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100 Days of President Biden



Since Franklin D. Roosevelt was seated in the Oval Office, the “100 day milestone” has been observed, upon which the early progress of incoming Presidents is assessed. Joe Biden, the 46th President of the United States, has now passed this symbolic bookmark in his presidency, and thus far, despite a wafer-thin Democratic majority in Congress – it can be said that he has made a strong start in pushing his agenda which included tackling the health crisis, catalysing an inclusive economic recovery and overhauling climate policy.



BIDEN'S POLICY MIX

Biden is operating against the backdrop of a purple Congress (i.e. a strong mix of Democratic Blue and Republican Red), in a politically polarised nation. Rather than going all-in on individual large-scale initiatives which can be divisive (e.g. universal healthcare), Biden is focusing on a scattering of popular policies: access to preschool and community college, paid family and medical leave, care and investment in infrastructure. While we in the financial world are discussing pent-up demand for consumer goods, Biden is focusing on the pent-up demand for public goods that had accumulated over the years before being exacerbated by the pandemic.

Cognizant of his slim majority in Congress, Biden has used 42 executive orders (more than any president since Harry Truman) thus far, which he can enact on his own. For example, he has re-entered the US into the Paris Climate Accord, halted the withdrawal from the World Health Organization, raised the minimum wage for federal contractors to \$15-an-hour from \$10.95, and pressed pause on the construction of the US-Mexico border wall. In total, he has undone 62 out of 219 orders signed by former President Donald Trump.

Biden has only had 11 bills signed into law (these need to traverse Congress) - among the fewest for any newly elected president dating back to Roosevelt.

Nonetheless, his actions so far can be summed up as expansive and ambitious... To quote Elvis, you could describe his presidency as "a little less conversation and a little more action": Biden sends roughly 1/3 of the amount of Tweets that his predecessor was sending per day.

THE HEALTH CRISIS

President Biden's most pressing priority was the Coronavirus crisis. Biden's goal of administering 200 million COVID-19 vaccinations in his first 100 days was met early and now, more than 230 million vaccines have been administered in the US: More than 139 million people, or about 54% of the adult population, have received at least one dose, while more than 95 million, roughly 37% of the adult population, are now fully vaccinated.

Next, Biden aims to declare herd immunity (this is when c. 80% are deemed immune) by US Independence Day on July 4th. To achieve this, substantial obstacles must be surmounted. Firstly, there is a fear that vaccine demand has peaked, with tens of millions of Americans exhibiting vaccine hesitancy. Further, children below the age of 18 years account for roughly 24% of the US population. The process of granting authorisation for the emergency use of vaccines for children of all ages, could take months months. Dr. Anthony Fauci, Chief Covid-19 advisor to the President, has predicted that high school students are likely to be vaccinated by Fall 2021, while younger children may have to wait even longer.

At the same time, while extraordinary progress has been made in increasing vaccine manufacturing capacity and ensuring efficient distribution of vaccines at home, Biden now faces

a new test on the international stage. With cases surging in India and South America, the White House is under intensifying pressure from the international community and left-leaning Democrats to commit to increasing the vaccine supply by loosening patent and intellectual property protections on coronavirus vaccines.

THE ECONOMY

The economic recovery following a simultaneous supply and demand shock was also central to Biden's policy agenda. Most notably, Biden has pushed a \$1.9 trillion coronavirus relief bill through Congress while announcing a series of fiscal stimulus measures that usher in a new breed of "go big or go home" economics: "Bidenomics". These include:

The \$1.9trn American Rescue Plan (passed in March 2021) - This was designed to prevent households and business falling off of an income cliff. It included new direct payments to American households (\$1400 per person), extensions of unemployment benefits, tax credit expansions and aid for state and local governments.

The American Jobs Plan (\$2.25trn) - This encapsulates Biden's motto of "Build back better" and aims to create millions of jobs while "rebuilding America's crumbling infrastructure" over a period of eight years. This involves upgrading roads, bridges and ports and modernizing the electricity grid, while emphasising sustainability and the energy transition.

The American Families Plan (\$1.8trn) - This new proposal would see \$1.8 trillion in federal investment into education, child care and paid family leave.

The American Tax Plan - Biden's proposed and realised packages together carry a c. \$6 trillion price tag. With the US twin deficits already burgeoning (national debt stands at \$28 trillion), the question is how to cover the costs? The proposals see the bill divided between corporations (roughly 2/3 of the total) and high income individuals (roughly 1/3), through higher taxes. As part of a tax overhaul, among other measures, the Biden administration intends to:

- Raise the domestic corporate tax rate from 21% to 28%
- Apply a global minimum corporate tax rate of 21% on overseas income
- Return the highest income tax rate for individuals to 39.6% (where it stood from 2013 to 2017), up from the current 37%.
- Hike capital gains tax for those who earn over \$1 million per year, to 39.6% from the current 20%.

It is worth noting that the final three proposals have not been legislated and may be subject to dilution.

TACKLING CLIMATE CHANGE

Biden is very much focused on tackling environmental and social issues. The aforementioned stimulus bills have a green tinge to them. On the global stage, Biden has re-entered the US in the Paris Climate Agreement and on Earth Day, he committed big on the fight against climate change, stating his ambition to half US carbon emissions (as measured at 2005 levels) by 2030. While still vague on how he intends to achieve this goal, we believe this is an important and emulative announcement, with wide impacts beyond US borders. Closer to home, he has revoked the permit for the Keystone XL pipeline and seeks to eliminate tax credits for the fossil fuel industry.

IMPLICATIONS FOR INVESTORS

The ability of a country's economy to recover from the coronavirus pandemic is largely dependent upon virus containment. Biden's effective handling of the health crisis means that the US, along with China, is a leader in the global recovery. Already, the reopening and recovery narrative is well underway and at \$19.09 trillion, GDP is now just 0.9% below its pre-Covid level, so in terms of catching up, at face value, you could say the job is pretty much done. The quicker-than-expected rebound and the prospect of large-scale fiscal stimulus has led the IMF to upgrade its growth forecasts to 6.4% and 3.5% the next.

In tandem with the economic expansion, corporate earnings have been surprising on the upside too. As such, we have a positive outlook for the US economy and US equities. Even the proposed tax hikes had a limited impact on markets – partly due to the fact that they are not yet set in stone, but also because of the fact that they will not withdraw money from the economy, rather they will re-distribute it towards those at the lower end of the income spectrum, boosting their ability and propensity to consume, which in the end is good for corporates and the broader economy.

Against a backdrop of ample liquidity, fiscal stimulus and virus containment, we believe the US economy will continue to recover this year and America's broad equity market should prove a profitable hunting ground for the shrewd investor. We particularly like cyclical sectors – materials, industrials and consumer discretionary. Additionally, we like Utilities from which we select those names best poised to benefit from Biden's green push.

The key risk stemming for the Bidenomics experiment is that the economy could become too hot. If fiscal largesse causes inflation to rise sustainably, the Fed may tighten policy sooner than expected, resulting in a tightening of financial conditions, potentially cutting the economic recovery short. While we see price pressures building, we do not believe the Fed – which is

laser-focused on achieving its full-employment mandate, including a broader definition of employment across wage, racial and ethnic groups – will be trigger happy when it comes to rolling back its bond-buying and hiking rates.

While unemployment has come down to 6% from the peak of 14.8% reached in April 2020, with employers adding more than 1.2 million jobs since Biden's Inauguration Day, there is still a long way to go. Nearly 10 million Americans are still out of work, the long-term unemployment rate is stubbornly high and the headline figures mask disparities under the surface. As the Fed Chair Jerome Powell pointed out in May at a Community Development speech - Almost 20% of workers who were in the lowest earnings quartile in February of 2020 were not employed a year later, compared to 6% for workers in the highest quartile. The Fed is committed to achieving maximum employment as a broad and inclusive goal, as well as price stability—two foundations of a strong, stable economy that can improve economic outcomes for all Americans.

If Biden's proposed bills pass through Congress and begin to percolate into the real economy, then there may be less need for the invisible hand of the Fed and the prospect of Fed tightening would be much stronger. For now, the market is pricing in rate hikes for Summer 2022.

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