Investment Strategy Update

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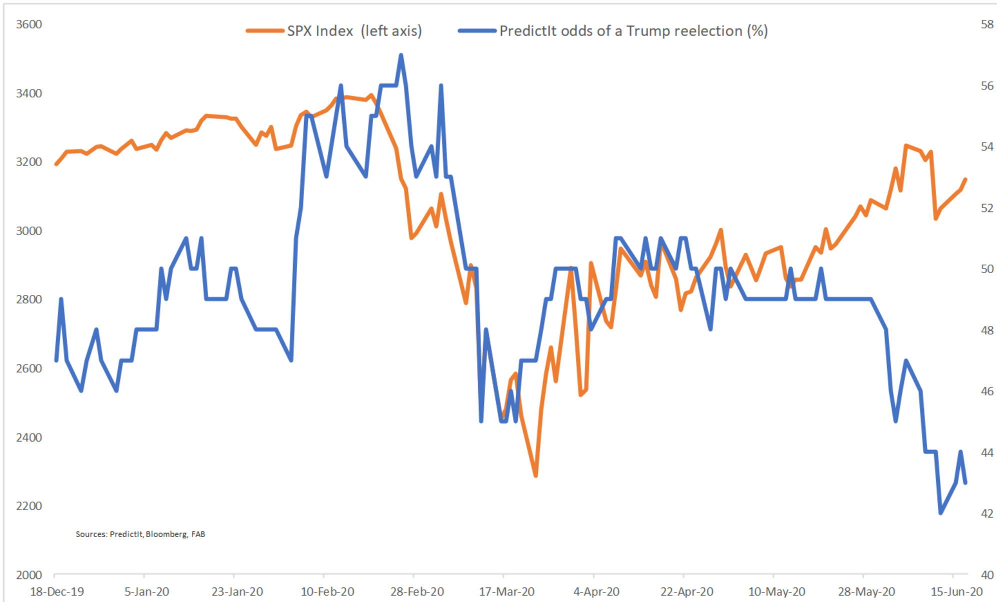
Political risk returns to the agenda in the US



- ♦ **Attacks in soon-to-be-published book by former National Security Adviser John Bolton have taken over headlines across the world.**
- ♦ **President Donald Trump has seen his popularity fall as the US recession proves deeper than expected.**
- ♦ **Continuing jobless claims today were worse than expected as initial boost from reopening fizzles.**
- ♦ **Markets may start to price in the probability of a Democratic president who may increase corporate taxes.**
- ♦ **FAB AAC remains overweight high quality investment grade bonds.**

Most investors hate politics but follow it as closely as they can. One of the troubles that it presents is that political risk is hard to predict and therefore difficult to hedge against. Well, it just seems like that unwanted pesky issue is coming back.

Yesterday, the New York Times published excerpts of a soon-to-be-published book by former National Security Adviser John Bolton, which were very unflattering to President Donald Trump. The excerpts drew a strong reaction from the White House, which sought an emergency injunction to stop publication. The attacks come at a time when the President is already facing dwindling popularity, including in his support base, with his approval among Republicans dropping 13 percentage points in the past three months. In a poll this week, Reuters/Ipsos found that 48% of respondents would vote for Democratic presumptive candidate Joe Biden and only 35% would vote to reelect President Donald Trump.

Perhaps worse, the poll showed that 57% of respondents disapproved of President Trump and only 38% approved of him. The elections are still four months away but the latest results, as well as other anecdotal indicators such as betting odds of an election of either of the candidates, do not bode well for the President's reelection. They also suggest Democrats could take the Senate after flipping the House of Representatives last year.

A potential Democratic president with the support of the House and the Senate could mean a revision of the corporate tax cuts of the Trump Administration, which helped fuel some of the stock market rally between 2017 and 2019. If investors start to price in higher taxes, they will have to consider lower earnings and reassess the valuation of the stock market. That, however, is merely speculation at this stage. Still, stock markets tend to discount the future and price in events way before they happen, so President Trump's travails could start to impact share prices.

President Donald Trump's popularity has suffered lately and that could hit markets

In the nearer term, the accusations leveled by John Bolton, and the press coverage of them, could prompt President Trump to take a more aggressive stance against China and other trade partners of the US, as he burnishes his credentials of tough negotiator ahead of the November polls. That, alone, could unsettle markets.

This may help explain the mild sell-off taking place today. Apart from that, continuing jobless claims of 20.5 million Americans reported today were worse than expected, and a painful reminder that it may take a while before the US economy gets back on its feet. Another meltdown like the one in March is unlikely, given the liquidity the Fed is pouring into the system, but it is no surprise if some investors get cautious now.

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