

THE ELEPHANT IN THE ROOM



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Monteverdi were a Swiss luxury car manufacturer founded by Peter Monteverdi in 1967. His first model, the Monteverdi High Speed 375S, combined Swiss craftsmanship and engineering with US muscle in the form of a Chrysler V8. Production ended in 1982, with Monteverdi's cars now largely only seen at Concours d'Elegance. Today, the United States and Switzerland remain just as close. The US is Switzerland's second largest trading partner, with Switzerland the seventh largest foreign investor in the US. Around 500 Swiss companies operate in the US, generating approximately 317,000 jobs. In Switzerland, US companies employ around 104,000 people.

DISRUPTION

Switzerland offers a unique set of competitive advantages in an increasingly disruptive world. Political and societal change, alongside economic volatility and geopolitical uncertainty have only increased in recent years. The pandemic, Russia-Ukraine war, and the crisis in the Middle East have contributed to serious fiscal issues across developed economies, meanwhile recent technological and demographic changes seem to only increase polarisation. The UK has seen four prime ministers in four years which has, periodically, had issues in their ability to tap debt markets, their standing overseas, and excessive government spending is now leading to the very real fear of tax hikes. Political change is afoot in the rest of Europe too with their own set of issues over and above bringing the day-to-day requirement of getting 27 countries harmoniously together at the decision-making table.

THE US LEADS

The US offers the most deep and liquid markets in the world's dominant currency. Innovation and technology drive the leading US companies that have few rivals and are household names. The Italian PM recently said: "America innovates, China replicates and Europe regulates". Yet, just as there is a crescendo of negative short term news flow on the state of the US political scene, it also needs to be remembered that Europe accounts of 744.9 million people and Switzerland is a gateway for capital and investment.

ANOTHER 4 YEARS

Versus the hype, buzz and build-up of the US elections, the Swiss political scene is a lot more stable. For two countries so tied on many fronts, it is interesting to see the clear differences on others namely the political front.

We asked Artificial Intelligence the question as to how many articles had been written about the US elections and the response was exceptional in its lack of detail. The best it could come up with was to state that thousands of articles had been printed. We remain sceptical on the polls which in 2016 and Brexit did such a bad job. However, there are a few areas to highlight.

"What may make a difference this year is demographics."

It could be the first time in 30 years whereby the Boomer generation (1946 to 1964) are no longer the dominant voting generation, having been pushed aside by the Gen Z (1997 to 2012) and Millennial (1981 to 1996) generations. This, combined with voter turnout, may be significant. The cases against Mr Trump have been very public, but Bloomberg reports that both parties have raised over 165 separate lawsuits across 37 States, which sets an ominous tone to proceedings when the rule of law is required.

EXCESSIVE SPENDING

Deficit spending into an election is not unusual, but it has become the elephant in the room. The US is living, economically, well beyond its means. The Federal Government is spending \$1.39 for every \$1 it collects in revenue, a fact unwarranted given we remain in the expansionary part of the business cycle. Refinancing of the debt and interest costs are huge headwinds to the US, and because of the dominance via collateral of US debt, all global asset classes are affected.

The analysis of what Republicans/Democrats will and won't do isn't set in stone. Indeed, there is an argument that over the long term, the bureaucracy of government continues irrespective of who is sitting in the White House. Our main take away is that neither candidate has displayed any interest in getting spending under control. Control of congress is therefore key as to the ability of either candidate to do what they wish.

The relationship between Switzerland and the US continues to strengthen with similarities and differences. A seat change in the White House isn't going to materially change the economic relationship. However, the world is changing, and Switzerland has a unique part to play that should see it continue to attract capital, wealth and investment.



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