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Investment Event

Trump orders stimulus

US President Trump signed four executive orders over the weekend, providing fiscal aid to households

The key item is a memorandum calling for a USD400 per week federal top-up to unemployment insurance

However, the action is a stop-gap measure – a more comprehensive deal is needed to support the recovery

Our views

There is still a good chance a significant stimulus package can be agreed upon in Congress, even if there is still uncertainty about its timing and magnitude

We remain comfortable with our overweight view on US equities

US President Trump extends unemployment benefits

On 8 August, US President Trump signed four executive orders to boost fiscal policy amid a deadlock between Republicans and Democrats in Congress over the details of a stimulus package to support the economy as it recovers from the Covid-19 shock. The details are:

1. **An extension of additional weekly unemployment insurance at USD400**
2. **A deferral of payroll tax for those earning under USD104,000 per annum**
3. **A deferral of student loan payments until 31 December**
4. **An instruction allowing top officials to consider halting evictions**

The main item is a memo stating that the federal boost to unemployment insurance (UI) benefits should restart at USD400 per week, with the federal government providing USD300 per week and state governments contributing USD100 per week.

Currently over 30 million Americans are receiving unemployment insurance, averaging USD330 per week. In March, Congress agreed to top up all state UI claims by USD600 per week for four months. The nationwide UI top-up expired on 31 July as policymakers failed to agree on how to extend the programme, raising concerns that the hit to household incomes could stall the ongoing US economic recovery.

Challenges remain

Extension of UI benefits has been a major sticking point between Republican and Democrat lawmakers. Democrats have been holding out for the full USD600/week top-up to be extended until January, while Republican senators have raised objections that this would reduce incentives for employees to return to work, proposing a USD200/week top-up instead.

Trump's executive order appears to encourage a compromise between the two positions, allowing the average unemployed worker to retain a significant share of their labour income. However, there are some challenges making it unclear how quickly any funds would reach claimants and how long the extension will last.

1. **Funding**. To fund the federal share of the extended UI top-up, President Trump has instructed USD44bn to be released from the Department of Homeland Security's Disaster Relief Fund (DRF). However, this would only cover fewer than five weeks of payments, unless the unemployment rate falls dramatically.
2. **States' participation**: The UI memo instructs states to use remaining funds from the USD150bn Coronavirus Relief Fund (CRF) to cover their portion. It is unclear how many states can or will adhere to this – e.g. California's CRF share is depleted.
3. **Legal issues**. The US Constitution does not give the president power to authorise changes in tax and spending, while the DRF is usually reserved for natural disasters. This implies the White House may face legal challenges over the executive orders.

Overall, this means that a deal in Congress is still likely to be needed to address the longer-term needs of unemployed workers as well as other constituencies such as renters and small businesses. This is in the context of relatively unfavourable US virus case dynamics that is weighing on the speed of the recovery.

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Market considerations

Positively, there is still a good chance that a significant stimulus package can be agreed upon in Congress, even if there is still uncertainty about its exact timing and magnitude. Federal Reserve policy also remains very supportive in maintaining favourable financial conditions.

Major US equity indices are also benefiting from their exposure to outperforming technology companies that continue to take advantage of underlying structural trends that the Covid-19 pandemic has served to accelerate. For these reasons, we remain comfortable with our overweight view on US equities.

Nevertheless, the ongoing deadlock in the US Congress is one example of “stimulus fatigue” by policymakers - an important downside risk to our baseline macro scenario of a “swoosh type” economic recovery (i.e. a sharp rebound in the near-term followed by a more gradual growth trajectory) that we believe is being currently priced by investors.

We continue to monitor global policy developments very closely.

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