# Stimulus - Quick hits

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## What happened?

President Biden's massive $1.9T COVID relief package was passed through the budget reconciliation process and signed into law. The bill is much larger than initially expected, and full of immediate Democratic priorities including $1,400 checks for most Americans, an extension of enhanced unemployment benefits, a large expansion of child tax credits, and state and local aid. The speed with which the bill was passed, and surprising intra-party unity, will likely embolden the Biden Administration to press forward quickly on further Democratic priorities.

## What's the impact?

This stimulus bill will be a significant driver of growth in 2021 and to a lesser extent into 2022. Stimulus checks will filter into the economy over the coming weeks while an extension of the enhanced unemployment benefits will continue to provide a backstop for unemployed workers at least through the summer. However, not all funds will immediately filter into the economy as recipients such as states, local governments and schools may use the money to pay down debt or add to rainy day funds. But the fact remains that this is a massive amount of stimulus – more than double the 2009 American Recovery and Reinvestment Act – and comes as the economy is already gaining reopening related momentum.

## What's next?

Though the Biden Administration was able to get some of their wish list items into the COVID relief bill, work now begins on key planks of their 'Build Back Better' economic agenda. Going forward infrastructure and taxes will take center stage.

Democrats will likely present their next bill as an infrastructure package, but we expect it will contain many aspects outside of traditional highway, bridge and tunnel projects. For example, we also expect significant proposed spending on broadband expansion and green infrastructure projects.

Infrastructure spending in general has bipartisan support, but the large scale and politically sensitive aspects of this effort will make it hard to pass on a bipartisan basis. The significant proposed spending on green infrastructure, for example, may be a non-starter for most Republicans as the Biden Administration aggressively targets to remove carbon emissions from the electricity sector by 2035. With significant Republican hesitation, we believe the Biden Administration may ultimately choose to pursue reconciliation for most of the additional spending, with perhaps a smaller bipartisan bill for the less contentious aspects. In order to satisfy the rules of reconciliation on an infrastructure bill, Democrats have two options – they can either come up with offsets via higher taxes or wait until the new fiscal year in October and not fully pay for their plan.

Throughout the presidential campaign President Biden ran on increasing taxes on the wealthy and corporations. We don't believe those were empty threats, and though we are coming out of a recession, the rate of economic growth may embolden the Democrats to proceed with tax increases. On the personal side, the most likely changes will be an increase to the top marginal tax rate and capital gains taxes, particularly for the wealthy. On the corporate side, proposed increases could raise the current 21% level to something between 25% and 30%. However, it is far from certain how the tax negotiations will evolve, as even within the Democratic Party there are differing views on the need to pay for the next spending package.

## Our take

As state COVID restrictions loosen and a larger percentage of the population gets vaccinated, we expect the economy to experience a prolonged period of above trend growth. The potent combination of loose monetary policy and increased government spending should lead to increased consumer spending, especially given the elevated current savings rate and additional stimulus checks going out to households. An increase in infrastructure spending will take longer to impact growth but could provide a net positive for the economy over the longer term, especially given the underinvestment in infrastructure over the prior decades.

The biggest risk is that the economy becomes over-stimulated, which could lead to inflation, rising interest rates, and excessive speculation. We recognize these risks, and believe inflation will increase in the short-term, but not enough to cause a prolonged spike in interest rates. For these reasons, we remain overweight equities and risk assets, believing that both economic growth and corporate earnings will sustain an upward trend.

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