2021 Economic Outlook under Biden Administration

Overview

-Real GDP growth of 6-7% (U.S.) with greater strength at year-end.

-estimated unemployment drops from 8.1% at the end of 2020 to 6.3% at year-end 2021. The U.S. remains 9.5M jobs short of its pre-pandemic employment level with over 18M Americans are on some form of unemployment aid.

-Unemployment understates real unemployment since you must be looking for a job to be included. Many women/heads of household need schools to re-open before they can actively look for employment. 4m left the workforce in 2020, mostly women.

-The final bill includes $1400 checks for individuals; an increase in unemployment assistance; more aid to states and municipalities; nutrition assistance; housing aid; tax credits for families and workers; more money for education and childcare; additional health insurance subsidies; more money for small businesses; and finally, lots of money for vaccines, testing, and hospitals. Most of this added money will not flow into the economy until much later in the year.

Chart of U.S. Unemployment by industry as of 2/2021

Table A-14. Unemployed persons by industry and class of worker, not seasonally adjusted

Industry and class of worker	Number of unemployed persons (in thousands)		Unemployment rates	
	Jan. 2020	Jan. 2021	Jan. 2020	Jan. 2021
Total, 16 years and over(1)	6,504	10,851	4.0	6.8
Nonagricultural private wage and salary workers	4,954	8,945	3.8	7.1
Mining, quarrying, and oil and gas extraction	16	93	1.9	14.2
Construction	515	938	5.4	9.4
Manufacturing	530	699	3.4	4.7
Durable goods	317	396	3.2	4.2
Nondurable goods	214	303	3.7	5.6
Wholesale and retail trade	945	1,367	4.7	6.9
Transportation and utilities	220	613	3.0	8.2
Information	61	186	2.3	7.4
Financial activities	259	350	2.5	3.4
Professional and business services	724	1,146	4.1	6.8
Education and health services	601	1,059	2.4	4.3
Leisure and hospitality	833	1,949	5.9	15.9
Other services	250	544	3.7	8.8
Agriculture and related private wage and salary workers	231	153	12.5	9.4
Government workers	467	641	2.1	3.0
Self-employed workers, unincorporated, and unpaid family workers	351	617	3.6	6.2

Morgan Stanley Outlook

-projects global GDP growth of 6.4% for 2021 led by emerging markets (excluding China), followed by reopening economies in U.S. and Europe.

-expects some return of inflation

-recommended asset allocation: overweight equities and credit. Underweight short duration government bonds. Expect emerging markets to lead rebound with trade dependent economies like Korea and Taiwan well into their recoveries and more domestic demand economies like India and Brazil lagging somewhat.

-Emerging markets will benefit from weaker USD, low U.S. real rates and accommodative macroeconomic policies.
-Morgan Stanley expects 7.4% GDP growth for EM in 2021 led by a forecasted 9.8% improvement in India.
- In the U.S. Morgan Stanley expects GDP growth of 5.9%
-For China growth of 9% in 2021 and moderating to 5.4% in 2022

Inflation Regime Change:
-high unemployment will limit rise in overall inflation. 25m Americans lost jobs in the early COVID phase.
-Policy makers will do whatever it takes to create jobs; eventually stimulus policies will pressure wages but not in 2021.

Goldman Sachs Outlook
-recently raised U.S. GDP forecast to 6.8%
-expects Fed to hike rates in 1H/2024
-expects U.S. GDP of 4.5% in 2022
-The FOMC to start tapering its asset purchases in early 2022
-Calling for the S&P500=4,300 in 2021
-huge pent-up demand for services will provide tailwinds to the economy in 2021 and 2022

Fidelity Investments Outlook, Jarrien Timmer, Director of global macro
-valuations are full but does not think the market is in a bubble.
-low rates and a robust earnings recovery in 2021 are already priced in
-Fidelity expects a mundane S&P performance in 2021 with plenty of rotation beneath the service
-expects ongoing reflation in 2021
-markets are broadening out with value and small caps and non-U.S. equities catching up to growth stocks and gold---this is a normal early recovery rotation.
-if rates rise over 1.5%, this could undermine the fair value of stocks, especially those with extreme valuations.
-Bottom Line: expects 2021 to have average gains unlike 2020

Ed Hyman, Chrm, Evercore ISI Outlook
-expects 7.8% GDP growth in 2021 and 3% in 2022
-core inflation of 2.25% in 2021/2022
-10TB rises to 2% in 2021 and 2.5% in 2022
-BL: we are in early stages of a recovery likely to last through at least 2025
-Biden administration has assured the economy more fiscal support with Chairman Powell of the Fed reinforcing the message.

-Investment sectors favored include FS (rising rates), followed by energy and industrials. We are UW utilities and Consumer Staples.

Joyce Chang, Global Research Chair, JPMorgan

-$2.9T in consumer savings globally; roughly 50% in U.S.
-market has upside with S&P500 target=4,400
-U.S. GDP estimated 9.5% in Q2, 8.3% in Q3
- in JPM's view, is that the coming year should be good for stocks. Interest rates are likely to remain low, in the firm's estimation, while inflation should moderate as the economy returns to normal.

-global demand for treasuries remains strong
-predicts $300b for infrastructure down from earlier estimates of $1T

Biden's American Rescue Plan

-$1,400 to individuals earning up to $75,000, single parents up to $112,500 and married couples up to $150,000. Those who are eligible would also receive an identical payment for each of their children. To be eligible for a payment, a person must have a Social Security number. Gradually smaller payments would go to those earning more with a cap of $80,000 for individuals, $120,000 for single parents and $160,000 for couples.

- The bill would make the child credit more generous for 2021, particularly for low- and middle-income people. Currently, the credit is worth up to $2,000 per eligible child. The bill would increase it to as much as $3,000 per child ($3,600 for ages 5 and under). It would also raise the age limit for qualifying children to 17, from 16. In the first two stimulus bills, taxpayers received $500 and then $600 for each dependent child. This round includes $1,400 for each dependent child and adult dependent, which includes college students.

-$39 billion to child care providers, some of which must be used to help families struggling to pay the cost.

-provides a boosts to the federal weekly unemployment benefit of $300 and extends it through September 6th. The Federal benefit is on top of the average weekly state unemployment check of $346. Although unemployment benefits are taxable, the new law would make the first $10,200 of benefits tax-free for people with income less than $150,000. This applies to 2020 only.

-allows employees who lost their jobs to maintain their health insurance coverage through COBRA with premiums fully covered through 2022.

-exempts student loan forgiveness from income taxes through 2025.

-omits an increase in the federal minimum wage to $15.

-under both the Senate and House bills, food stamp recipients would see a 15% increase in benefits through September.

-$350 billion for state, local and tribal governments

-$130 billion to primary and secondary schools,

-$50 billion to the Federal Emergency Management Agency to help support struggling families across the country,

-$75 billion for COVID testing, tracing and Vaccine distribution

- $45 billion in rental, utility and mortgage assistance; The bill would provide nearly $10 billion to help homeowners struggling with mortgage payments, utility bills and other housing costs.

-$15 billion to the Emergency Injury Disaster Loan program, which provides long-term, low-interest loans from the Small Business Administration. Severely impacted small businesses with fewer than 10 workers will be given priority for some of the money.

-$25 billion for a new grant program specifically for bars and restaurants. Eligible businesses may receive up to $10 million and can use the money for a variety of expenses, including payroll, mortgage and rent, utilities and food and beverages.

-Paycheck Protection Program, which is currently taking applications for second-round loans, would get an additional $7 billion and the bills would make more non-profit organizations eligible.

-$30 billion for transit agencies, and billions more for small businesses. $14 billion for airlines and an additional $9 billion for airports and other businesses.

-$12 billion to nutrition assistance and money for reopening businesses around the country.

-$10 billion for infrastructure investment in IT and cybersecurity shared services.

Possible additional stimulus measures

Business groups and many Republicans have expressed a willingness to work with the administration to pass $1 trillion or more in infrastructure spending. Areas of agreement with progressives include spending on highways, bridges, rural broadband networks, water and sewer lines and even some cornerstones of fighting climate change, like electric-car charging stations.

But progressives warn that such an approach could yield a bill that does not go far enough in addressing the deep-rooted problems in the economy that have exacerbated inequality, and that Mr. Biden has promised to tackle, by leaving out investments in America's human infrastructure. Some argue a more effective bill would also fund child care and paid leave to help working parents and make educational investments to help students thrive and gain skills.

How to finance any infrastructure bill:

Republicans and business groups have made clear to the administration that some of Mr. Biden's preferred policies — taxes, in particular — could scuttle any chance of a consensus deal. Some have suggested alternate mechanisms to finance an infrastructure push, including tax incentives for private corporations and an increase to the gasoline tax or other ways of taxing drivers.

INVESTMENT IMPLICATIONS

The Fed expects the 2021 run up in inflation to be transitory, as the economy laps a sharp recession. Chairman Jerome Powell is currently more focused on reducing unemployment than rising inflation. With its more flexible inflation target and 5 year plan, the FOMC still plans to keep interest rates low until 2023.

--Rebuilding our Infrastructure (if an infrastructure bill gets passed) to create jobs and combat climate change. Infrastructure would benefit industrials, basic materials, renewable energy, 5G and tech sectors. Railroads would also thrive.

--big tech regulation could hurt Facebook and others.

-the large BIDEN stimulus plan will continue the reflation trade with a steepening yield curve benefiting banks and other financial services.

-expect recovery of companies mostly severely impacted by the pandemic with Biden's massive vaccination program i.e. Travel/leisure/restaurants/hotels/movie theaters/cruise lines/theme parks and many small local businesses.

--China Policy- a continued tough stance around human rights. Yellen considers China as our most important competitor. Biden needs to rebuild relationships with allies to combat China's abusive, unfair and illegal practices—dumping products, stealing intellectual property and forced technology transfers. Investors will need to focus on Hong Kong listings to avoid delisting of Chinese ADRs here.