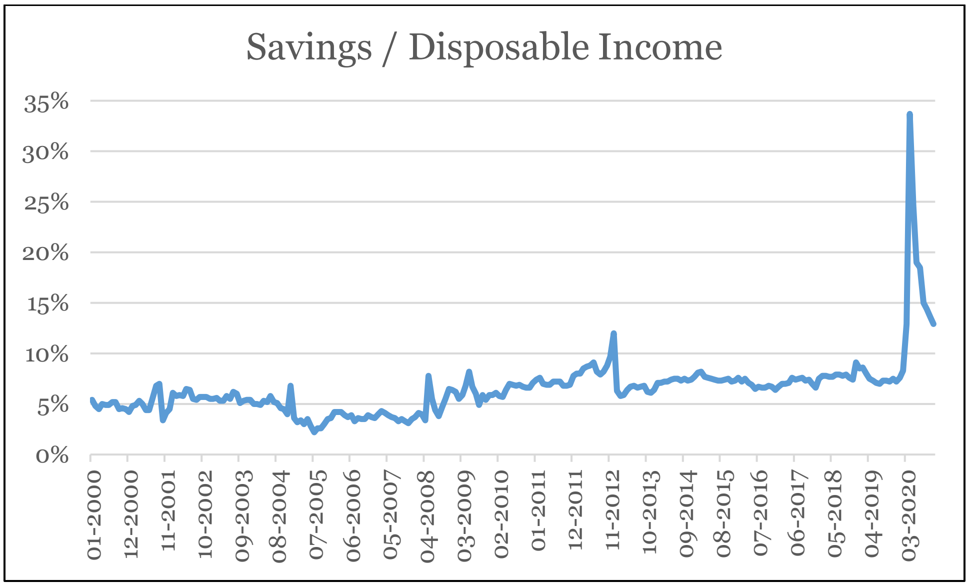
Despite high infection rates, blue-state officials are already starting to ease lockdown restrictions. As the vaccine distribution picks up, infection rates will collapse. This will unleash a massive boom in economic activity. The industries harmed by the pandemic (travel, commercial real estate, hospitality, etc.) will gain the most during the recovery. The technology sector will likely hold onto its pandemic-era gains, but it will lag the "real economy" in the near term.

Inflation

For the past five years, I argued that inflation would remain dormant for decades. A persistently high debt burden (following the 2008 mortgage crisis) has imposed a deflationary discipline on the private-sector economy. However, because of the pandemic (and the federal government response), that debt problem is easing... and lifting the deflationary pressure.

In 2020, the government gifted each citizen $1,800 in Economic Impact Payments. President Biden's stimulus bill will probably send another $1,400 or more to each citizen. In addition, the government massively expanded unemployment benefits. With consumption curtailed by the pandemic, many people have used the "government gift" to increase savings and pay down debt. Figure 1 shows the surge in savings.

Figure 1: Personal Savings Rate



Source: St. Louis Federal Reserve

The savings rate soared from 7.7% prior to the pandemic to an average 18.3% since.

To make matters even better, the Paycheck Protection Program (PPP) is giving a huge lift to small businesses. The PPP provided more than $525 billion in forgivable loans in 2020. The recent stimulus bill allocated another $284 billion in forgivable loans, which will be doled out in the next quarter.

Nearly 100% of the PPP loans will be forgiven. Overall, this program amounts to an $800 Billion in gift to small business.

To put that into perspective, the PPP gift equals about 10% annual small business output. It substantially improves the financial condition of small businesses. And it opens the door to a return of inflation.

How? Debt reduction creates room for future borrowing. It puts inflation on the launch pad. Nonetheless, before inflation can lift off, it will need fuel... and ignition.

The Fed has already supplied the fuel for inflation…via quantitative easing. All inflation needs now is a spark for ignition.

What will spark for an inflationary explosion? If people start to believe that inflation is a threat, they will borrow and spend… to get ahead of rising prices. This process has started to happen in the housing market. If it happens across the entire economy, inflation will soar, and the investment world will turn upside down.

Vigilante Investor will monitor the reduction in the debt burden and keep a lookout for inflationary sparks in the months ahead. Stay tuned.

The Economy and Markets

Table 1: Vigilante Investor Scorecard of Economic Conditions –as of 1/22/2021

Economic Condition and Score	Positive	Neutral	Negative
Growth 4 Contraction 2	US Non-Manf PMI 57.2 Global Comp PMI 52.7 US Productivity +4.4% US 2-10 Spread +0.97%		Fed Signal -1.7% US Real GDP -2.8%
Inflation 3 Deflation 1	Gold +16.3% YOY US Dollar -8.5% YOY US Wages +5.2% YOY	Gold / Euro +5.2% YOY Crude Oil +3.9% YOY	CPI +1.4% YOY
Positive $ 2 Negative $ 0	US-Ger2YRSpread +0.84% US-Ger10YRSpread+1.61%		

Sources: Tradingeconomics.com, St. Louis Fed, and Investing.com

The U.S. economy is recovering. Our strong growth score (4-to-2) indicates strength. The growth score will move to 6-to-0 (in favor of growth) after the upcoming release of 4th quarter GDP statistics. Never have I seen such a strong signal for economic growth.

The inflation score currently favors inflation by a 3-to-1 margin. Inflationary risks are indeed building.

Investment Strategy

The model portfolio below illustrates an investment strategy for the new political reality.

Before acting on suggestions contained herewith, I urge you to conduct your own investment research. Make informed investment decisions.

Table 2: The Vigilante Model Portfolio 01/25/2021

Sector	%	Selections	Symbol	Price (Jan 25)
5G	10%			
		Qualcomm Inc.	QCOM	$164.40
		Nokia Corp	NOK	$4.85
		Ciena Corp	CIEN	$55.00
Low-Tech America	40%			
ETFs		VG Small-Cap Value ETF	VBR	$151.27
		VG Mid-Cap Value ETF	VOE	$122.88
		VG (Large-Cap) Value ETF	VTV	$121.81
Steel		Cleveland Cliffs Inc.	CLF	$16.58
		Nucor Corp	NUE	$54.52
Financials		Citigroup Inc.	C	$60.56
		Prudential Financial	PRU	$81.96
Transportation		Dorian LPG Ltd.	LPG	$11.86
		Boeing Co	BA	$203.86
		Southwest Airlines	LUV	$45.62
		Ford Motor Company	F	$11.29
Energy		Diamondback Energy	FANG	$61.33
		Cabot Oil & Gas	COG	$18.69
		Plains All American Pipeln	PAA	$9.02
		Cameco Corp	CCJ	$12.73
Real Estate		Simon Property Group	SPG	$97.48
		Granite Point Mortgage	GPMT	$9.87
Entertainment		Walt Disney Company	DIS	$171.89
Agriculture		Mosaic Co	MOS	$28.67
International	20%	VG European Index	VGK	$61.58
		VG Pacific Index	VPL	$82.91
Emerging	15%	iShares Mexico ETF	EWW	$43.12
		iShares India ETF	INDA	$40.67
		VG Emerging Market Index	VWO	$54.27
Precious Metals	8%	Sandstorm Gold Ltd	SAND	$6.57
		Royal Gold Inc	RGLD	$104.74
		Wheaton Precious Metals	WPM	$40.31
		Silver Miners ETF	SIL	$42.00
Cash	7%	VG ST Corporate Bond ETF	VCSH	$83.12

Longtime readers of *Vigilante Investor* will note a big change. For the first time in 5 years, I allocate about half of the portfolio away from American stocks. Why? A policy shift in favor of globalization will favor European, Asian, and Emerging Market Stocks.

Also note that one of ETF selections, the Vanguard Emerging Market Index (VWO), holds a large position in Chinese stocks. China's crazy-high debt burden has scared me for years... and it still does. But for the immediate future, a return of globalization will likely prop up China's economy and stock market. So, I can tolerate modest exposure to China, for now.

But the more immediate (and more important) story for investors is the developing economic recovery. My large allocations to steel, financials, transports, energy, real estate, and entertainment all reflect anticipation of a powerful, post-Covid global recovery.

Additionally, the allocation to agriculture (fertilizer producer Mosaic) reflects the great fundamental condition of the grain markets. Due to a devastating flood, China suffered an epic crop failure in 2020. To rebuilt food stores, China ramped up grain imports. In short order, U.S. Corn and Soybean inventories plummeted to the lowest levels in 7 years. Grain prices, which have already soared, still have substantial room to rally. Therefore, farm income will jump… as will demand for fertilizer.

Buried in this long list of selections are a few favorites. I really like Dorian, Diamondback Energy, Plains All American Pipeline, Walt Disney, and Mosaic. All have the potential to double in the next year.

Precious Metal Review

Table 3: *Vigilante Investor* Precious Metal Scorecard[1] as of 1/22/2021

Precious Metal ETF	Price	Ratio	Hist Avg	Rating
GLD	175.39			
SLV	23.65	7.42	6.08	3
Stocks vs GLD	**Price**	**Model**	**vs. Model**	**Value Rating**
Sandstorm Gold	$6.87	$8.44	-1.57	1
Royal Gold (RGLD)	$107.91	$127.76	-19.85	2
Wheaton Precious Metals (WPM)	$40.97	$45.03	-4.06	2
Barrick Gold (ABX)	$23.83	$26.00	-2.17	3
Gold Miners ETF (GDX)	$36.04	$37.52	-1.48	3
Newcrest Mining (NCM)	$21.27	$22.63	-1.36	4
Yamana Gold (AUY)	$5.27	$5.49	-0.22	4
Jr. Gold Miners ETF (GDXJ)	$52.06	$52.24	-0.18	5
Newmont Mining (NEM)	$63.52	$61.41	2.11	6
Stocks vs SLV	**Price**	**Model**	**vs. Model**	**Value Rating**
Silver Miners ETF (SIL)	$43.84	$46.86	-3.02	3
Pan American Silver (PAAS)	$31.82	$33.71	-1.89	4
Hecla Mining (HL)	$5.59	$5.93	-0.34	4

My current allocation to precious metals, 8%, is slightly above the neutral allocation of 7.5%. If, in the future, the Fed welcomes rising inflation, I will increase the allocation for this sector.

Because stocks in this sector typically feature wild price swings, we look for opportunities to rotate our core holdings into the cheapest stocks in the sector.

Most of the stocks in Table 3 are trading cheap to the precious metals. Based on the relative valuation matrix in Table 3, we prefer holding positions in Sandstorm Gold, Royal Gold, Wheaton Precious Metals, and Silver Miners ETF.

[1] The Vigilante *Investor* Scorecard rates large and mid-sized miners, streaming companies, and ETFs. The cheapest securities have the lowest Value Ratings, color coded in green. Fair Value is yellow, and expensive stocks are red. The scorecard also rates SLV, the iShares Silver Trust, relative to gold bullion.

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Have a great quarter!

Steve Koomar

January 25, 2021

Disclosures

Publisher Steve Koomar will invest in the securities recommended by this publication.

Steve Koomar is a Senior Vice President for Pacific Income Advisers, a Registered Investment Adviser. In that capacity, he serves as CEO of PIA Farmland, a private REIT, and as portfolio manager for separately managed accounts that invest in farmland. The opinions expressed in Vigilante materials are the author's own and do not reflect the view of Pacific Income Advisers or PIA Farmland, both of whom have no role in Vigilante Publications.

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