

COVID SHOULD BE THE FOCUS - NOT THE ELECTION

That's two for two – the polls got the election result very wrong again this year. At the time of writing, it is a close race, which suggests that it will be very difficult for either political party to make sweeping policy changes. The stock market has remained resilient as investors realize that political policy will be kept in check.

The domestic election has taken the focus off the underlying economy and COVID. As more European countries implement new lockdown measures, and Biden makes gains in the election, some economists fear new lockdown policies will be implemented in the US. That cannot happen.

Latest GDP data shows that the economy is only down 2.9% from a year ago, but that was mostly a result of the Federal Reserve cutting interest rates to almost zero, flooding the money markets for corporations with cheap financing, and the government passing stimulus in the form of the Payment Protection Program (PPP), stimulus checks to households and various other social support programs. This support resulted in the Federal government spending \$6.55 trillion in the Fiscal Year ending September 30, 2020 – up 47% from FY 2019. In total, the Federal government spent 31.2% of GDP, the highest share since 1945. In the final year of World War II, national defense spending was 36.6% of GDP, while all other spending combined was only 4.4%. This past year, military spending was just 3.5% of GDP, while all other spending combined was 27.7%.

Granted, some of this money was spent directly “fighting” a war on the virus – ventilators, PPE, field hospitals, payments to hospitals for COVID-19 patients – but most was used to support small businesses and workers during the pandemic. To put this into perspective, non-defense spending in 2020, as a share of GDP, was 40% larger than its previous peak of 19.8% of GDP back in 2009.

Currently the debt load of the US government is manageable – thanks in part to extremely low interest rates on newly issued debt. However, the government cannot afford to continue running annual budget deficits of \$3 trillion into the future.

There is a stark contrast between spending large sums of money to build machinery and weaponry in World War II to preserve democracy and the American way of life, versus spending

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trillions of dollars to support businesses the government purposefully shut down.

Government should follow the scientific findings around the pandemic – that the elderly, and people with underlying health conditions, are most vulnerable. Support and resources should be focused on protecting those most vulnerable parts of the population, instead of blanket policies which are expensive and ineffective.

Pharmaceutical companies are in the final stages of testing a vaccine for COVID, with the hope that a vaccine will be available to the broad population within the first half of next year. If Americans are vigilant and follow the suggested healthcare guidelines, we'll be able to keep the economy hobbling along until a vaccine is available without the need for a second lock-down.

When the vaccine arrives, there will be a flood of pent-up demand to drive economic growth to new highs, which will allow the government to reduce the debt burden as a share of GDP. Right now, the damage to the economy from the virus is mostly temporary. However, if the economy gets locked down again, there is potential for the economic damage to become more permanent. That should not be allowed to happen again.



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