Biden's first hundred days

Joe Biden's first hundred days in the White House are certainly impressive. Probably not many people expected such powerful activism from 'sleepy Joe', as Donald Trump called him. Especially since the new president, at 78, is the oldest head of state in US history. The record belonged to Ronald Reagan who in 1989, at the end of his second term, was 77 years and 349 days old. It seems to be an accident of history that these two old men represent two epochal changes: one has already taken place (with Ronald Reagan) and the other is still to be discovered, but is in full and sparkling development. A dialogue, perhaps a clash between elders, to prepare the new world for an ageing western population. Ronald Reagan appealed to the strength of Milton Friedman's liberalism, which also embodied Margaret Thatcher's approach, to restore freedom to the market, then imprisoned in the welfare state controlled by the trade unions. It was a matter of breaking away from the form that the (semi-centralised) economy had taken during and after the Second World War. The comparison with the Soviet model and, above all, with the ideology it expressed, led to the belief that it was necessary, at least in part, to pilot the economy from above, given the ultimate goal: winning the Cold War. Cowboy Ronald Reagan's rhetoric was different and simple: capitalism is stronger than communism. Believe in it and we will win. And so it was.

But it was precisely this success that prevented us, over the next forty years, from seeing the limits of an economy left to itself. Politics, in the industrialised countries (a term used in that period), prostrated itself to the economy, supine. Of course, the creativity that expresses the rationality of profit has created the digital revolution (Microsoft, Apple, Alphabet, etc.), even though the internet, in some respects, was born from the war economy. But the pursuit of profit at any cost and in any place has impoverished the middle class in the West. And this has happened not only in economic terms. The emptiness has also been created at the level of identity, turning into a demographic crisis. The globalisation of the desire to imitate American consumption models has accelerated global warming and the environmental crisis.

Trump gave an instinctive response to America's problems, which he had clearly identified anyway. He then tried to push his country to turn in on itself and do business with the world, primarily China. He did not want to break away from the Reagan model. He wanted to use the relative strength of the United States to impose an unashamedly US-driven capitalist model.

Biden, on the other hand, is a pure politician, trained in Keynesian models before the advent of Reaganomics. He wants to recreate the middle class, the backbone of American success. He is not afraid of being accused of 'leading' the economy. On the contrary, in order to compete in the world, his country must impose a shared model with the states at its centre. The economy goes hand in hand with geopolitics. Internally, it must redistribute wealth, from capital to labour, from the super-rich to the middle class. However, it cannot afford to 'punish' the powerful of the new economy, the leaders of the large multinationals that ensure an all-American global digitalisation. At the international level, it must convince its historical allies, particularly the Europeans and the Japanese, that this transformation will not take place on their shoulders. All this must be defined, i.e. accepted, by the end of the first two years. His majority in Congress is slim and could fray even before the midterm elections. That is why there is so much overwhelming activism in the first hundred days. Trump is still lurking, even if he has been 'silenced' by the media for now.

Biden's leadership relies on Janet Yellen at the Treasury, who is in charge of steering this phase with Jerome Powell at the Federal Reserve. The stock markets have realised this by giving him the best first hundred days since the fourth Franklin Delano Roosevelt: the S&P has risen by almost 10% since his election. But the scale of this success should not be exaggerated. The first few months of the year are traditionally a positive period for stock markets. Especially since analysts have been in the habit of lowering their forecasts for corporate profits after the 2008 crisis. And to find themselves positively surprised when the figures go beyond their modest ambitions. Moreover, Biden, unlike Trump, has understood the importance of beating the pandemic to the punch. Prioritising the vaccination campaign gives the stock markets a whiff of an early normalisation, while the Fed continues to be generous. This frenzy has helped curb financial flows to China, which last year was the only major country with a positive GDP.

Of course, it is said that Biden does not care much about the health of Wall Street. That is probably partly true. But as a fine strategist he knows that even the liberal Reagan had defeated the Soviet Union with the threat of a space shield that only those at the top of a hegemonic financial system, centred on the dollar and the big American banks, could win. At this stage, the new president needs a healthy American stock market to help him make the Republicans digest the increase in corporate taxes from 21% to 28% (perhaps settling for 25%). This is the only way he will be able to pass middle class aid. He could trade this request for investment in infrastructure, which everyone wants, but not in the same way: the left likes *green* and the old Republican economy less.

Internationally, he is focusing on the energy transition (by returning to the Paris Accords) and promoting the OECD targets against tax evasion. American companies would pay at home the taxes they save abroad. In this way, however, Washington's interests are likely to prevail over those of its European and Japanese allies. He would like to nip the web tax, which is being introduced in a number of countries, in the bud, in order to soften the blow for digitalisation companies. With China, the strategy is twofold: to attack Russia, to weaken the country that supplies it with oil, and to demand the sustainability passport (ESG) on export products. Thus, not only does it maintain the customs duties wanted by Trump, but it also wants to force China to produce with the costs of the West (for reality and not just in words).

Biden has put a lot in these first hundred days. Now the real negotiations will begin. A weak dollar at this stage may help him. Although it will then have to come back strong, given the need to finance change. The stock market is not central. But at least until the House votes on its major fiscal initiatives it must remain strong, even if some correction can only be beneficial.

The Federal Reserve must continue to support it. Even though it will not be easy to persuade an excitedly recovering economy. Not to consider the risks of inflation: the return of Keynesian policies historically goes hand in hand with rising prices, as do de-globalising and anti-Chinese policies that create bottlenecks in the production and supply of raw materials.

With the risk that the coronavirus will not stop so easily, the last week of April saw the largest Money Market fund subscriptions for a year: USD 69.16 billion, according to Refiniv-Lipper. While USD 15.3 billion came out of global equity funds and USD 22.2 billion out of US equity funds. However, the corporate earnings and optimism about the post-Covid recovery supported European equity funds, which rose by USD 11.7 billion. In Europe, there is also a feeling of renewed solidity, supported by the new US president, who will have to confirm it with action. Perhaps by helping the Old Continent to regain control of the Mediterranean, thus resizing Erdogan's dreams. The next hundred days of Biden's term could be less linear and more volatile for the stock markets.

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