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US Politics

UBS House View: A busy week in Washington

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After the chaotic skirmishes that characterize the primary contests, US general election campaigns are usually highly choreographed affairs. Under normal circumstances, the two candidates stake out their political positions in advance of the national conventions, and then exploit every opportunity to pick up votes among undecided voters. Unfortunately, the standard playbook provides little guidance about how to operate during a global pandemic, when organized campaign rallies are prohibited and the candidates must rely more heavily on social media.

The novel coronavirus pandemic triggered a national economic recession and forced President Trump to abandon his campaign strategy that emphasized US economic performance. Instead, he has advertised a willingness to adopt a more adversarial approach with China and hammered home the issue of public safety by criticizing big city mayors as “soft on crime.” Former vice-president Joe Biden, meanwhile, has to overcome skepticism regarding his age and his ability to motivate younger voters to cast ballots on his behalf.

As investor attention begins to shift to the November elections, while also remaining focused on efforts to combat the economic fallout from COVID-19, political developments remained front page news last week.

Kamala Harris gets the nod ahead of the convention

Biden ended months of speculation last week by choosing Senator Kamala Harris of California, a former county prosecutor and state attorney general, as his running mate. His announcement arrived via text message, another example (if one were needed) of the digital transformation and social distancing of American politics. Harris was viewed as the safest choice among a short list of qualified contenders. As a presidential candidate in her own right, the senator had already withstood the intense media scrutiny that accompanies a presidential bid. And as an ardent campaigner, she is expected to bring renewed energy to the Democratic ticket. In terms of investment implications, vice presidential candidates rarely have a significant impact on financial markets, and we expect this trend to hold this time around.
Headlines build around a possible delay in election results
As we discussed in the most recent edition of ElectionBrief, President Trump has expressed grave concerns over possible delays in the reporting of results. While a handful of state governments manage their elections entirely by mail, and are well positioned to do so again, there are many others ill-prepared to do so. More people than ever are choosing to vote by mail in the midst of the pandemic and the resulting deluge of mailed ballots may not be counted in time to provide a conclusive answer regarding the identity of the victor on Election Day. The biggest risk to the vote this November is not pervasive voter fraud but rather an extended delay that undermines public confidence in the electoral process.

If history is any guide, a delay in the announcement of the winner is likely to trigger some market volatility. In that event, we believe investors will adopt a risk-off strategy that favors gold and US government securities at the expense of equities. Fortunately, any such episode would be brief and last only as long as the question remains unresolved. Litigation may follow but a repeat of the Florida recount in the 2000 election is unlikely. The presidential contest then was decided over fewer than 1,000 votes. The delay in this election, by contrast, is expected to be a function of counting absentee and mailed ballots when they arrive.

Fiscal deal elusive so far
Prior to last week’s events, we thought that Congress would almost certainly pass another fiscal package by early August, with a base case value of USD 1.5 trillion. However, negotiations been the White House and Democratic congressional leaders have broken down. Congress is now in recess and will likely not make another attempt at reaching an agreement until after Labor Day.

In our view, the lack of fiscal action could cause considerable harm to the economy in the near term. The uncertainty caused by the pandemic is already a big drag on growth. Adding more uncertainty over fiscal policy is particularly unhelpful at the moment. Without the extra USD 600 per week in enhanced unemployment benefits, many households will struggle to pay the rent. Many firms have used up the money they borrowed under the Paycheck Protection Program, and some will soon lay off workers for a second time. State and local governments have seen a sharp drop in revenues and, without help from the federal government, will be forced to shed workers.

On the positive side, we are hopeful that by the end of the year, one or more COVID-19 vaccines will prove to be safe and effective. This should ensure that, even if the economy stumbles, the recovery should resume in 2021.

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For more, see A busy week in Washington, 17 August 2020.