

CIO Viewpoint

Red and blue, the US's polarised lenses

Investment Solutions

4 May 2020

In the years since Donald Trump's election, it seems that the only political thing Americans can agree on is that they are polarised. It has become common to describe the US as more divided than at any time since the 1861-65 Civil War. In a presidential election year, the Covid-19 pandemic has exacerbated social vulnerabilities and added to the [polarisation](#) between Republicans and Democrats.

The US is suffering from the [highest](#) Covid-19 infection rates and deaths in the world. Paradoxically, the country is preparing to re-open its economy (while keeping schools closed) with little of the medical infrastructure in place to manage the test-and-trace strategies that other nations leaving lockdowns are setting up. Those decisions are left to state governors and taking on a political colour with some limited [protests](#) against the continuing restrictions.

Americans look vulnerable to this crisis. Less than one quarter of lower income adults polled by the [Pew Research Center](#) said they have sufficient funds to survive a loss of income for three months and 52% said that they, or someone in their household, has either lost their job or suffered a pay cut in the pandemic. Fortunately then, the US has thrown resources at the pandemic's challenges both more quickly and in greater volume than any other economy, and looks especially decisive in comparison with Europe's more fragmented response.

'Great' monetary and fiscal power

The Federal Reserve has signalled that interest rates will remain low and credit keep flowing, committing itself to the highest levels of fiscal and monetary coordination of our lifetimes. "This is the time to use the great fiscal power of the United States to do what we can to support the economy," Fed Chairman Jerome Powell [told](#) a 29 April press conference. Fiscal commitments now total USD 2.5 trillion, the equivalent of more than 12% of Gross Domestic Product.

Such spending looks entirely justified. US Gross Domestic Product fell at an annualised rate of 4.8% in the first three months of the year. That was mostly a function of a 7.6% decline in first-quarter consumer spending, the steepest fall since the 1980 recession. The country recorded 30 million unemployed last week, a level not seen since the Great Depression. We expect unemployment rates to reach 15%-20% of the labour force, affecting mainly temporary workers for now, and company default rates to hit between 5% and 10% in the US. Of course, were it not for the historic levels of monetary and fiscal support, these figures could have been even worse. Second-quarter data will offer more clarity.



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Key takeaways

- The Covid-19 crisis has exacerbated US political polarisation and social vulnerabilities
- The US has unprecedented levels of monetary and fiscal support in place to soften the economic blow
- Joe Biden's lead in presidential polls might not preclude Donald Trump from winning the electoral college
- We have increased exposure to US equities, anticipating growth in IT and health stocks.

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Weekly publication of Lombard Odier - Contacts: Investment Solutions, investment-solutions@lombardodier.com

Data as of 4 May 2020 unless otherwise stated.

Lombard Odier · CIO Viewpoint · 4 May 2020

Polarising pandemic

While the US is regularly characterised as polarised, it is worth keeping the tensions in perspective. In the first half of April, Gallup, a polling organisation, [reports](#) that 27% of US voters identified as Republicans, and 31% as Democrats. Still, 39% described themselves as Independents, and over the last 16 years of polling, that share has been largely steady.

Throughout his presidency, Mr Trump's approval rating, separate from party affiliation, has been steady at around [40%](#) of voters. Even by the Trump presidency's outlandish standards, his 2016 campaign boast that he [could shoot someone](#) without losing votes has rarely looked truer.

The character of his presidential opponent in November, Joe Biden, Barack Obama's former vice president, depends on which politically coloured lens you look through. Mr Biden is either a genial moderate capable of winning over disgruntled Republicans, or a blunderer who has few political endorsements. His debate performance has been underwhelming, and a string of poor TV interviews and public appearances does not look threatening to Trump if the election were fought in televised debates. Either way, Mr Biden is suffering from relative public invisibility in the current crisis while Mr Trump treats his combative daily pandemic press briefings as opportunities to campaign.

[‘The economy, stupid’](#)

Until the Covid-19 crisis, the president was counting on a strong economy to help him to a second term at the White House. Now, facing an unparalleled economic downturn, he is stoking division and lashing out at rivals. The latest YouGov [polling](#), published 3 May, showed a 6-percentage point lead for Mr Biden. Mr Trump said that he does not [believe](#) the numbers. For Mr Biden to win the November presidency, he must win the electoral college, not just the [popular vote](#). Mr Trump's record in insisting that he did not lose the popular vote of 2016 suggests that he may not hesitate to question the election's legitimacy. Just last week the president was still [tweeting](#) about the 2016 election.

In the meantime, the pandemic is exacerbating social disparities and political tensions. New York City has recorded more than 18,000 Covid-19 deaths, almost one third of the nationwide total. The cost of managing this has opened a largely forgotten debate about net beneficiaries and net contributors to the federal budget. Senate Majority [Leader Mitch McConnell](#) argued on 23 April that instead of federal assistance that would “borrow money from future generations”, US law should change to allow states to file for bankruptcy. New York governor Andrew Cuomo responded that his state is one of the largest [contributors](#) to the federal budget, whereas the Senate leader's state of Kentucky is a net beneficiary. “[You're bailing us out?](#) Just give me my money back, Senator,” said Mr Cuomo.

Faced with so many uncertainties, we have maintained a relatively cautious stance in portfolios. Worldwide, Covid-19 containment measures appear to be proving successful and there is progress on treatments. Coupled with the extraordinary central bank and government support globally, short-term risks have lessened, but the potential upsides look limited.

Increasing US equities exposure

Over recent months, we increased the liquidity in our portfolios and strengthened the cushions, whilst maintaining a slight underweight in equities, in part to reflect the risk of low oil prices. Once the worst of the pandemic's effects are behind us, we expect to see growth in the information technology and health care sectors. These industries dominate US stock indices, and for this reason, we have increased our exposure to US equity markets.

When commentators compare the US's current politics and partisan social media abuses to the tensions leading to the Civil War that killed at least [620,000](#) combatants, it is worth remembering the run-up to that conflict. In 1856, a pro-slavery congressman beat an abolitionist senator [unconscious](#) on the floor of the Senate with a cane. However tempting it is to talk of a politically polarised nation, Americans are at least still talking.

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