Daily Insight

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Managing the US government shutdown

US Macro: Avoiding a government shutdown - The process for funding the US government is not always easy. If Congress fails to agree on a deal by 28 April, this could trigger a federal shutdown. Trump's administration wants to prioritise funding for defense, as well as funding for the Department of Homeland Security. The latter would facilitate plans for building a wall at the US border and enforcing restrictions for immigration policies. These remain controversial issues. Republicans and Democrats have failed in the past to agree on levels of discretionary spending. If Congress does not reach an agreement, the lack of budgetary authority may lead to a temporary suspension of federal services. There is already a precedent in 1995 and 2013. The economic implications of past experiences suggest that the effects are moderate. Nonfarm payrolls were slightly weaker, while the shutdown had a limited impact on financial markets. Congress will return next week from a two-week recess, but negotiations have been ongoing to avoid a government shutdown. There are a few options: backing a bipartisan deal or relying entirely on Republican votes. Whichever path is chosen, it will not be easy. Congress can also approve additional funding for a few days or longer until it works out an appropriate bill. Given that Republicans are controlling Congress, we don't think that a shutdown is a strategy, but avoiding it will not be easy. (Maritza Cabezas)

Financials: US banks close with a good quarter, as European banks await their fate - Today, Morgan Stanley became the latest US institution to beat earning expectations, and closed a good quarter for American banks. All major US banks, aside from Goldman Sachs, returned strong expectations and beat analyst expectations. Fed interest rate hikes and a loosing of regulation all took part in the narrative. Translation to the European market, where the earning season begins next week, should indeed be positive. We expect slightly improved earnings results, with an overall solid output from European institutions. The macro picture is slowly improving, default rates remain at all-time lows while, and cost management has been enhanced. However, the symbiosis from the US market to the European is not as prevalent. European rates are indeed rising, however they still significantly lag their US peers. Net interest margins, have increased for US names, but this is unlikely to be the case though for European names, who still await an environment that would be conducive for central bank monetary tightening. Similarly, the European banking market remains far less concentrated when compared to their American peers, whereby national authorities and differing capital requirements have curbed the ECB desire for consolidation. Overall, we expect European bank earnings to improve compared to Q4, which should also be broadly positive from a debt perspective. (Tom Kinmonth)