# Global Matters Weekly

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## Cheque List

by Michael Clough

Over the weekend we had confirmation that Joe Biden has won the race to become the next President of the United States of America. Despite Trump claiming election fraud, vowing legal action and thus refusing to concede, Biden is set to take up residence in the White House. One of the main talking points in the run up to this election was around a second stimulus package to help sustain the US economic recovery after a record 31% (annualised) collapse in GDP in Q2. Prior to the election discussions had reached an impasse, putting even greater importance on the composition of US Congress - including the House of Representatives and the Senate - which, at least for this issue, is arguably more important than who actually sits in the White House.

On the eve of the election one poll had Biden with an 8 percentage point lead over Trump and expectations for a 'blue wave', or in other words having Biden in the White House and a Democrat controlled House of Representatives and Senate, had risen. This outcome would make it a lot easier to pass through Biden's agenda, including an extensive stimulus package. This had helped push government bond yields higher in the days coming up to the election with extensive stimulus a tailwind for higher inflation. As results came through last week it seemed likely that Congress would remain divided, with Republicans looking like they would hold the Senate, although this now doesn't look to be confirmed until January with run-off elections in the state of Georgia. Investors began to question whether Biden's policies could be implemented in full. Equity investors took well to this, pushing US equities up over 7% last week as bond yields fell back.

The size of the stimulus measures we have seen so far this year, both on the fiscal side by governments and the monetary side by central banks, have been extraordinary and are certainly a leading factor in explaining why risk assets, both equities and credit, have recovered so meaningfully since the steep falls in the first quarter. In March, Trump introduced a package in excess of $2 trillion, equivalent to over 10% of 2019 GDP, to boost the domestic economy which included handing cheques directly to households. To give an extent of its scale, following the financial crisis in 2008, the US fiscal package equated to around 5% of GDP, implemented over a number of years rather than months.

On the monetary side, in March the Fed committed to effectively unlimited Treasury bond purchases to stabilise financial markets – in April it was reported they were buying over $40bn of assets each day. This has slowed to $120bn per month at present. Again, to apply some historical context, the central bank's balance sheet assets grew from around $900bn to $2.2trn in the immediate aftermath of the 2008 crisis after its first round of quantitative easing (QE). Over the next six years, two further QE programmes followed taking total assets to $4.5trn. In response to coronavirus, the Fed's asset purchase program has seen total assets rise from $4.2trn to $7.2trn in just eight months. This underpinning of largely government bonds (but to an extent corporate bonds too having started purchasing these assets for the first time) had kept bond yields rooted lower, which also served to help equities by virtue of a lower discount rate when discounting future cash flows.

There is no doubt stimulus has been key to risk asset recovery and this will continue going forwards. Whilst monetary policy is set to remain very accommodative, there remains uncertainty around future government stimulus in the US. In managing portfolios to client outcomes what matters to us most are valuations and fundamentals. For now, we remain cautious at the top down level on a market dominated by a small cohort of growth stocks with lofty valuations that we think have stretched too far, but optimistic for our active fundamental managers to find upside opportunities in the wider market.

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