

The Biden Agenda: The First 100 Days and Beyond

With narrow Democratic control in Washington, where will the new Biden administration set its policy focus?

Insight from sub-adviser Wellington Management



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WE KNOW THAT PANDEMIC CONTROL AND ECONOMIC STIMULUS WILL BE TOP PRIORITIES. I also expect climate change, trade, and inequality to be on the list as well—with a range of investment implications.

Starting With the Health and Economic Crises

Before his inauguration, President Biden made it clear that he sees a need for more stimulus as he rolled out a US\$1.9 trillion proposal. The new president's negotiating skills will be tested as he works to move the proposal forward, and the details and dollar amounts will surely evolve. Ultimately, I think the next package will come by March 14, when unemployment benefits are set to expire. In addition to an extension of those benefits, the package could include a third round of stimulus checks, more state and local aid, and an extension of the eviction moratorium. In addition, I would expect more funding for virus testing, contact tracing, and vaccine dissemination. Biden will first attempt to pass the plan by securing the necessary 60 votes in the Senate. If that fails, he'll likely turn to the budget reconciliation process to help push some of the spending through.

Sustaining the Recovery and Building for the Future

Biden also promised a second proposal in coming months, which will be aimed at ensuring a robust recovery going forward and will include spending on infrastructure (where there's bipartisan support), manufacturing, and innovation. As all of this suggests, Biden and the Democrats are positioned to set the policy agenda—but, of course, their slim majority will limit their legislative ambitions somewhat.

Taxes will also be an area of focus, though I'd expect that to come later in 2021, with the potential for somewhat higher corporate taxes (perhaps a tax on intangible income), estate taxes, and top income taxes. The July 31 deadline for raising the debt ceiling may bring some conflict between the parties, with an eye to the 2022 midterm elections.

Given the constraints on extensive legislative action, I think meaningful changes are more likely to come in regulatory and trade policy. On the regulatory front, the new administration will shift to a more climate-friendly focus. Biden has already pledged to reenter the Paris Agreement and other early moves could include issuing an executive order banning fracking on federal land. We could also see more focus on regulations governing non-bank financial companies and tech companies, as well as more antitrust action (hand in hand with support for small businesses).

With a long record of building institutions, Biden is likely to focus on helping the Federal Trade Commission, the Food and Drug Administration, and other agencies regain credibility with his appointments. Shoring up the country's strategic infrastructure, including in healthcare, will also be a priority.

Key Points

- Given the constraints on extensive legislative action, I think meaningful changes are more likely to come in regulatory and trade policy.
- In regards to international matters, I expect greater predictability of process to reduce policy uncertainty.
- I expect President Biden's policy dynamics to support the rotational theme that began to emerge in 2020, including the move toward a steeper yield curve and gains in cyclical assets.

Non-US markets should be beneficiaries of a more predictable trade agenda and higher nominal growth.

On the trade front, I expect greater predictability of process to reduce policy uncertainty. Beneficiaries should include multilateral organizations, such as the World Trade Organization, and allies, such as Europe, Canada, Japan, South Korea, and Australia. India could be a winner as well. That said, the process of reconfiguring some existing relationships may intensify, with China, Russia, and Turkey being key challenges. However, the new administration will likely opt for a different approach, favoring targeted and coordinated strategic sanctions over tariffs. In the second half of 2021, we may even see some reduction in tariffs targeted at China.

Reducing Inequality

Biden's agenda for reducing economic inequality could include a push to rethink education and workforce development, including more focus on STEM education to encourage innovation. Infrastructure spending, if passed, may come with workforce training. In addition, college affordability and skills retraining may be surprise areas of policy focus, and student-debt forgiveness (\$10,000 if in public service) could be attempted via executive order.

Other efforts to address inequality include raising the federal minimum wage to \$15 (part of Biden's stimulus proposal, this could be a challenge to push through Congress) and improving childcare affordability (as a first step, expanded child tax credits are included in the stimulus proposal). Easing immigration restrictions could be a point of focus as well.

Investment Implications

I expect these policy dynamics to support the rotational theme that began to emerge in 2020, including the move toward a steeper yield curve and gains in cyclical assets. More fiscal stimulus should increase the range of outcomes for the US equity market, with a quicker taper from the Federal Reserve on the table and moderate tax hikes possible. The inflation theme should move from asset prices to consumer prices. And finally, non-US markets should be beneficiaries of a more predictable trade agenda and higher nominal growth.

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