

MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa



Will Trump's Covid Infection Alter The US Presidential Race?

Last week US President Donald Trump tested positive with the SARS-CoV-2 (Covid-19) infection, together with a number of members of his family, his inner circle and White House staff. Press reports suggest that he might have contracted the virus from his senior advisor Hope Hicks (former director of strategic communications at the White House) or, possibly, during what was defined as a "super-spreader" event, held at the White House on September 26th, just a few days before he tested positive.

The first obvious concern is whether, how and when the US President will fully recover from the disease, for which he was hospitalised and treated with innovative (indeed, almost experimental) cures, including a mix of *remdesivir*, an antiviral drug, with polyclonal antibodies and other substances. In a recent message from the hospital, Trump declared himself to be in good shape and on his way to recovery.

The second concern is what type of impact this event could have on the US Presidential race. Since the first debate between Trump and the Democratic nominee Joe Biden took place on September 29th, it is not impossible that Joe Biden also contracted the virus, possibly from Trump, Trump's family, or his inner circle, members of which were not wearing a facemask at the debate. If both candidates were to have Covid, it is possible that at least one, if not both of the subsequent debates (currently scheduled for October 15th and October 22nd) will be cancelled. This would be a real novelty for US Presidential elections; the American public has been able to watch televised presidential debates since 1960.


Another issue is that Trump's infection might fundamentally alter his political strategy. Clearly, most of his bold communication was centred around his attempt to downplay the significance of the virus. This was an attitude that he shared with all of the other major Covid-sceptics, such as UK Prime Minister Boris Johnson and Brazil's President Jair Bolsonaro, both of whom have also fallen ill with Coronavirus in the last few months. Having contracted the virus himself, and being hospitalised (in a military facility), it will be hard for Trump to continue downplaying the significance of the pandemic and its impact on public health, the economy and society in general. There have now been almost 210,000 cases directly attributed to Covid in the United States.


Additionally, given Biden's advantage in the polls, it was clear that Trump was getting ready for a nasty legal battle following the night of the vote on November 3rd. Trump thought the election result could reach the Supreme Court, as it did in 2000 in the contested election of George W. Bush and Al Gore. That partially explained the heist with which he appointed Amy Coney Barrett as his Supreme Court pick in substitution of the late Ruth Bader Ginsburg, who died on September 19th. If Trump (and – *a fortiori* – if both Trump and Biden) were still to be in hospital in November, would that strategy still pay off?

Finally, and most importantly, will Trump's infection fundamentally alter the American voters' perception of how Trump handled the pandemic? The obvious narrative from the Democrats would be that, the same way that Trump didn't care for his own health (and his family's and inner circle's health), he was way too nonchalant on his approach to the pandemic for the country, ultimately allowing the virus to spread out of control and result in a death toll much higher than what would have been the case had he had adopted more stringent containment measures.

The Republican response is likely to be based on Trump's recovery: a fast and full recovery would be used as an argument to say that the significance of the virus and the pandemic is vastly over-stated. This would help Trump's light-touch approach to appear be justified. The voters will ultimately decide whose narrative gets more traction.

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Looking Ahead

The Week Ahead: US PMIs, EZ Retail Sales And Japan's Household Spending Set To Remain Expansionary Territory

In the US, September services PMI is expected to: i) decline to 56.0 (*p*: 56.6); but still ii) remain in expansionary territory.

In the EZ, retail sales are expected to rise by 0.9% m-o-m (*p*: -1.3%) and 0.6% y-o-y (*p*: 0.4%).

In Japan, household spending is likely to recover from -7.6% to -3.7% y-o-y.

The Quarter Ahead: US Presidential Campaign To Suffer, Hard Brexit More Likely; Central Banks To Remain Supportive

In the US, President Trump was hospitalized due to coronavirus; with only one month to the election, uncertainty about the nation's leadership is destabilizing an already volatile campaign. After the first ill-mannered Presidential debate between President Trump and opponent Vice President Biden, the 'Debate Commission' will change the format "to ensure the remaining two encounters between the two candidates are more orderly, if they happen". Fed officials stated they "will allow inflation to moderately rise before raising interest rates" – letting market operators wonder over 'how high' and 'for how long' the committee will let prices increase. Fed officials insisted that "the new approach of targeting 2% inflation will last for a while", hinting at near-zero rates for the next two years - at least.

In the UK, the government let a EU deadline expire and received a "letter of formal notice", which could eventually lead to a court case against the UK at the European Court of Justice. However, the EU reiterated its interest in achieving a post-Brexit trade deal. Ahead of his Brexit trade talks with the EC president, PM Johnson said he feels "pretty optimistic about agreeing a deal with the EU"; however, after a meeting with 'EU chief negotiator' Michel Barnier, the 'UK chief negotiator' David Frost was less upbeat "about the level of progress made so far".

In China, the military increased drills in: i) the South and East China seas; ii) the Yellow Sea; iii) and the Bohai Sea – expanding its military presence in the region, heightening geopolitical tensions.

Last Week's Review

Real Economy: The Economic Recovery Is Still Fragile; Geopolitical Tensions Hinder Growth

In the US, September labor-market data hint at stagflation: i) nonfarm payrolls fell to 661k (*c*: 850k; *p*: 1,489k); ii) average hourly earnings rose to 4.7% y-o-y (*c*: 4.8%; *p*: 4.6%); and iii) the unemployment rate fell to 7.9% (*c*: 8.2%; *p*: 8.4%). So far, the economy has recovered only 51% of the jobs it lost to the pandemic. In August, while the PCE index rose by 1.4% y-o-y (*c*: 1.1%; *p*: 1.1%), the fourth consecutive monthly gain, core PCE rose to 1.6% y-o-y (*c*: 1.4%; *p*: 1.4%).

In the EZ, September's economic sentiment indicator rose to 91.1 points (*c*: 89.0; *p*: 87.7), higher than the 11-year low hit in April but still well below its pre-pandemic levels. CPI inflation fell to -0.3% y-o-y (*c*: -0.2%; *p*: -0.2%), the steepest decline since April 2016 and well below the ECB's 2.0% target.

In Japan, August's retail sales fell by 1.9% y-o-y (*c*: -3.3%; *p*: -2.9%) – the sixth consecutive month of activity decline – as the COVID-19 slowdown continues to impact demand.

Financial Markets: S&P500 Rebounds On Stimulus Hopes, Bonds Flat, Oil Falls, Gold Rises

Market drivers: as investors overlooked weak economic data, stocks finished the week higher, on hopes that the US Congress will reach a deal on another coronavirus-relief bill. Global stocks rose w-o-w (MSCI ACWI, +1.6%, to 564). US equities finished higher, as large-cap indexes broke a string of four weekly losses (S&P 500, +1.5% to 3,348) – although gains were more robust among small-caps. In Europe, shares rebounded (Eurostoxx 50, +1.7% to 3,191), as investors focused on depressed value stocks, especially in the financial sector.

Fixed income: uncertainties in US politics, due to: i) the first presidential debate; and ii) President Trump testing positive for the coronavirus put downward pressure on global yields (BAML Global, -0.1% to 297.7); yet, in the US - through most of the week - long-term UST yields increased modestly (UST, +3bps to 0.69%), driven by renewed hopes for a stimulus deal. Going forward, were the Fed to follow both the BOJ and ECB in taking interest rates negative, bonds would gain.

FX: w-o-w, the USD lost against most currencies (DXY, -0.8% to 93,844; EUR/USD, +0.7% to 1.171), as investors kept a cautious eye on: 1) geopolitical developments regarding the eastern Mediterranean; and 2) the conflict between Azerbaijan and Armenia, the TRY fell further (USD/TRY -1.4% to 7.771).

Commodities: oil prices fell (Brent, -6.3% to 39.3 USD/b), as the pandemic continues to: i) cloud the outlook for oil demand; and ii) stoke oversupply concerns. Gold rose (+2.1% to 1,899 USD/Oz.) – maintaining its safe-haven appeal.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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