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USA still going strong

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The economic development in the United States has been based on a firm footing since the financial crisis. Especially over the last couple of years, the U.S. outpaced most other advanced economies in terms of GDP growth and the current expansion could soon become the longest in U.S. history.

Debt level on the rise

The amount of total debt increased substantially in the past, especially since the financial crisis. Budget deficit figures are still at an elevated level and there is no sign of a reversal of the trend in the upcoming years.

Fiscal stimulus major part of Trump's policy

While the Federal Reserve has decided to reduce the level of accommodative monetary policy in December 2015 and since then raised the federal funds rate nine times to the current boundaries of between 2.25% to 2.50%, fiscal stimulus as part of Donald J. Trump's campaign pledges was increased in the last couple of years. The policy measures were implemented at a point in time, where the Congressional Budget Office (CBO) estimated output gap was already close to zero or even positive. Inflationary pressures however still remain at the lower bound of the FED's symmetrical 2% target.

Fiscal policy legislation, such as the "Tax Cuts and Jobs Act of 2017" helped to enhance the economic development by reducing the tax burden on corporations and individuals (under current law tax cuts for individuals will fade out until 2027). Although consumer spending contributed substantially to GDP growth, repatriation flows of corporate profits held overseas stayed somewhat muted and were mainly used to finance stock buybacks. Federal spending is likely to rise over the next decade as a result of the aging population and rising costs of health care.

The average yield on total interest-bearing debt has risen to 2.58% on Feb. 28th, 2019, from 2.35% a year ago. As real GDP growth is likely to slow in the near future (CBO estimate for 2019 is 2.3% vs. 3.1% in 2018), the budget deficit forecast for the current fiscal year is estimated at around 900 billion US-\$ and increasing to over 1 trillion beginning in 2022 or between 4.1% and 4.7% of GDP, if current legislation stays in place. Although this is not a sustainable path in the very long run, it should not be an immediate reason of concern either. However, currently there is no common position on a solution as the political parties persist in their viewpoints.

Trade talks continue between USA and China and the European Union

In the upcoming months we will see how trade talks with China and the European Union evolve and to what degree the slowing global economy will affect the United States. Policy measures on infrastructure investments remain currently on a partisan level and it is too early to estimate whether a bipartisan solution on this topic can be agreed on before the presidential election in 2020. This will be an ongoing source for volatility, as these developments will be key for the global growth outlook and risky assets.

Current view on interest rates and the US-Dollar

After the Fed hiked rates during the last years to 2.25% (lower bound) and 2.5% (upper bound), we have a more conservative rates outlook going forward for the Fed. The weakening global outlook already pushed the Fed to delay further tightening steps and recent news flow also indicated a potential further reduction of the central bank balance sheet could be delayed into the future.

Concerning the US-Dollar president Trump is pushing for a weaker US-Dollar. But in times of a weakening global growth outlook and relative to Europe and Japan attractive yield levels, US-Dollar has potential to attract further inflows.

Investments in US-treasuries

An investor that is looking for an efficient way to invest into US-treasuries might find the [ESPA BOND DOLLAR](#) compelling. The ESPA BOND DOLLAR is a fund that has a 30 year track

record in investing in US Treasuries since 13th March 1989, celebrating its 30th anniversary 2019.

Clients investing in the fund buy a US Treasury enhanced strategy with active management of US-DOLLAR Duration and US-DOLLAR exposure. Additionally the fund has the possibility to add investment grade sovereigns, quasi-sovereign and supranational exposure up to a maximum of 25% of the fund. This enhancement should create an interesting pick-up, but keeping a high level of solvency within the portfolio. The client's exposure is US-DOLLAR – the US-DOLLAR-exposure is not hedged to EUR.

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