

**CIO  
Viewpoint**

**US politics  
threaten  
recovery plans  
as Fed enhances  
mandate**

Investment Solutions

31 August 2020

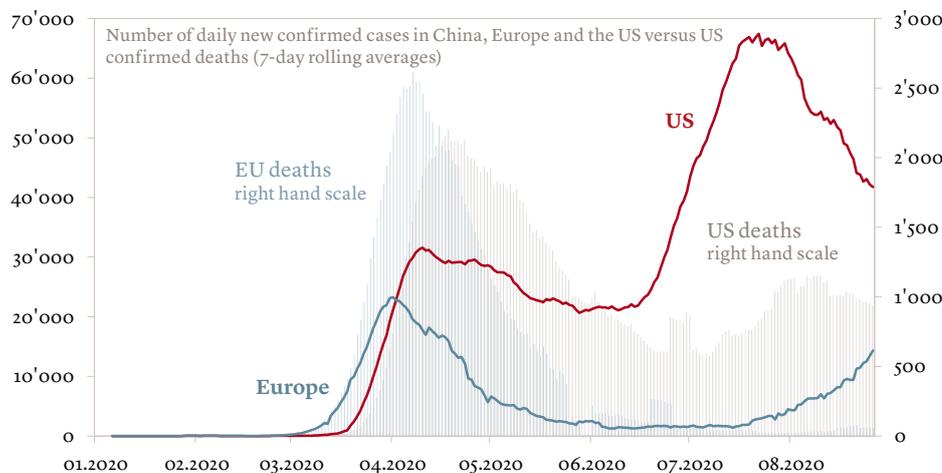
The US responded quickly to the initial phase of the pandemic with support for workers and firms. As these initial programmes expire, more spending is proving politically divisive ahead of the presidential elections. A policy misstep would have terrible consequences for the US recovery, and a knock-on impact for the rest of the world.

Worldwide the pandemic curve is declining. However, the best of the economic recovery is already behind us. Without a vaccine, the virus will continue circulating, preventing economies from fully reaching their pre-pandemic levels of activity. Infection rates in the US, while declining since early August, remain persistently high (see chart).

While every economy is feeling the effects, America's economy is especially suffering. The latest week of [data](#) in August saw another one million people file for first-time unemployment benefits. That adds up to 14.5 million jobless in the country, bringing the total number of Americans filing new unemployment claims at some point since 20 March this year to more than 58 million.

**Covid-19 cases not going away until a vaccine allows for broader reopening**

Virus remains generally under control and is less lethal; renewed full lockdowns unlikely; more targeted measures favoured



Source: Bloomberg, data as at 26.08.2020



Stéphane Monier  
Chief Investment Officer, Lombard Odier Private Bank

**Key takeaways**

- Political polarisation is slowing an accord on US economic support programmes, with implications for the global recovery
- The Republicans' and Democrats' proposals overlap on around USD 1 trillion of spending
- The Fed has dropped inflation targeting, allowing it to continue loose monetary policy and keep providing support
- We expect a political compromise to enable a continued, if slow, US economic recovery.

**Important information:** Please read the important information at the end of the document.

Weekly publication of Lombard Odier – Contacts: Investment Solutions, [investment-solutions@lombardodier.com](mailto:investment-solutions@lombardodier.com)

Data as of 31 August 2020 unless otherwise stated.

Lombard Odier · CIO Viewpoint · 31 August 2020

In March 2020, the US approved a USD 3 trillion package, known as the [CARES Act](#). This, the largest economic rescue in the country's history and equivalent to one-seventh of 2019's gross domestic product, was approved with little debate. Since then, the Act's impact has been the subject of debate between Republicans and Democrats. President Donald Trump said last week that one element, the 'Paycheck Protection Program,' (PPP) "saved over 50 million American jobs"; a [contested claim](#). The PPP expired on 8 August without a consensus to extend its support for businesses and households.

Given the US economy's dependence on consumer spending, any hit to incomes from the pandemic, coupled with falling fiscal support, could create the conditions for a double-dip recession. Any hint of such an outcome would have consequences far beyond slowing the US economy by undermining the global recovery.

### Heals or Heroes?

In the polarised world of US Congressional decisions, the Democrats and Republicans are arguing over what a replacement stimulus package should look like. A Democrat-sponsored fiscal spending package was approved by the House of Representatives in May. The 'Health and Economic Recovery Omnibus Emergency Solutions' or [HEROES Act](#), is worth USD 3.4 trillion, slightly above March's CARES Act. They have offered to cut that spending to reach a compromise and asked the Republicans to double their relief plan, known as the 'Health, Economic Assistance, Liability Protection, and Schools' or 'HEALS', from their initial USD 1 trillion proposal.

The HEROES Act proposes unemployment benefits at USD 600 per week, reinstating them to their level before 8 August. In comparison, HEALS would cap USD 200 per week, reflecting the Republican party's [argument](#) that the jobless should not be paid more than those in work, as this reduces incentives for the unemployed to seek employment. Still, both support packages propose the same range of one-off stimulus cheques, starting at USD 1,200.

An eventual compromise looks likely. Lawmakers will be motivated by the persistent jobless numbers just two months before the Presidential elections. And both proposals include some continued payments plus stimulus cheques that would be enough to maintain personal incomes above their pre-pandemic levels.

US Treasury Secretary Steve Mnuchin [said](#) in July that, despite many differences, there is "fundamental agreement" on a USD 1 trillion package that includes distribution of USD 1,200 in stimulus cheques and the cuts to payroll taxes sought by Republicans. Looked at in a positive light, an eventual agreement worth at the very least USD 1 trillion, is still a significant spend.

Still, with the Senate only reconvening on 8 September after the Labor Day holiday, any solution to the current impasse will have to wait.

### Fed evolution

Central banks have been key to the successes in responding to the pandemic in the form of market support with asset purchases and commitments to low interest rates.

In 1982, central bankers moved an annual gathering to Jackson Hole, Wyoming. Supposedly, the venue was chosen to tempt [Paul Volcker](#), then Federal Reserve chairman, to attend for the fishing. This year there was no fishing at the meeting, which took place virtually around screens. On 27 August the current Fed chairman, Jerome Powell, announced that the central bank would drop its [inflation target](#) and instead let inflation average 2% over time. The Fed can now let inflation exceed 2%, in the expectation that it will boost growth, and setting the stage for continued monetary spending to support the economy.

The change, also mooted by the European Central Bank, looks like a logical evolution in the Fed's mandate, and paves the way for keeping monetary conditions loose as long as needed to tackle the recession. This commitment to keep interest rates low also maintains pressure on the dollar against the euro.

Central banks will have to continue adjusting their policies as economies slowly return to normal. However, they will be keen to avoid any return to the austerity policies that followed the great financial crisis.

The US's handling of the pandemic will keep political and social historians busy for decades. In the meantime, voters will deliver a verdict in November. The risk is that faced with the crisis of our lifetimes, political polarisation will slow or even stall the US recovery, harming prospects for economies globally. We fully expect a timely political compromise to enable a continued, if gradual, US economic recovery.

## Important information

This is a marketing communication issued by Bank Lombard Odier & Co Ltd (hereinafter "Lombard Odier"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication. This marketing communication is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe, purchase, sell or hold any security or financial instrument. It contains the opinions of Lombard Odier, as at the date of issue. These opinions and the information contained herein do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalised investment advice to any investor. Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. Lombard Odier does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. Some investment products and services, including custody, may be subject to legal restrictions or may not be available worldwide on an unrestricted basis. The information and analysis contained herein are based on sources considered reliable. Lombard Odier uses its best effort to ensure the timeliness, accuracy, and comprehensiveness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice.

**Investments are subject to a variety of risks.** Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The investments mentioned in this marketing communication may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, Lombard Odier will be pleased to provide investors with more detailed information concerning risks associated with given instruments. **Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested.** The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. Exchange rates may fluctuate and adversely affect the value of the investment when it is realised and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. **This marketing communication is not issued by the organisational unit of the Bank Lombard Odier & Co Ltd responsible for the production of financial research,** as defined under the Swiss Bankers Association Directives on the Independence of Financial Research. Consequently, it is not prepared in accordance with the provisions of the referred Directives or any other legal requirements designed to promote the independence of the production of financial research. Opinions expressed in this marketing communication may differ from the opinions expressed by other divisions of Lombard Odier, including Bank Lombard Odier & Co Ltd's Research Department. Nevertheless, if opinions from financial analysts belonging to the Research Department are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Lombard Odier may hold positions in securities as referred to in this marketing communication for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Lombard Odier or affiliated Group companies. Lombard Odier recognises that conflicts of interest may exist as a consequence of the distribution of financial instruments or products issued and/or managed by entities belonging to the Lombard Odier Group. Lombard Odier has a Conflict of Interests policy to identify and manage such conflicts of interest.

**European Union Members:** This marketing communication has been approved for use by Lombard Odier (Europe) S.A. in Luxembourg and by each of its branches operating in the following territories: **Belgium:** Lombard Odier (Europe) S.A. Luxembourg · Belgium branch; **France:** Lombard Odier (Europe) S.A. · Succursale en France; **Italy:** Lombard Odier (Europe) S.A. · Italian Branch; **Spain:** Lombard Odier (Europe) S.A. · Sucursal en España; and **United Kingdom:** Lombard Odier (Europe) S.A. · UK Branch. Lombard Odier (Europe) S.A. is a credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. **Notice to investors in the United Kingdom:** Lombard Odier (Europe) S.A. · UK Branch is authorised in the UK by the Prudential Regulation Authority (PRA) and is subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. **Details of the extent of our authorisation and regulation by the PRA/regulation by the FCA are available from us on request. UK regulation for the protection of retail clients in the UK and the compensation available under the UK Financial Services Compensation Scheme does not apply in respect of any investment or services provided by an overseas person.** In addition, this marketing communication has also been approved for use by the following entity domiciled within the European Union: **Spain:** Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., an investment management company authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), Spain.

**Hong Kong:** This marketing communication has been approved for use by Lombard Odier (Hong Kong) Limited, a licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong for the general information of professional investors and other persons in accordance with the Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong;

**Singapore:** This marketing communication has been approved for use by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this marketing communication. The recipients of this marketing communication represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). This advertisement has not been reviewed by the Monetary Authority of Singapore.

**Panama:** This marketing communication has been approved for use in Panamá by Lombard Odier (Panamá) Inc., an entity authorised and regulated by la Superintendencia del Mercado de Valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

**Israel:** This marketing communication has been approved for use in Israel by the Israel Representative Office of Bank Lombard Odier & Co Ltd, an entity not supervised by the Supervisor of Banks in the Bank of Israel, but by the Swiss Financial Market Supervisory Authority, which supervises the activities of Bank Lombard Odier & Co Ltd.

**South Africa:** This marketing communication has been approved for use in South Africa by the South Africa Representative Office of Bank Lombard Odier & Co Ltd, an authorised financial services provider Registration number 48505. **Switzerland:** This marketing communication has been approved for use in Switzerland by Bank Lombard Odier & Co Ltd Geneva, a bank and securities dealer authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

**United States:** Neither this document nor any copy thereof may be sent to, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organised or existing in any state, territory or possession of the United States of America, a corporation organised under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

**Data protection:** You may be receiving this communication you have provided us with your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. If you wish to object to this processing, please address your objection to the Group's Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: [group-dataprotection@lombardodier.com](mailto:group-dataprotection@lombardodier.com). For more information on Lombard Odier's data protection policy, please refer to [www.lombardodier.com/privacy-policy](http://www.lombardodier.com/privacy-policy).

© 2020 Bank Lombard Odier & Co Ltd – all rights reserved. Ref. LOCH/LOESA/LOASIA-MWNPR-en-062019.

## SWITZERLAND

### GENEVA

#### Bank Lombard Odier & Co Ltd<sup>1</sup>

Rue de la Corraterie 11 · 1204 Genève · Suisse  
geneva@lombardodier.com

#### Lombard Odier Asset Management (Switzerland) SA

Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse  
Support-Client-LOIM@lombardodier.com  
*Management Company regulated by the FINMA.*

### FRIBOURG

#### Banque Lombard Odier & Cie SA · Bureau de Fribourg<sup>1</sup>

Rue de la Banque 3 · 1700 Fribourg · Suisse  
fribourg@lombardodier.com

### LAUSANNE

#### Bank Lombard Odier & Co Ltd<sup>1</sup>

Place St-François 11 · 1003 Lausanne · Suisse  
lausanne@lombardodier.com

### VEVEY

#### Banque Lombard Odier & Cie SA · Agence de Vevey<sup>1</sup>

Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse  
vevey@lombardodier.com

### ZURICH

#### Bank Lombard Odier & Co Ltd<sup>1</sup>

Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz  
zurich@lombardodier.com

## EUROPE

### BRUSSELS

#### Lombard Odier (Europe) S.A. Luxembourg · Belgium branch<sup>2</sup>

Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium  
brussels@lombardodier.com

*Credit institution supervised in Belgium by the Banque nationale de Belgique (BNB) and the Financial Services and Markets Authority (FSMA).*

### LONDON

#### Lombard Odier (Europe) S.A. · UK Branch<sup>2</sup>

Queensberry House · 3 Old Burlington Street · London  
W1S 3AB · United Kingdom ·  
london@lombardodier.com

*The Bank is authorised and regulated in the UK by the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. Details of the extent of our authorisation and regulation by the PRA and regulation by the FCA are available from us on request. Registered in Luxembourg No. B169 907.*

#### Lombard Odier Asset Management (Europe) Limited

Queensberry House · 3 Old Burlington Street · London  
W1S 3AB · United Kingdom ·  
london@lombardodier.com

*Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).*

### LUXEMBOURG

#### Lombard Odier (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg  
luxembourg@lombardodier.com

*Credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.*

#### Lombard Odier Funds (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg  
luxembourg@lombardodier.com

<sup>1</sup> Private bank and securities dealer authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

<sup>2</sup> Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

### MADRID

#### Lombard Odier (Europe) S.A. · Sucursal en España<sup>2</sup>

Paseo de la Castellana 66 · 4<sup>a</sup> Pl. · 28046 Madrid · España · madrid@lombardodier.com  
*Credit institution supervised in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).*

#### Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.

Paseo de la Castellana 66, 4<sup>a</sup> Pl. · 28046 Madrid · España · madrid@lombardodier.com  
*Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).*

### MILAN

#### Lombard Odier (Europe) S.A. · Succursale in Italia<sup>2</sup>

Via Santa Margherita 6 · 20121 Milano · Italia  
milano-cp@lombardodier.com  
*Credit institution supervised in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.*

### MOSCOW

#### Bank Lombard Odier & Co Ltd · Representative Office Moscow

2 Letnikovskaya st.2, bld.1 · 115114 Moscow · Russian Federation · moscow@lombardodier.com  
*Under the supervisory authority of the Central Bank of the Russian Federation.*

### PARIS

#### Lombard Odier (Europe) S.A. · Succursale en France<sup>2</sup>

8, rue Royale · 75008 Paris · France. RCS PARIS B 803 905 157 · paris@lombardodier.com  
*Credit institution supervised in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities. Business permit No.23/12. Registered in Luxembourg - No.B169 907. Insurance intermediary authorised by the Commissariat aux Assurances (CAA) No.2014 CM002. The registration with the CAA can be verified at www.orias.fr.*

## AFRICA | AMERICAS | MIDDLE EAST

### ABU-DHABI

#### Bank Lombard Odier & Co Ltd · Abu Dhabi Global Market Branch

Al Maryah Island · Abu Dhabi Global Market Square · Al Khatem Tower · 8th floor · P.O. Box 764646 · Abu Dhabi · UAE · abudhabi@lombardodier.com  
*Arranging Deals in Investments · Advising on Investment or Credit · Arranging Credit. Regulated by the ADGM Financial Services Regulatory Authority.*

### BERMUDA

#### Lombard Odier Trust (Bermuda) Limited

3rd Floor, Victoria Place · 31 Victoria Street · Hamilton HM 10 · Bermuda · bermuda@lombardodier.com  
*Licensed to conduct Trust, Investment and Corporate Service Provider Business by the Bermuda Monetary Authority.*

### DUBAI

#### Bank Lombard Odier & Co Ltd · Representative Office Dubai

Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE · dubai@lombardodier.com  
*Under the supervisory authority of the Central Bank of the UAE.*

### ISRAEL

#### Israel Representative Office · Bank Lombard Odier & Co Ltd

Alrov Tower 11th floor · 46 Rothschild Blvd. · Tel Aviv 6688312 · Israel · telaviv@lombardodier.com  
*Not supervised by the Supervisor of Banks in the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.*

### JOHANNESBURG

#### South Africa Representative Office ·

Bank Lombard Odier & Co Ltd  
4 Sandown Valley Crescent · Sandton · Johannesburg 2196 · South Africa · johannesburg@lombardodier.com  
*Authorised financial services provider Registration number 48505.*

### MONTEVIDEO

#### Lombard Odier (Uruguay) SA

Luis Alberto de Herrera · Torre 2 · Oficina 2305 11300 Montevideo · Uruguay  
montevideo@lombardodier.com  
*Supervised by Banco Central del Uruguay.*

### NASSAU

#### Lombard Odier & Cie (Bahamas) Limited

Lyford Cay House · Western Road · P.O. Box N-4938 · Nassau · Bahamas · nassau@lombardodier.com  
*Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.*

### PANAMA

#### Lombard Odier & Cie (Bahamas) Limited ·

#### Representative Office in Panama

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com  
*Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.*

#### Lombard Odier (Panama) Inc.

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com  
*Supervised by the Superintendencia del Mercado de valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.*

## ASIA - PACIFIC

### HONG KONG

#### Lombard Odier (Hong Kong) Limited

3901, Two Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com  
*A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.*

### SINGAPORE

#### Lombard Odier (Singapore) Ltd.

9 Raffles Place · Republic Plaza #46-02 · Singapore 048619 · singapore@lombardodier.com  
*A merchant bank regulated and supervised by the Monetary Authority of Singapore.*

### TOKYO

#### Lombard Odier Trust (Japan) Limited

Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com  
*Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator (No.470).*