MacroOverview

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October Edition

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GLOBAL VIEW

By the end of September, the US will have to make crucial decisions that would steer the country either to problems or stability.

Nancy Pelosi, House Speaker, wants the Democrats to approve two huge packages: the first is a $1 trillion bipartisan infrastructure bill and the second is a $3.5 trillion spending bill that would inject an unprecedented amount of federal dollars into the social safety net, climate change mitigation and education.

On top of that, US debt keeps growing and no measures are being taken to reduce it. Republicans and Democrats keep making a fuss over who should take up the responsibility of raising the country's borrowing cap. Democrats insist that it should be done on a bipartisan basis, defending that since both parties have incurred lots of debt throughout the years. Republicans, on the other side, who voted for debt limit suspensions whilst Donald Trump was still President, now say there is no need for them to help because since Democrats want to approve 2 packages worth $4.5 trillion, they should just increase the debt ceiling.

What is the debt limit?

The debt limit mainly exists because the US is spending more than it can bring in, through taxes and others, therefore it must borrow large amounts of money to pay the country's bills. It is a limit on the amount of debt the country can incur to pay its obligations.

However, there might be no reasons for concern, since this event has become a recurring one. In reality, the United States had already hit its debt limit at the end of July, which was previously dated by a two-year extension that Congress agreed on in 2019.

According to the Bipartisan Policy Center, the Treasury will run out of cash sometime between October 15th and November 4th. However, this date is hard to predict taking into consideration all the stimulus cash that the government distributed during the pandemic.

How much debt?

To have an idea of the number, the U.S. national debt stands at $28.45 trillion, according to Peterson Foundation's live tracker. By October 18th, the US reached its debt limit once again, which forced U.S President, Joe Biden, to temporarily increase the government's borrowing limit to $28.9 trillion, assuring the deadline of debt default until December.

For many years, raising the debt ceiling was a common measure. For example, in the 1990s, the debt limit would be increased every time a new budget resolution was passed. But with new geopolitical factors, the political landscape changed completely. Yet despite that, the debt kept increasing, and just like that the US fell into its own trap.

During the presidency of Barack Obama, the same problem had to be faced. The U.S Treasury Officials suggested very creative and different approaches, such as the trillion-dollar coin, which later Mr. Obama described as "wacky".

What's the future?

The debt keeps increasing and shows no signs of slowing down. It often seems that the risk of debt defaulting outweighs U.S fiscal responsibility, which is then encouraged by the debt limit.

Many members of the Democrat Party support legislation to abolish the debt limit. The latter measure would only meet the Democrat's interests of approving the $4.5 trillion stimulus package they seek. On the other side, the Republicans can't fathom out the approval of such legislation considering the Debt problem the US has, however, the Democrats remain adamant regarding their objectives and so, only the future reconciliation between the two parties will allow us to see the future the US awaits.

Sources: *The New York Times, PGPF, Statista*

PORTUGAL IN THE WORLD

The ECB basement is full of Portuguese public debt

Portugal, without the European Central Bank, would be in a hard situation. Although this is something hypothetical, if we want to understand it that way, it is something completely realistic. Essentially this is said for three reasons: Portuguese public debt is astronomical; add to this the low competitiveness and productivity of the Portuguese economy; meanwhile, there is no significant economic growth.

This guardian angel (whom we should call the ECB) is the one who has kept the Portuguese economy protected. If we take into account the past year, this behavior has been even more visible. Let us focus then on the Portuguese public debt. If we look at the numbers from 2014 (the end of the adjustment program) until 2021, the gross public debt went from 224 billion euros to 273 billion euros. In six years, we are talking about an increase of almost 50 billion euros.

According to Público, in the pandemic, more than twice the debt issued by Portugal was bought by the ECB. Faced with this statement, two questions occur: is it the mission of this institution to buy up states' debt? And when this expansionist behavior ends, will Portugal be prepared to face the problem?

Regarding the first question, the answer is simple. It is written in the European treaties that central banks cannot buy states' public debt because this is called monetary financing of the budget deficit. This deficit has to be financed by the market and not necessarily by the central banks. The reason is that central banks are the ones who have the power to create unlimited money. Therefore, to be issuing money to finance expenditure and, if we add to this little growth of GDP, it can only result in inflation.

Now, the answer to the second question follows from the existence of inflationary pressures. The (rather generous) monetary policy of the ECB has determined that, despite these significant increases in debt, in gross terms, interest rates remain low. And Portugal has indeed benefited from very low-interest rates to finance itself. However, inflationary pressures are currently very much present in the United States and Europe. The Fed has already said that inflation is transitory, however, it has also announced that it will soon reduce its quantitative easing program. And the ECB? What will it do to stop this rise in inflation? One possibility would be to raise interest rates, but this would imply more problems for the most indebted European countries, where Portugal is included. So, it seems that the day the ECB changes its monetary policy, namely to respond to inflationary pressures, Portugal will once again be in a very delicate situation vis-à-vis the international markets. On the other hand, ECB could just accept inflation above average (2%) — which is the most likely scenario.

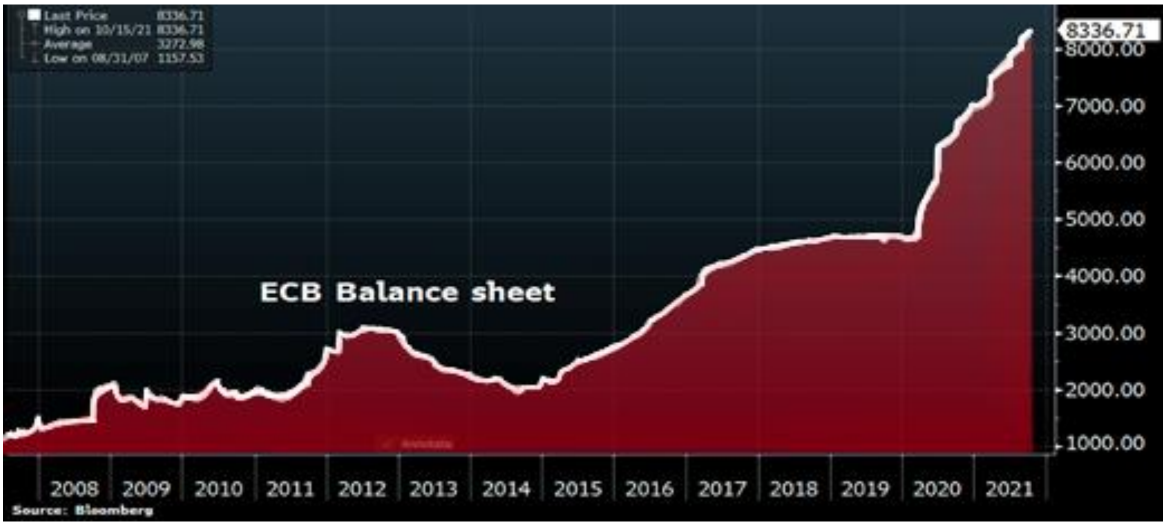

Figure 1 – ECB Balance Sheet (Bloomberg Terminal)

Are we in a bubble?

So, the most ambitious ECB asset purchase program ever led to the ECB's basement being filled with Portuguese public debt. According to calculations made by Público: “based on information made available by the ECB and the Portuguese Treasury, the Bank of Portugal and the ECB already hold 46.1% of the total OT and BT issued by Portugal”. This overwhelming response was decisive in keeping interest rates at historic lows.

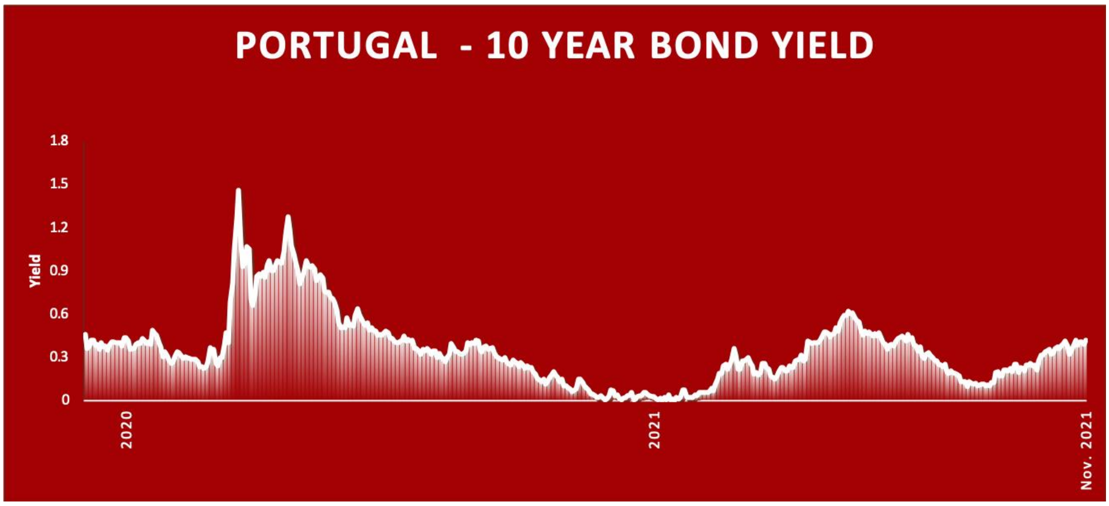

Figure 2 – Portugal 10 Year Bond Yield (World Government Bonds)

Will this behavior last forever? Is it a bubble? Because even if the ECB doesn't change the monetary policy, we must be very clear that this, on the other hand, also constitutes a risk, which is exactly what we are seeing today: high public debt. An indebtedness that does not bring economic growth, nor wealth to the population. However, if the policy does not change substantially, why should Portugal change the way it is financing itself?

Sources: *Holger Zschaepitz, SIC Notícias, World Government Bonds*

WILD CARD

Facebook's "Monday Blues"

On October 3rd, former Facebook product manager, Frances Hauge, exposed Facebook on "60 minutes" for prioritizing profit more than hateful content control.

According to her, Facebook's management team regularly gives polarizing and hateful matters more dissemination and influence than it should. As she told "60 minutes" - "There were conflicts of interest between what was good for the public and what was good for Facebook. And Facebook, over and over again, chose to optimize for its own interests, like making more money".

Amongst the evidence she leaked, there was an internal Facebook investigation which revealed that the company solely addressed 5% of all the malicious content present on their websites/apps. Furthermore, it was also stated that security measures that were active during the 2020 U.S election were rapidly deactivated after Biden's win, which aided the happening of the January 6 Capital riots.

Haugen's legal team filed eight charges with the SEC, which focus on Facebook's public announcements regarding how their platform was used to organize the January 6 Capitol riot, its effectiveness in removing hate content, and how Instagram worsens body image problems.

Two days after, on Tuesday, Hauge was present on Capitol Hill to testify during a hearing of the Senate Commerce, Science and Transportation Subcommittee on Consumer Protection, Product Safety, and Data Security.

Also, on October 4th, Facebook went through its worst service blackout in the last thirteen years. Facebook and its group of apps, like WhatsApp and Instagram, were down for more than six hours, interrupting communication for billions of people worldwide and revealing just how reliant people have become on a corporation that is under extreme investigation.

After these happenings, Facebook's shares plunged by roughly 5% and Mark Zuckerberg's net worth decreased by $6.6 billion, making it the steepest fall since almost a year and making him fall into the sixth place on the world's richest list, in just a few hours.

Sources: *Yahoo Finance, CNBC, Reuters, Bloomberg, CNN*

Our Team

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