Market Strategy
by STRATEGAS A BAIRD COMPANY

BAIRD
Private Wealth Management

Washington Policy Research

February 9, 2021

Strategas – a Baird Company provides market strategy and perspective to help you better understand what is happening in the world today and how it impacts your portfolio and plans. Exclusive to Baird, these premier market, macroeconomic, and policy insights complement the planning and investment strategy work of your Financial Advisor.

Dan Clifton, Strategas
Partner, Head of Policy Research

CHECKING IN ON STIMULUS AND SPENDING UNDER A NEW GOVERNMENT

Given the fast-moving, constantly evolving state of affairs in Washington, we thought it timely to update our thinking around a few key items and events. Most importantly, we now believe the next COVID-19 economic package is likely to be larger than we initially estimated. Our thoughts on stimulus and the year-ahead:

- **Democrats passed a budget with the full $1.9T reconciliation window**. Republicans made no attempt Thursday to cut the size of the reconciliation window down from $1.9 trillion. This enabled the Democrats to pass a budget with the authority to spend $1.9 trillion, now requiring just 51 votes in the Senate.
- **Moderate Democrats don’t seem opposed to $1.9T.** They seem largely okay with the level of spending if the minimum wage hike is not included (more below). Even in categories where moderates want to see more targeted aid, like the $1,400 checks, eligibility is coming down. Spending in other programs is likely to make up the difference.
- **Congressional leadership is coming up with reconciliation workarounds.** Most discretionary spending technically does not qualify for budget reconciliation, including vaccine and education funding. However, Democrats believe that a 2003 precedent on Pell Grants in a reconciliation bill provides the path for authorizing discretionary spending in reconciliation. They will likely be successful.
- **Risks remain.** The risks to the package coming in below $1.5 trillion include: 1) Moderates cutting spending down, particularly as concerns grow over the package being too large; 2) The prospect of this package hurting infrastructure spending later; and 3) Some proposed items may not make it through the Parliamentarian’s reconciliation test.
- **An interesting experiment in fiscal policy and inflation.** Most Congressional spending proposals are estimated over 10 years—the proposal we are seeing from Congress is close to $2 trillion largely over two years, meaning this is a $10 trillion + spending package over 10 years (if the programs are extended), an unsustainable increase in the size of government. The question is whether growth can make up for the current levels of borrowing and skyrocketing deficit. Interest rates are likely to increase and the prospect for inflation will percolate.
- **The consumer is healthy.** Consumers had ample savings even before the December stimulus package, and now more is coming. Consumer spending was strong in January as the Treasury sent $130 billion to consumer bank accounts in the first half of the month. The new proposal is four times larger than the consumer support in January.
- **The provision for a minimum wage hike is fading.** A CBO study found that raising the minimum wage to $15 per hour by 2025 would add $54 billion to the federal deficit over a decade. It would also cut 1.4 million jobs and increase costs for Medicare and Medicaid because they would have to pay more for health care workers. This provision will likely be left for a later date.
- **A large infrastructure and climate spending bill mid-year will be challenging.** There is a belief that the US has enough budget and political capacity to pass a $2 trillion package today and come back with trillions more in spending mid-year (paid for with higher taxes). But with warmer weather coming, vaccine momentum building, and additional stimulus flowing, the US will likely be in a very different place by then. A stronger economy and higher interest rates will make it difficult to keep a narrowly divided Senate on one page, meaning the size and components of the package may have to come down meaningfully. With each day, the economy is improving and COVID is receding. Those are antidotes to more fiscal spending.

Disclosures

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

This report does not provide recipients with information or advice that is sufficient to base an investment decision on. This report does not take into account the specific investment objectives, financial situation, or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

For investment advice specific to your situation, or for additional information, please contact your Baird Financial Advisor and/or your tax or legal advisor.

Fixed income yield and equity multiples do not correlate and while they can be used as a general comparison, the investments carry material differences in how they are structured and how they are valued. Both carry unique risks that the other may not.

Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

Strategas Asset Management, LLC and Strategas Securities, LLC are affiliated with and wholly owned by Robert W. Baird & Co. Incorporated, a broker-dealer and FINRA member firm, although the firms conduct separate and distinct businesses.

Other Disclosures

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB, and is a company authorized and regulated by the Financial Conduct Authority. For the purposes of the Financial Conduct Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Conduct Authority ("FCA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FCA requirements and not Australian laws.