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The new US infrastructure programme

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1. BILANZ Private Banks Private-Banking-Rating 2021

In the 1930s, US President Franklin D. Roosevelt combated the economic recession and depression with a massive economic stimulus programme known as the New Deal. Although its economy has returned to good health since the peak of the pandemic in 2020, the US is rolling out another economic programme with the primary aim of improving national infrastructure. This planned government expenditure will provide a boost to future technologies and help modernise America's transport and electricity networks.

Although it was not long ago that the US authorities approved their third economic stimulus package since the start of the coronavirus pandemic (totalling USD 1,900 bn), efforts to stimulate the American economy are already entering the next phase: With the next USD 1,200 bn infrastructure programme, which envisages some USD 550 bn of immediate new spending, total US government economic stimulus will amount to more than USD 5,500 bn since 2020 – a figure that excludes the massive monetary stimulus provided by the US central bank (Fed), which is itself without precedent.

According to a report by the World Economic Forum (WEF), the US currently languishes in 16th place in terms of the quality of its infrastructure, despite being the world's largest economy. Anyone who has driven on American roads or landed at American airports in recent years will have seen the frequently decrepit state of US transport infrastructure. Accordingly, the key elements of the new US infrastructure programme revolve around the renovation of roads, railways, bridges and airports.

Furthermore, USD 65 bn has been earmarked for broadband networks and USD 169 bn for the improvement of water and electricity supply, with a particular focus on environmental improvements. Ports and canals are likewise set to be modernised, thereby potentially easing some of the severe transport and supply problems facing the US in the not-too-distant future. The infrastructure programme also includes the rollout of electric buses and a network of charging stations for electric vehicles. Global equities (both US and non-US) from various sectors of the economy could receive extra stimuli from America's new economic infrastructure programme.

> "The huge US government spending plans look set to favour equities over bonds over the medium term."
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> Gérard Piasko, Chief Investment Officer

US President Joseph Biden has made it clear that the infrastructure programme is at least partly a response to the challenge posed by China's continued aggressive rise as a global superpower. A chunk of the future expenditure on infrastructure will therefore be channelled into the modernisation of internet access in the US and other key strategic technologies.

Last but not least, the need for infrastructure spending on technologies of strategic and military importance to both the US and the EU is increasingly evident from the recent and more worrying geopolitical developments: China's military build-up – as evidenced from its expansion into the South China Sea and international waters – along with its threats against Taiwan and policy towards Hong Kong are just some examples of this. Closer to home, as well as verbal attacks from Russia and its ally Belarus against the EU over events on the Polish border, we have also seen increasingly belligerent Russian behaviour towards Ukraine. Unsurprisingly, gold has been a recent beneficiary of these heightened geopolitical tensions.

US expenditure on infrastructure through the above-mentioned programmes is being staggered over a period of eight years or so, and will probably also have to be financed by tax increases in the medium term. Even so, the US budget deficit and total outstanding US government debt, both of which have recently increased by more than 15 percentage points of gross domestic product, will not diminish any time soon. In the medium term, this could perpetuate the clear trend we have seen this year towards higher yields (i.e. falling prices) of US government bonds. By contrast, the future looks rosy for global equities of companies set to benefit from the US infrastructure programme, as they will see their order books swell as a result of government expenditure on infrastructure expansion, construction activity, electric car charging stations and the modernisation of electricity, technology, energy, transportation and water supply networks.

Conclusion: In the medium term, the US infrastructure programme unveiled by the US President could favour equities over bonds not just in the US, but also globally.

Gérard Piasko

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