BBGI GROUP Global Investments

Economic Research

WEEKLY ANALYSIS

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US presidential elections: a game changer for the markets?

Overly optimistic expectations for US GDP. Growth likely to slow in Q4. Rising budget deficit. Massive and unconditional support from the Fed. High risks for equities.

Key points

- Second wave of Covid-19 could slow US economic recovery
- Over-optimistic expectations for US GDP?
- US elections will reinforce the new fiscal paradigm
- Rising taxes threaten financial markets
- Massive, sustained and unconditional support from the Fed
- Full monetisation of US Treasury issuance?
- US presidential election: a game changer for financial markets?

Second wave of Covid-19 could slow US economic recovery

The various lockdowns and other preventative measures implemented by governments caused significant economic contractions in 2Q 2020. The easing of lockdown restrictions in various countries successively at the beginning of Q3, when the pandemic seemed to be under control, only recreated the conditions for a resumption of the pandemic during the summer. Obviously not all countries are equal in the face of these recent developments, but in the United States tensions have remained high, and the public health crisis still seems far from being under control. US President Donald Trump's consistently optimistic statements since the beginning of the health crisis about the US' ability to rapidly discover and produce effective vaccines and treatments do not change the harsh current reality. The epidemic is still spreading, and the death toll now exceeds 200,000 people in the US. The president's contraction of the virus and his rapid recovery have even reinforced his conviction that Covid-19 is not so dangerous and that there is no need to be afraid of it. In this context, however, it now seems clear to the vast majority of American political leaders that another general lockdown period would not be economically bearable. A further lockdown is therefore not desirable and will be ruled out for as long as possible in most states. However, it may be impossible to avoid increasingly penalising new restrictions, which would have a severe impact on the economy in the coming months and into 2021. Financial markets rose over the last six months in anticipation of a forthcoming resolution of the public health crisis and its economic consequences. Results for Q3 2020 may live up to these expectations, but the risks of disappointment are now more and more likely in the coming months. The current economic situation is therefore still very fragile despite the strong support of monetary and fiscal policies. The risk of a further economic slowdown in the US at the end of the year must therefore be considered more seriously.

Over-optimistic expectations for US GDP?

Economists' consensus forecast for US economic growth in Q3 2020 was revised from +25% to +29.9%, a result which, if true, would almost totally erase the -32.8% collapse observed in Q2 on an annualised basis. Given the public health context of the third quarter in the US, which saw an increase in the number of Covid-19 cases and deaths, this prediction seems optimistic.