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Markets in a Minute

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Guy Foster, Chief Strategist, discusses the potential impact of Donald Trump's conviction on the upcoming U.S. election. Plus, Janet Mui, Head of Market Analysis, discusses fresh U.S. inflation data.

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The U.S. election is still more than five months away, but last week saw a significant milestone on the campaign trail.

Former President Donald Trump had been waylaid by the inconvenience of a trial for allegedly falsifying business records, in a case that stemmed from efforts to pay hush money to an adult film star. The jury unanimously found him guilty on 34 separate counts, prompting celebrations from many of his adversaries.

The outcome and the circumstances leading to the case would surely have been terminal for the electoral prospects of a conservative candidate for a government position, however, it is unclear whether they will have a material adverse effect on the former president's odds of success.

It would be unusual for a convicted felon to serve as president, but it is not prohibited by the constitution. It would also be impractical for a jailed president to discharge his duties, but jailtime seems unlikely for a first-time offender and would likely be deferred in the event that this was the sentence.

While Trump cannot argue his case in the conservative-leaning Supreme Court, he does have a path and realistic grounds for appeal, so the conviction may yet be overturned.

The market reaction to Trump's conviction

If the conviction doesn't provide any legal impediments to a second Trump presidency, would it provide political ones?

There was a flurry of activity on the PredictIt site, an online prediction market that allows users to buy shares for or against an event such as the U.S. presidential election. This activity briefly saw President Biden overtake his rival but since then, the gap has returned in Trump's favour for now, though a little smaller than it was.

With the impact of Trump's conviction on the electoral race uncertain, there was no discernible market reaction. It remains difficult to say with confidence which candidate the markets would prefer. Neither offers a path to fiscal sustainability, although President Biden would be expected to allow Trump's temporary tax cuts to expire.

At the same time, Trump's erratic and unpredictable execution of foreign and trade policy creates risks which investors won't welcome.

The U.S. bond market was volatile last week, however, with low demand for a five-year auction spooking bond investors. The bid-to-cover ratio of 2.3 was the lowest in a year. This suggests less demand than we have seen in recent auctions, although a ratio of more than two suggests demand levels are generally strong.

More impactful than the uncertain electoral outlook is the uncertain economic outlook for the time being.

Consumer and business confidence improving

Last week, economic data was generally strong, continuing to undermine the case for interest rate cuts. There wasn't a huge amount of economic data, but the Conference Board survey of consumer confidence was notably strong and would seem to undermine the impression that the U.S. economy is slowing down.

It is also worth noting that in the U.S., there is a strong relationship between consumer confidence and a recovery in the value of personal pension plans, which may have left households feeling more positive.

In the UK, business confidence, as measured by a survey of Lloyds' business customers, continues to imply remarkable economic strength. Business confidence seems to have recovered to a level not seen since the end of 2015, before the run-up to the Brexit referendum.

The series, which measures the share of companies increasing prices, rose to an all-time high (this series only dates back to 2018). This will be a challenge to those hoping for continued moderation of price growth. As noted a couple of weeks ago, it is possible that June contains the last significant decline in the inflation rate, before base effects make it more reflective of these near-term price trends.

UK election outlook – as it stands

The UK election is already looming large, with just one calendar month to go at the time of writing. Despite the impression that the economy is strong and gaining momentum, voters seem unmoved.

The political benefits of two successive cuts to National Insurance rates have been limited. Indeed, polling released last week suggested why. Firstly, voters don't believe either party will be able to meet their pledges to lower or even maintain taxes. Secondly, supporters of both parties would have a marginal preference for more spending on public services rather than lower taxes.

The UK election outcome remains Labour's to lose. The next significant milestone would be the release of the manifestos, at which point analysis of tax and spending plans can take place.

However, as polling has revealed, the public has very low trust in government fiscal plans and shares the scepticism of the International Monetary Fund (IMF). The IMF has suggested additional ways of raising tax revenues to meet the demands of increased departmental spending, given the needs for more spending on healthcare and more investment on the carbon transition.

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