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Market Update: 3rd June 2020

Trump Faces More Election-Year Turmoil as Protests Erupt Across the US

Just as the US starts to recover from the coronavirus pandemic which has gripped markets and inflicted significant damage on the economy in recent months, the Trump Administration faced fresh challenges this week after the death of George Floyd triggered a wave of social unrest across the country.

Over the week, thousands of people took part in protests across the US over the killing of Floyd, an unarmed black man who died after a white Minneapolis police officer knelt on his neck for more than eight minutes. The incident has renewed concerns about police use of force that helped spark the Black Lives Matter movement in 2013. Tensions ran high over the week as protesters clashed with law enforcement and protests turned violent, with the President taking a hard line on protestors.

In his Rose Garden remarks on Monday evening, Trump offered little to unify the nation, sooth wounds opened by Floyd's killing or call for calm. The president instead presented the might of the US military as his answer to domestic unrest. In a conference call on Monday, President Trump urged governors to "dominate the streets" to quell violence. The President faces harsh criticism as he has so far failed to offer a unifying message to a country already reeling from the coronavirus epidemic and now facing racially charged violence.

The President Loses Public Support Over Protest Response

The current crisis has created an opening for likely Democratic presidential nominee Joe Biden, who has seized on President Trump's missteps, criticising his response, lack of empathy and leadership as threats to involve the military added fuel to the fire. The President faces a dwindling set of options to address nationwide unrest, after backlash erupted over the government's violent dispersal of peaceful protests outside the White House for a photo opportunity in front of a church, plunging the president into more turmoil.

With the November US Presidential Election looming in the distance, democratic donors have been pouring money into Joe Biden's campaign in the wake of the protests, as supporters step up efforts to stop Trump from winning a second term. Fundraisers claim that President Trump's response to the protests and violence that has accompanied some of them have motivated donors to give even more support to Biden ahead of the election, helping Biden to narrow the financial advantage Trump has built for November.

According to a poll released by Monmouth University earlier this week, 74% of Americans feel that the country is on the wrong track, casting doubt over Trump's re-election chances. According to the polling data, Trump's approval rating is currently at 42%, down from 46% in March. His disapproval rate is 54%, up from 48% in March. At the same time, Joe Biden's approval rating has been increasing to 47%. Trump officials have been discussing his threat to send US military forces in to quell rioting and looting, and the possibility for a prime time Oval Office address, however a consensus has not emerged and neither

action is likely to bring an end to the demonstrations. A massive and disproportionate reaction from law enforcement may result in even more prolonged, destructive demonstrations.

No Republican governors have publicly accepted Trump's invitation to send the military to crush riots and looting, and the show of force has failed to deter demonstrations in the nation's capital and other cities. Large crowds of protesters marched through the streets in Washington last night, challenging the city's 7pm curfew and Trump's authority. With only 5 months to go until the election, the President appears weakened and incapable of meeting the moment.

Coronavirus Concerns

Given recent events, there are also concerns that violence in the streets across the US may deepen the other crises occurring on Trump's watch: the pandemic and the economic collapse. Retail businesses that were already struggling to stay afloat may have experienced damage or looting, or more generally that may have driven people back into their homes in concern for their safety. The proximity of thousands of demonstrators even if many are masked, raises the potential for a new surge in coronavirus cases among the groups already hardest hit by the pandemic (being ethnic minorities).

Internal and External Support Wanes

Inside the Republican Party and government departments, the President has been losing support. Republican Senators, Governors and Pentagon officials have been distancing from Trump's actions and threats in recent days, indicating that internal support for the administration is waning. While large scale protests continue across the US, George Floyd's death has also sparked outrage across the world, with protests and angry criticism rising in Africa, Asia and Australia over the issue. Across Europe, people continue to gather in marches to show their support to the Black Lives Matter movement.

Market Reaction & Outlook

Over the week, social unrest was overlooked by investors, as markets continued to rally as investors concentrated on reopening optimism following the coronavirus lockdowns. Data appears to be confirming expectations that the economic data found a bottom in April, however the speed of the recovery remains unclear. Ahead of the US election, Joe Biden has positioned himself as the leader to unify the nation on this key issue, and as a centre ground Democratic candidate, markets are likely to remain supportive in the lead up to the election. A lot can happen in the space of 5 months between now and November, however it is clear that President Trump faces a series of obstacles in his race to win a second term. As markets continue to look past current weakness and ahead to a recovery followed by strong growth in 2021, our outlook remains unchanged, and we remain positive on risk assets moving forward.

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