



## Daily Macro Insights: The real September risks

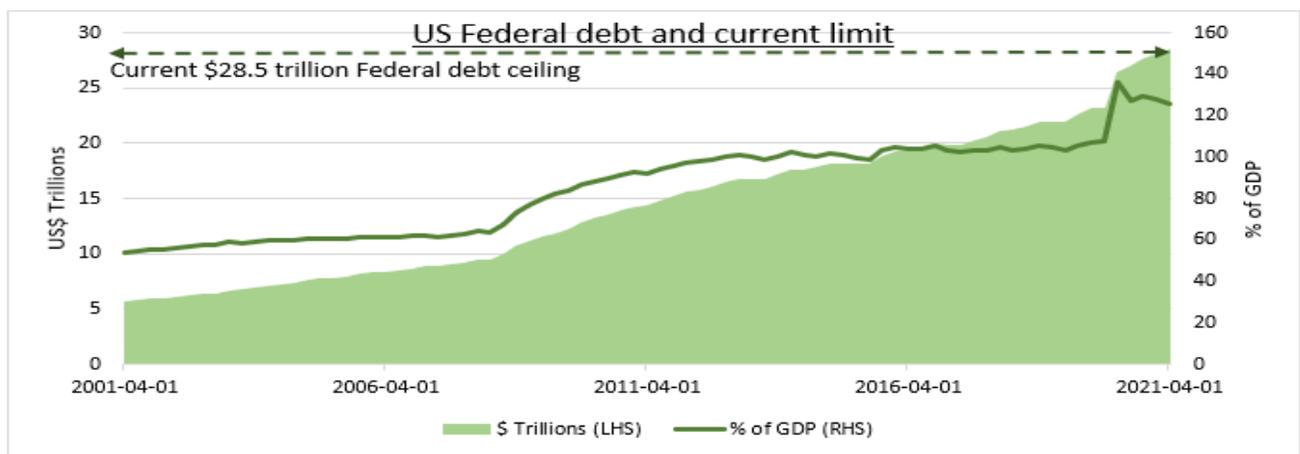
03/09/2021

**SEPTEMBER SEASONALITY:** Investors are overly worried about weak back-to-school September seasonality, as investors and liquidity return to the markets after summer. The S&P 500 has averaged a 0.2% September return the last 50 years, the 3<sup>rd</sup> poorest month of the year, with above average VIX volatility. We expect some volatility after the [remorseless rally](#) since November, but see traditional seasonal patterns as scrambled by the virus and economic re-opening. We see instead two more important looming events in Washington.

**DEBT CEILING:** Congress needs to approve raising the \$28.5 trillion US federal debt ceiling (see chart) by October, to 'protect the full faith and credit' of the US according to Treasury Secretary Yellen. With a polarised political environment and partisan jockeying ahead of the 2022 midterm elections we see plenty of room for delay and brinkmanship. This could see a federal government shutdown, as in 2018/19 for 35 days, or worst case, the US temporarily default on some interest payments, a risk for the \$46 trillion US bond market.

**\$3.5 TRILLION SPENDING:** Democrats are trying to pass a massive \$3.5 trillion plan of education and social spending, equal to 15% of GDP, funded by higher taxes on companies and high-income individuals. Given Republican opposition it needs every Democrat to vote in favour. Plans are for it to proceed alongside the \$600 billion (2.5% of GDP) infrastructure plan, which has broader support. Passage of both would boost GDP and earnings further, offsetting the impact of higher taxes, but likely accelerate the Fed's tightening timetable.

TODAY: US employment report a key gauge of recovery and driver of Fed tightening timing. See 750,000 new jobs, leaving 5 million below pre-pandemic, and unemployment to 5.3%.



Source: FRED, Refinitiv

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