

US Economic Leadership: Not changing any time soon

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The tragic events unfolding in the Ukraine highlight the geo-political risks that investors must factor into their planning and poses once again the question of where is it safe to invest.

In moments of crisis, funds frequently flow to the US, and we see no reason why this time should be any different. The US remains the largest, most dynamic, innovative, and wealthiest economy on the planet.

The US economy is not without its problems, and it is also true that US assets trade at a premium making them more expensive than similar assets elsewhere in the world, but consider the facts:

In the US, per capita GDP (measured at 2015 PPP) is \$63,000, the UK on a comparable basis is a third lower at \$44,000, whilst Chinese GDP comes in at \$23,000, roughly equal to that of Russia. Furthermore, the majority of international trade is conducted in US dollars; the Yuan, and Rouble do not command international confidence, and the Euro and Sterling are small players in international reserves.

China would like to take a larger share of international payments and post-Ukraine, behind the newly erected Iron and Bamboo curtains, this may happen, but it will be at the margin. China cannot provide convertibility nor the overriding legal, governance and property rights that characterise democratic nations in general and particularly the US.

America like much of the developed world has seen declining productivity since the onset of the financial crisis. But, unlike many other economies, the US under President Joe Biden is undertaking an investment programme in domestic infrastructure and capital stock designed to raise US productivity.

The “Build Back Better” programme ties into the findings of the American Society of Civil Engineers which estimates improving US infrastructure would add \$10 trillion in GDP by the end of the decade. There is an authentic US growth story there, even without considering “Big Tech.”

In his attempt to subvert the prevailing world order Mr Putin may, inadvertently from his perspective, have strengthened the investment credentials of the West in general and the United States of America in particular. It is for these reasons, alongside the US economy's lower reliance on overseas energy than most developed economies, that we remain convinced that higher valuations are a sign of US strength rather than what in previous economic cycles would have been deemed a negative consideration when investing from the UK.

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