Tuesday, May 26, 2020

Geopolitics was a hot topic before the COVID-19 pandemic, but the past several weeks have only magnified many of the preexisting tensions. It’s no wonder the monthly Global Economic Policy Uncertainty Index is at an all-time high.

I recently spoke with Matt Gertken, Geopolitical Strategist at BCA Research, a Montreal-based global investment research firm. We discussed a wide range of areas that have been impacted by the pandemic—including the U.S. elections, U.S.-China relations and emerging markets—and what it all means from an investment and economic perspective.

Following is a summary of our discussion.

U.S. fiscal stimulus

It’s widely believed additional fiscal stimulus across the globe will be necessary to help repair the economic damage caused by the pandemic. While the House of Representatives recently passed a $3 trillion stimulus bill, it’s not expected to be approved by Senate Republicans in its current form. So where does Congress go from here?

“I think we will see some hiccups based on the fact that the Senate GOP and some other Republicans are trying to take a pause,” Gertken said. “But the endgame here is for another round of massive stimulus. It may not be $3 trillion, but $2 trillion is totally believable.”

The issue of providing funding to state and local governments, however, remains a stumbling block. Some estimates cite a state budget shortfall as high as $400 billion, which raises concerns over the creditworthiness of municipal bond issuers. Democrats and Republicans are divided on how much funding should go directly to states.

But Gertken noted that policymakers have learned some lessons from the 2008-2009 global financial crisis when they were reluctant to use fiscal policy, resulting in significant state and local budget shortfalls. Now, he said, policymakers are trying to plug that gap. Also, President Donald Trump is motivated by “trying to do the impossible”—that is, get the economy firing on all cylinders again as quickly as possible—while bidding for reelection.

“We have a Democratic House and a president who’s trying to get reelected,” Gertken said. “That’s going to create the combination where you’ll end up with providing state and local governments with upward of $500 billion.”

While Senate Republicans will have their own concession demands—such as ensuring stimulus money isn’t used for bailing out blue state pension funds—Gertken believes a stimulus bill will ultimately pass. “In the end, the House controls the purse strings, and the president is going to lean with the House on getting stimulus [passed].”

Whatever the final package looks like, Gertken said the U.S. economy will find itself in unchartered territory, with this year’s total stimulus relief possibly representing as much as 20% of GDP.

Europe and Emerging Markets

From a fiscal perspective, it’s clear that southern Europe—particularly Italy—needs more help than their northern European counterparts. The question at the heart of Europe’s economic recovery prospects is how far Germany will go to support its more heavily indebted southern neighbors. They recently partnered with France to propose a 500 billion euro ($547 billion) recovery fund. And Gertken noted that despite Germany’s reputation for being financially thrifty, the country passed a significant fiscal package at the end of 2019 in response to global slowdown, setting the stage for being more open to other stimulus measures.

“The policy setting had shifted, so when COVID hit they surprised with a blowout of spending,” Gertken said. “So Germany is playing an incredibly proactive fiscal role. On top of that, you have this north-south divide, and in order to save the European project, the Germans need to spend more to help rebalance demand on the continent. The fact that Germany and France are combining to do debt issuances shows that the European project has a lot more momentum than investors tend to assume.”

COVID-19 has enacted a heavy toll around the world. But as Gertken pointed out, while developed countries can deploy massive fiscal tools without the risk of devaluing their currencies, emerging markets don’t have that advantage. Gertken listed Turkey, the Philippines and Brazil as representing significant risk, given that these are countries that have been severely impacted by COVID-19 and have had underlying economic problems. Malaysia, Russia, China and Thailand, on the other hand, are in better shape, but even they come with caveats.

“Even the countries that score highest on our index are still in big trouble,” Gertken said. “Russia got hit by the oil market collapse and they were already seeing a bit of discontent bubbling up domestically. China looks better than others, but they’re also having their first
We covered all of the topics mentioned in the article in greater detail. You can listen to a recording of the full conversation here. **Replay: Politics of the pandemic.**
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