Wealth Management

LGT Snapshot

8th May 2024

Re-evaluating Biden's re-election toolkit

In January, in our Snapshot entitled “Biden’s re-election toolkit” (insert snapshot), we explored the upcoming US presidential election and the tools Biden had at his disposal to lift consumer confidence and boost his popularity ahead of the November election.

At the start of 2024, the pieces appeared to be falling into place for President Joe Biden in his re-election year. His main opponent, Donald Trump, was marred with 88 criminal counts and set to appear in various court proceedings throughout the year. This allowed Biden a rare opportunity to woo his electorate with popular policies such as student loan forgiveness, in addition to the tailwinds from fiscal spending, including the CHIPS and Inflation Reduction Act (IRA).

Tides turning

But recent events appear to have turned the tides for Biden who was relying on benign inflation for his re-election this year. Falling inflation would allow the Federal Reserve to begin its rate cutting cycle. However, US economic growth has remained resilient with recent data indicating inflation will remain stickier for longer. Subsequently, we have not seen these rate cuts happen. Many voters blame Biden for high inflation, and these latest figures are unlikely to help his hopes for re-election.

Given the inflationary picture, markets were on edge last week as the Fed met to assess recent data and share its latest thinking. Crucially, Fed Chairman Jerome Powell quashed any speculation that the next move would be a hike rather than a cut. Beyond this reassuring comment, the Fed’s assessment of the latest economic landscape has converged with what investors priced in over April. Investors priced three rate cuts at the end of March, but in April, we saw investors move to price in just one 0.25% rate cut by year-end. This pushed bond yields higher and we saw equity markets give back some of this year’s gains.

Consumer confidence wanes

The Conference Board Consumer Confidence Index, which measures consumer confidence, declined to its lowest level in two years, adding to President Biden’s problems. The first interest rate cut is now expected by September or December this year, uncomfortably close to the election. While the economy and inflation are forcing the President and the Fed to bide their time, it is undoubtedly an unwelcomed development for the Democrats.

Coupled with a challenging economic backdrop, recent events are also proving difficult for Biden. The escalation of student protests across the United States has underscored the difficulty in toeing the line between free speech and incitement. This is unlikely to benefit the Democratic party. President Biden’s stance on the Middle East has also angered voters in key swing states such as Michigan. The protests on university campuses will likely encourage the Biden administration to sway key parties in the Middle East to de-escalate the conflict.

The bottom line

The current political and economic backdrop is fraught with change and this uncertainty can be confusing for investors. Despite consumer confidence being the weakest in two years, economic growth remains robust and markets so far this year have been strong. These are two rather juxtaposing dynamics. We expect volatility this summer as we edge closer to the US presidential election. Whoever wins will have ramifications for markets and policy issues such as IRA. Biden’s support has increased marginally in the last few days, but Trump is polling well in important swing states, leaving a high degree of uncertainty about who will become the 47th president of the United States. As investors, it's crucial we keep an eye on events and understand how they may impact portfolios, but in oscillating environments such as this, it's more important than ever to focus on the factors that can be controlled, such as investing in quality assets at sensible prices.

As we edge closer to the halfway point of the year, we will continue to identify these quality assets for our clients whilst taking advantage of any opportunities we see. We strongly believe in our tried and tested investment process to deliver consistent and sustainable long-term returns for our clients whether the White House is blue or red come year end.