Civil unrest

Contents
First wave failure 1  Crumbling institutions 3
Stop the killing 1  Polarization 3
V or W? 2  Only the beginning? 4

Summary
- In contrast to most other developed countries, the first wave of COVID-19 has not been suppressed in the US. Both at the federal and state level institutions are failing.
- Protests against COVID-19 measures and against racism reflect a lack of trust in US institutions that predates the outbreak of the virus. In a polarized society trust in institutions is likely to be vulnerable.
- No matter who wins the elections, the turbulence in US politics and society is not likely to pass. In fact, what we are seeing now may be only the beginning.

First wave failure
In the last months we have seen the US taking a descent into chaos. In contrast to most other developed countries, the first wave of COVID-19 has not been suppressed. In fact, in June the daily amount of new confirmed cases surpassed the initial peak reached in April. At the same time, a coherent federal plan to turn this around seems lacking. At the state level, economies have been reopened before meeting the criteria set out earlier by the White House. At the individual level, we have seen many protests against measures to contain the virus.

Figure 1: Daily change in confirmed cases of COVID-19 (1 wk MA)

Source: ECDC, Macrobond

Stop the killing
Meanwhile, protests of another nature have taken over the streets. The endless series of police killings finally sparked a national outrage when images of the Minneapolis police murdering...
George Floyd were seen around the world. Of course this was nothing new. In fact, over the years many black Americans have lost their lives at the hands of the police. In most cases, the police got away with it. However, in this age of smartphones with cameras and social media, white Americans finally saw what black Americans experience.

Earlier during the coronavirus, the second rate US citizenship of black Americans was evident in the asymmetric impact of COVID-19 that we noted in the April Monthly Outlook. According to CDC data (Table 1) black Americans have a COVID-19 associated hospitalization rate almost 5 times that of white Americans, adjusted for age. In fact, for native Americans this ratio is even higher. Living conditions, work circumstances and healthcare inequities put several ethnic minority groups at increased risk during COVID-19 according to the CDC.

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Hospitalization per 100K population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Native American</td>
<td>221.2</td>
</tr>
<tr>
<td>Black</td>
<td>178.1</td>
</tr>
<tr>
<td>Hispanic</td>
<td>160.7</td>
</tr>
<tr>
<td>Asian or Pacific Islander</td>
<td>48.4</td>
</tr>
<tr>
<td>White</td>
<td>40.1</td>
</tr>
</tbody>
</table>

Source: CDC

V or W?

In sharp contrast to the widely broadcast civil unrest, stock markets have rebounded rapidly and the economic data for May and June suggest that the real economy is following. However, we should note that the recovery in the stock markets did not start until after the Fed had cut rates to zero, announced QE Infinity and launched its special lending facilities, which included corporate bonds. The recovery in the real economy follows a sharp contraction caused by the outbreak of COVID-19 and the lockdown that followed. The decline in economic activity in March and April was so steep that it caused both Q1 and Q2 GDP growth to be negative. The rebound we are now seeing is simply the effect of opening up the economy again. This is a mechanical rebound, and as we explained in The Recession of 2020: The Horror Version, we will have to wait until Q4 before we could see demand fluctuations determine GDP growth again. Then we will see how much damage really has been done.

Figure 2: S&P500 and the federal funds target rate

Source: Macrobond
Crumbling institutions

So at the moment there is this sharp contrast between the economic data and stock price levels on the Bloomberg screens and the images and discussions on TV. Note that both types of protests we mentioned, against COVID-19 measures and against racism, reflect a lack of trust in US institutions that predate the outbreak of the virus. In fact, data collected by the Pew Center show that trust in the federal government has fallen since the mid-1960s. In terms of economics, institutions are not working for Americans, unless you are one of the 1%. In terms of civil rights, institutions have failed black Americans and native Americans in particular.

Figure 3: Trust in government

Polarization

What’s more, in a polarized society trust in institutions is likely to be vulnerable. US politics has become polarized. Today, liberals vote for the Democrats and conservatives for the Republicans. This was not always the case however. In the 1950s there were liberals and conservatives in both parties. In fact, while many millennials regard the Democratic party as a beacon of political correctness, this party was a broad coalition that included Southern segregationists (= white supremacists) until the 1960s. Also, both in the Senate and the House of Representatives a higher percentage of Republicans voted for the Civil Rights Act of 1964 than Democrats. However, when Southern Democrats started to switch to the Republican Party after the Civil Rights Act, Northern liberals switched to the Democratic Party and this led to the sorting of liberals and conservatives between the two parties. Subsequently, the two parties were also sorted by race, religion and geography. This sorting process was a prelude to the polarization between the two parties. Political affiliation became part of someone’s identity. This also led to an increased aversion to the other party. The tone between the left and the right has become increasingly hostile. In light of this the polarization that we have seen in recent years is not caused by Trump, rather it is the other way around. The election of Trump is a consequence of this historical process. Polarization made it possible.

Moreover, polarization is even visible in opinions about the coronavirus outbreak (Table 2). With a lack of direction from the federal government, this makes a coherent national policy to get the outbreak under control very difficult.
Table 2: Opinions about COVID-19 outbreak by political party preference

<table>
<thead>
<tr>
<th>Topic</th>
<th>Democrats (%)</th>
<th>Republicans (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The worst is still to come</td>
<td>76</td>
<td>38</td>
</tr>
<tr>
<td>Very or somewhat concerned they will get COVID-19 and require hospitalization</td>
<td>64</td>
<td>35</td>
</tr>
<tr>
<td>Very or somewhat concerned they might unknowingly spread COVID-19 to others</td>
<td>77</td>
<td>45</td>
</tr>
<tr>
<td>Masks should be worn in public places always</td>
<td>63</td>
<td>29</td>
</tr>
<tr>
<td>Actions of ordinary Americans affect how the coronavirus spreads a great deal</td>
<td>73</td>
<td>44</td>
</tr>
<tr>
<td>Additional economic assistance package will be necessary</td>
<td>87</td>
<td>51</td>
</tr>
<tr>
<td>Economic conditions will be better in a year</td>
<td>38</td>
<td>67</td>
</tr>
</tbody>
</table>

Source: Pew Research Center, Survey June 16-22, 2020

Only the beginning?

The question is where does the US go from here? If President Trump is re-elected, he will be at the wheel for four more years, but this time without any restrictions imposed by concerns about re-election. If Biden takes the White House, federal policies will shift to the left again (for more details see the May Monthly Outlook). But will this lead to renewed trust in institutions? Perhaps for some on the left, but what about the rest? In a heavily polarized country, there is little common ground. Meanwhile, if right-wing populism is expelled from the White House, this does not mean it is going to disappear. It will only reorganize. Hopefully in the political arena, but we could also see another boost to violent right-wing extremism. In fact, right-wing attacks and plots account for the majority of terrorist incidents in the US since the mid-1990s. In the last six years, this has grown substantially (Figure 4). So no matter who wins the elections, the turbulence in US politics and society is not likely to pass. In fact, what we are seeing now may be only the beginning.

Figure 4: Number of terrorist attacks and plots in the US

Source: CSIS
Client coverage

Wholesale Corporate Clients

Martijn Sorber  Global Head  +31 30 712 3578  Martijn.Sorber@Rabobank.com
Hans Deusing  Netherlands  +31 30 216 9045  Hans.Deusing@Rabobank.com
David Kane  Europe  +44 20 7664 9744  David.Kane@Rabobank.com
Neil Williamson  North America  +1 212 808 6966  Neil.Williamson@Rabobank.com
David Teakle  Australia, New Zealand  +61 2 8115 3101  David.Teakle@Rabobank.com
Ethan Sheng  Asia  +852 2103 2688  Ethan.Sheng@Rabobank.com
Ricardo Rosa  Brazil  +55 11 5503 7150  Ricardo.Rosa@Rabobank.com

Financial Institutions

Youssef El Mir  Short Term Interest Rates  +31 30 216 9454  Youssef.El.Mir@Rabobank.com
Henk Rozendaal  Interest Rate Derivatives  +31 30 216 9423  Henk.Rozendaal@Rabobank.com
Huib Verbeek  Bonds  +31 30 216 9612  Huib.Verbeek@Rabobank.com
Martijn Sorber  Solutions  +31 30 712 3578  Martijn.Sorber@Rabobank.com

Capital Markets

Herald Top  Global Head of Capital Markets  +31 30 216 9501  Herald.Top@Rabobank.com
Christopher Hartofilis  Capital Markets USA  +1 212 808 6890  Christopher.Hartofilis@Rabobank.com
Ian Baggott  Capital Markets Asia  +852 2103 2629  Ian.Baggott@Rabobank.com
Willem Kröner  Global Head of Equity Capital Markets  +31 30 712 4783  Willem.Kroner@Rabobank.com
Harman Dhami  DCM Syndicate  +44 20 7664 9738  Harman.Dhami@Rabobank.com
Crispijn Kooijmans  DCM FIs & SSAs  +31 30 216 9028  Crispijn.Kooijmans@Rabobank.com
Bjorn Alink  DCM Securitisation & Covered Bonds  +31 30 216 9393  Bjorn.Alink@Rabobank.com
Othmar ter Waarbeek  DCM Corporate Bonds  +31 30 216 9022  Othmar.ter.Waarbeek@Rabobank.com
Joris Reijnders  DCM Corporate Loans  +31 30 216 9510  Joris.Reijnders@Rabobank.com
Brian Percival  DCM Leveraged Finance  +44 20 7809 3156  Brian.Percival@Rabobank.com
Disclaimer

Non Independent Research

This document is issued by Coöperatieve Rabobank U.A. incorporated in the Netherlands, trading as Rabobank (Rabobank), a cooperative with excluded liability. The liability of its members is limited. Rabobank is authorised by De Nederlandsche Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM). Rabobank London Branch (RL) is authorised by the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and PRA. Details about the extent of our authorisation and regulation by the PRA, and regulation by the FCA are available from us on request. RL is registered in England and Wales under Company no. FC 11780 and under Branch No. BR002630. This document is directed exclusively to Eligible Counterparties and Professional Clients. It is not directed at Retail Clients.

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of Investment Research and is not subject to any prohibition on dealing ahead of the dissemination of Investment Research. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. No reliance may be placed by a recipient on any representations or statements made outside this document (oral or written) by any person which state or imply (or may be reasonably viewed as stating or implying) any such impartiality.

This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by RL or any of its affiliates to enter into a transaction. This document does not constitute investment advice and nor is any information provided intended to offer sufficient information such that it should be relied upon for the purposes of making a decision in relation to whether to acquire any financial products. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness.

The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of RL as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed in this document are subject to change without notice.

To the extent permitted by law, neither RL, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, RL or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document (or related investments) or may otherwise have conflicting interests. This may include hedging transactions carried out by RL or other legal entities in the group, and such hedging transactions may affect the value and/or liquidity of the securities described in this document. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of RL. By accepting this document you agree to be bound by the foregoing restrictions. The distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions.

Please email fm.global.unsubscribe@rabobank.com to be removed from this mailing list

A summary of the methodology can be found on our website www.rabobank.com

© Rabobank London, Thames Court, One Queenhithe, London EC4V 3RL +44(0) 207 809 3000