

The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

1100 13th Street NW, Washington, DC 20005 • kiplinger.com • Vol. 97, No. 41

Dear Client:

Washington, Oct. 9, 2020

After a bruising year for the economy...

At least the holiday retail outlook is bright.

Many consumers are flush with cash

and looking to spend freely on gifts to compensate for all the forgone travel, dining and other splurges.

RETAIL

Online shopping will take another big leap:

Up a heady 28% this holiday season, compared with 2019...continuing the long trend of more gift purchases migrating to the internet.

Yet in-store sales are in for decent gains...

3% higher than last year, which is better than the modest 1.5% increase in 2019 from 2018.

Much of the cyber rush is about to happen.

Amazon's Prime Days are slated for Oct. 13-14,

after the online retail giant nixed its usual July event.

The two days of big sales for Prime members figure to lure many early holiday buyers...and, Amazon hopes, sign up a lot of new Prime users. Walmart, Target and other competitors will dangle similar deals.

Thanks to the juicy online promotions, about 10% of items that would normally sell on Cyber Monday

after Thanksgiving will probably get snapped up during these special Oct. events.

Another reason for early shopping: Carriers are adding delivery surcharges

to orders made after Thanksgiving, in anticipation of strained shipping capacity.

That gives large shippers like Amazon extra incentive to encourage folks to shop early.

When it comes to in-store retail, it'll be a case of feast or famine.

Big-box stores should do very well, thanks to their strong online presence and easy pickup options. (Buy online, pick up in store is more popular than ever in the COVID-19 era, since it makes ordering convenient and avoids delivery delays.)

Retailers in struggling shopping malls are in for a tough season. Many malls have lost their anchor tenants, such as JCPenney and Sears, as bankruptcies mount. Many once-popular chains, like J.Crew and Pier 1 Imports, have also gone dark.

COVID-19 means shoppers will be doing far less browsing than normal.

Folks who do visit stores will be looking to grab specific products and leave quickly.

That means less impact for product displays, making it more important than ever for small retailers to have an effective website and social media profile. It's estimated that 10% of orders made from shoppers' phones will be prompted by social media ads.

Some popular kids' gifts this season, both high-tech and low: Anything Lego. Roller skates (making a comeback). Nintendo's Switch game console. Star Wars toys. Hot Wheels. T-ball sets. Retro toys like Radio Flyer wagons and Hello Kitty dolls.

For adults: Fitbits and other fitness wearables. Noise-canceling headphones (great for teleworking). Lexon's phone sanitizing device...a hot seller amid COVID-19.

Economic Forecasts

GDP growth

NEW

29% in Q3, 3% in Q4;
whole year: -4% in '20, 4% in '21

Interest rates

NEW

10-year T-note rates staying below 1%;
mortgage rates slightly below 3.0%

Inflation

Prices 1.1% higher at end '20;
excluding food and energy, up 1.9%

Unemployment

Down to 7.5% by end '20; many
underemployed with reduced hours

Crude oil

Trading from \$35 to \$40 per barrel
this fall

Job gains

Averaging 550,000/month Oct.-Dec.,
330,000/month in 2021

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**U.S.
ECONOMY**
Uncle Sam is beginning to process PPP forgiveness applications.

The Paycheck Protection Program has made 5 million loans to small firms, worth a combined \$525 billion. It stopped taking new applications on Aug. 8, though the program still has over \$130 billion in undistributed funds.

Most borrowers are still waiting to apply for forgiveness. The SBA...

Small Business Admin...said the number of applications it's received for the aid amounts to just 2% of all PPP loans. Many banks have advised business borrowers to hold off on applying for forgiveness while lawmakers mull changes to the program.

There are several bills in Congress that would streamline the process.

All aim to simplify loan forgiveness for smalls and extend terms through year-end. Banks and small-business trade groups are especially supportive of provisions that would automatically forgive amounts under \$150,000, which account for 85% of the loans. The Trump administration supports such automatic forgiveness, too.

FINANCE
Companies are raising cash in the bond market at a record pace in 2020:
About \$1.7 trillion of investment-grade bonds through September...

up more than 60% from the same period in 2019...due partly to ultralow interest rates.

Issuance of high-yield bonds is also rising sharply as borrowers scramble

to refinance outstanding debt at longer maturities and lower interest rates.

Issuance will remain high in Oct. as companies lock in financing before the elections.

While corporate credit downgrades are slowing, credit quality could worsen

as many companies' earnings continue to suffer amid the fallout of the health crisis. Especially hard-hit borrowers such as airlines and cruise operators are being forced to pledge planes, ships and other assets as collateral in order to secure financing.

Financial regulators are warming up to cryptocurrencies. One agency

recently gave the go-ahead to national banks like Wells Fargo and JPMorgan Chase and federal savings associations in the U.S. to offer cryptocurrency custody services for customers. These institutions have long provided safekeeping for physical and digital assets. Now they can offer those services to cryptocurrency owners. The agency has also issued guidance to banks to help them handle digital currencies.

A cryptocurrency exchange will soon become the first to launch a bank.

San Francisco-based Kraken, one of the largest cryptocurrency exchanges, has received approval from Wyo. regulators to open a bank. A special bank charter will allow it to take deposits, operate payment systems, and store cryptocurrency for individuals, businesses and other entities. Look for it to open in early 2021.

**GLOBAL
ECONOMY**
The Brexit negotiations are taking a new twist as another barrier emerges.

Though Britain has formally left the European Union, it retains access to the EU's tariff-free common market while the two sides work on a long-term deal governing trade terms. However, the EU has already sued the U.K. for not adhering to the temporary agreement, and now the Conservative government in London is backing a law in Parliament that would let it further alter the transitional deal.

Without a new deal, Britain's tariff-free access to the EU expires on Jan. 1.

Both sides remain committed to avoiding that outcome, but the latest disagreements significantly raise the risk that the new year will arrive without a new free-trade deal.

The renewed uncertainty will likely slow down the U.K.'s economic recovery.
AG
More aid for U.S. farmers is on the way. The Trump administration

will provide an additional \$14 billion in assistance to farmers dealing with the negative economic effects of the COVID-19 pandemic. That's in addition to the \$19 billion in relief the Dept. of Agriculture supplied to farmers this spring.

Direct U.S. government payments to farmers will set a record this year.
That's one reason U.S. officials expect farm income to exceed \$100 billion.

But government payments account for nearly 40% of that, the most since 2001.



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FEDERAL SPENDING

Expect the House to make earmarks great again after nearly a decade of outlawing them. The practice of lawmakers inserting money for local or pet projects into spending legislation had fallen out of favor, thanks to a series of taxpayer-funded boondoggles that angered voters.

The push to revive the practice, with some restrictions, is bipartisan, with support from many party leaders and appropriators on both sides of the aisle.

Lawmakers say earmarks will help them reclaim the power of the purse after years of deferring to the executive branch on how federal money is spent.

They also promise greater transparency and a series of “guardrails” to prevent the waste, fraud and abuse that made earmarks a dirty word in D.C.

The GOP-controlled Senate has no plans to undo its earmark ban.

But the tide is shifting. Until recently, even Democratic leaders in the House were hesitant to revive earmarks, fearing political consequences.

CONGRESS

For many potentially vulnerable GOP senators up for reelection this year...

A fight over the Supreme Court could make or break their campaigns.

Sens. Lindsey Graham (SC), Thom Tillis (NC), Joni Ernst (IA) and John Cornyn (TX) all sit on the Judiciary Committee, which will soon hold hearings on the nomination of Amy Coney Barrett...President Trump's pick to be the high court's ninth justice.

On the one hand, it's an opportunity to shore up their conservative support.

On the other, it could also alienate swing voters and energize Democrats.

Expect Republicans to walk a fine line. Graham, the committee chairman, arguably has the most to gain. He faces an unexpectedly tough fight for reelection, at least in part because of his weak standing among conservative voters in S.C.

HEALTH CARE

The cost of gene sequencing continues to fall, with prices declining from nearly \$100 million per genome in 2001 to less than \$1,000 per genome today...a rate of improvement faster than Moore's law for computers.

The ability to quickly and cheaply decode a person's DNA holds great promise for health care, offering the possibility of more personalized medical treatment, tailored to a patient's unique genetic makeup. Also, more rapid virus response: The speed with which scientists sequenced the genome of COVID-19 earlier this year...in weeks, rather than months...is a testament to this growing genetic power.

The next big target: A \$100 genome, the point at which DNA sequencing will become widely accessible and affordable to a large swath of the population.

Experts say this milestone will probably be reached in less than a decade, maybe sooner. The Chinese firm BGI claims to have already invented a machine with this capability, though many are skeptical. Illumina, the current market leader in gene sequencing tech, also says it is on the cusp of breaking the \$100 barrier.

Keep an eye on Illumina's proposed \$8 billion acquisition of Grail.

It has the potential to shake up the \$100 billion cancer screening market.

Grail's technology is designed to detect early-stage cancer in a patient's bloodstream. What's more, the blood test can reportedly detect more than 50 types of cancer and identify its exact location in the body, with a false-positive rate of less than 1%.

The move will put Illumina at odds with many of its own customers, such as Guardant and Exact Sciences, also developing cancer detection tests.

And some experts say the benefits of early cancer detection are mixed.

One reason: Better cancer treatment has lessened the advantages of early detection, which can also have negative consequences, especially if patients are misdiagnosed.

Still, cancer is the second-leading cause of U.S. deaths, after heart disease.

It also costs the U.S. economy an estimated \$94 billion annually, per one study.

And demand for such cancer tests is expected to rise in the years to come.

TELECOM

Federal telecom regulators plan to free up a chunk of key airwaves for 5G that is well-suited, and much-needed, for both good coverage and capacity. The Federal Communications Comm. is already teeing up proposals for new rules for the 100 megahertz of spectrum that will be harnessed by wireless companies.

The Defense Dept. will have to give up spectrum it uses now for radar.

The airwaves are sparsely populated by DoD, so they're ripe to be put to better use. Plus, shifting to new airwaves for radar is needed to reduce looming global interference.

Though there are signs of progress, the Pentagon could slow things down.

It recently proposed building a nationwide 5G network for itself, using a portion of the airwaves for shared military and civilian use. That's likely to go nowhere.

Uncle Sam will likely help efforts to spur more vendors in the 5G market.

Expect federal dollars to fund equipment that uses a new open standard,

known as Open Radio Access Network. The FCC will likely nudge U.S. networks to replace \$1.8 billion of Chinese-made telecom equipment with ORAN technology. Any money that Congress doles out in coming years will come with similar nudges.

The vendors for the new open standards of radio gear: Intel, Nvidia, Dell,

Qualcomm, Hewlett Packard Enterprise, IBM, Cisco and VMware. Plus new entrants AltioStar, Mavenir and Parallel Wireless. ORAN will lead to new 5G vendors of chips, radio software, antennas, etc., helping the shift away from Chinese telecom options.

REMOTE
WORK

Businesses ignore the surge in costly ransomware attacks at their peril.

Every industry is a target for hackers seeking huge sums for encryption keys to access business data that criminals have locked up. It's not just Windows PCs that are hit. Apple, Linux and mobile devices have seen an onslaught of attacks.

Though law enforcement advises against it, many firms pay the ransom,

which now averages nearly \$180,000. Note that an advisory from the Treasury Dept. warns against paying certain foreign actors that are under U.S. economic sanctions.

The attacks will only increase. Hackers can buy a ransomware kit for \$250.

Worker info from human resources can go for up to \$100 a pop on the black market.

More-advanced webcams are gaining popularity with top-notch lighting,

4K video quality, beefed-up security, the ability to pan and zoom, and much more. One popular option: Logitech's Brio webcam, which costs \$199, works in low light, has 5X optical zoom, and uses facial recognition tech for signing on with Windows.

Companies will continue to buy webcams and headsets in bulk for workers.

Renting gadgets is on the rise, too. Zoom offers hardware rentals with upgrades every three years. A basic conference room camera setup runs about \$100 monthly.

DAYLIGHT
SAVING

There's a growing push to keep daylight saving time intact year-round.

Don't expect any changes in the next year or so, but momentum is building at the federal, state and local levels for an extra hour of afternoon sunlight in the winter.

Fla.'s two senators have proposed legislation to keep DST through Nov. 2021,

arguing that more late-day sunlight would benefit a nation coping with a pandemic.

Thirteen states in the past three years have endorsed year-round DST. But...

Year-round DST is barred by federal law, so the buck stops with Congress.

Yours very truly,

Knight/Kiplinger
THE KIPLINGER WASHINGTON EDITORS

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