

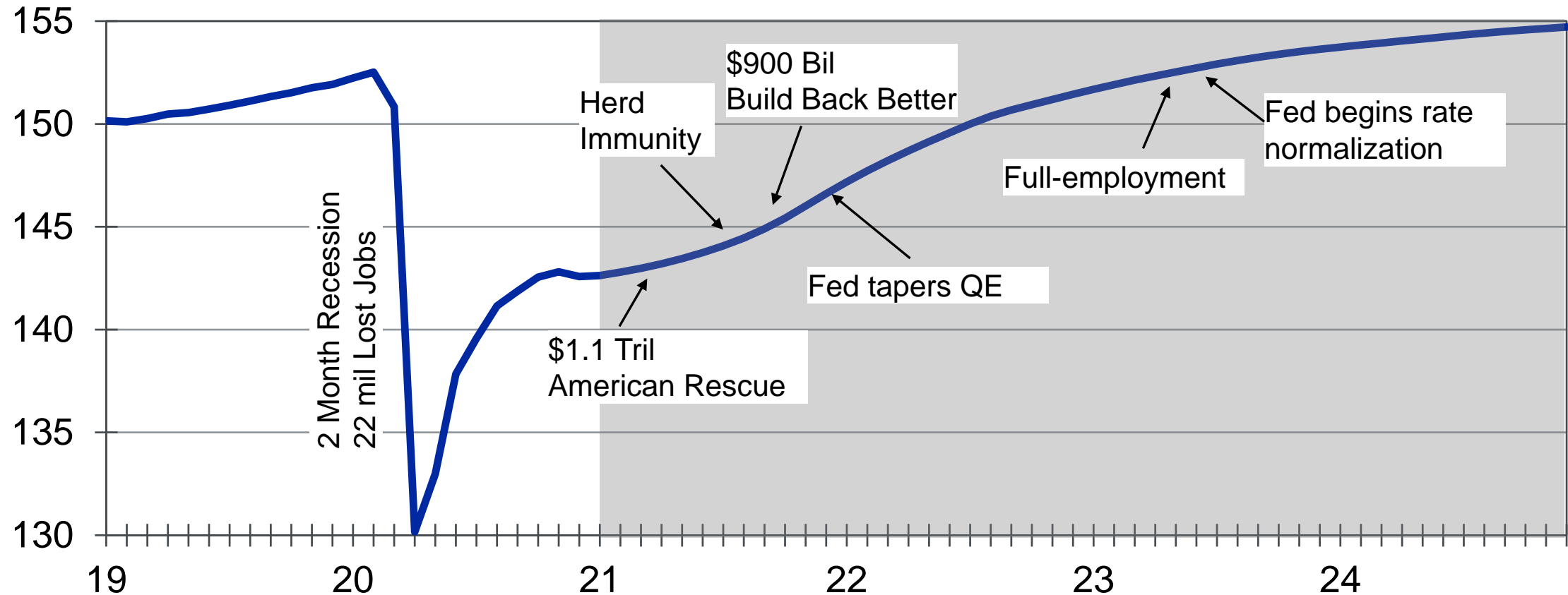
# The Year Ahead: Current Economic Outlook & Policy Update

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February 2021

# Tough Start to 2021, but Robust Growth By Mid-Year

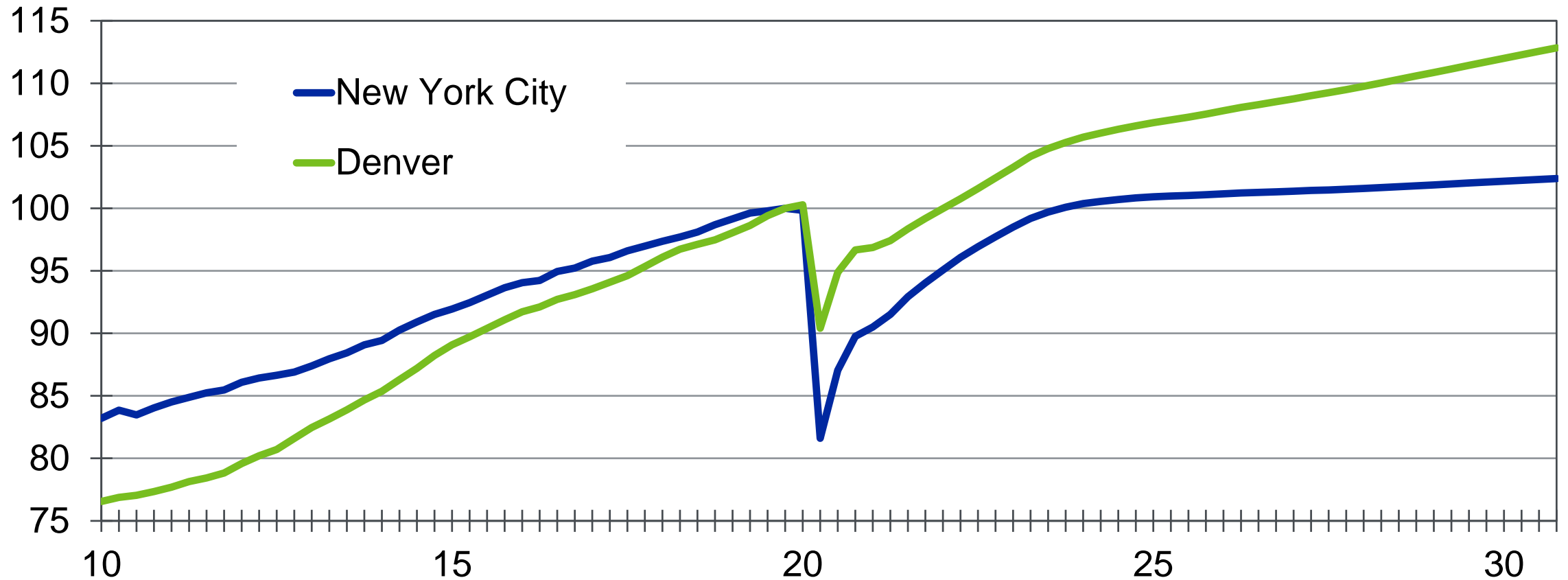
U.S. nonfarm employment, millions



Sources: BLS, Moody's Analytics

# Pandemic Will Have a Long Tail

Employment, Index: 2019Q4 = 100



Sources: BLS, Moody's Analytics



# CURRENT ECONOMIC OUTLOOK AND POLICY UPDATE

Raymond James Equity Research

February 8, 2021

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# Biden Inaugural Address – Outline of Administration’s Agenda?



“This is a time of testing.  
We face an attack on democracy and on truth.  
A raging virus.  
Growing inequity.  
The sting of systemic racism.  
A climate in crisis.  
America’s role in the world.  
Any one of these would be enough to challenge us in profound ways.  
But the fact is we face them all at once, presenting this nation with the gravest of responsibilities.”

Biden Inaugural Address – January 20, 2021

**Key Takeaway:** The Biden Administration will use each of these issues to drive their legislative, regulatory, and executive agenda.

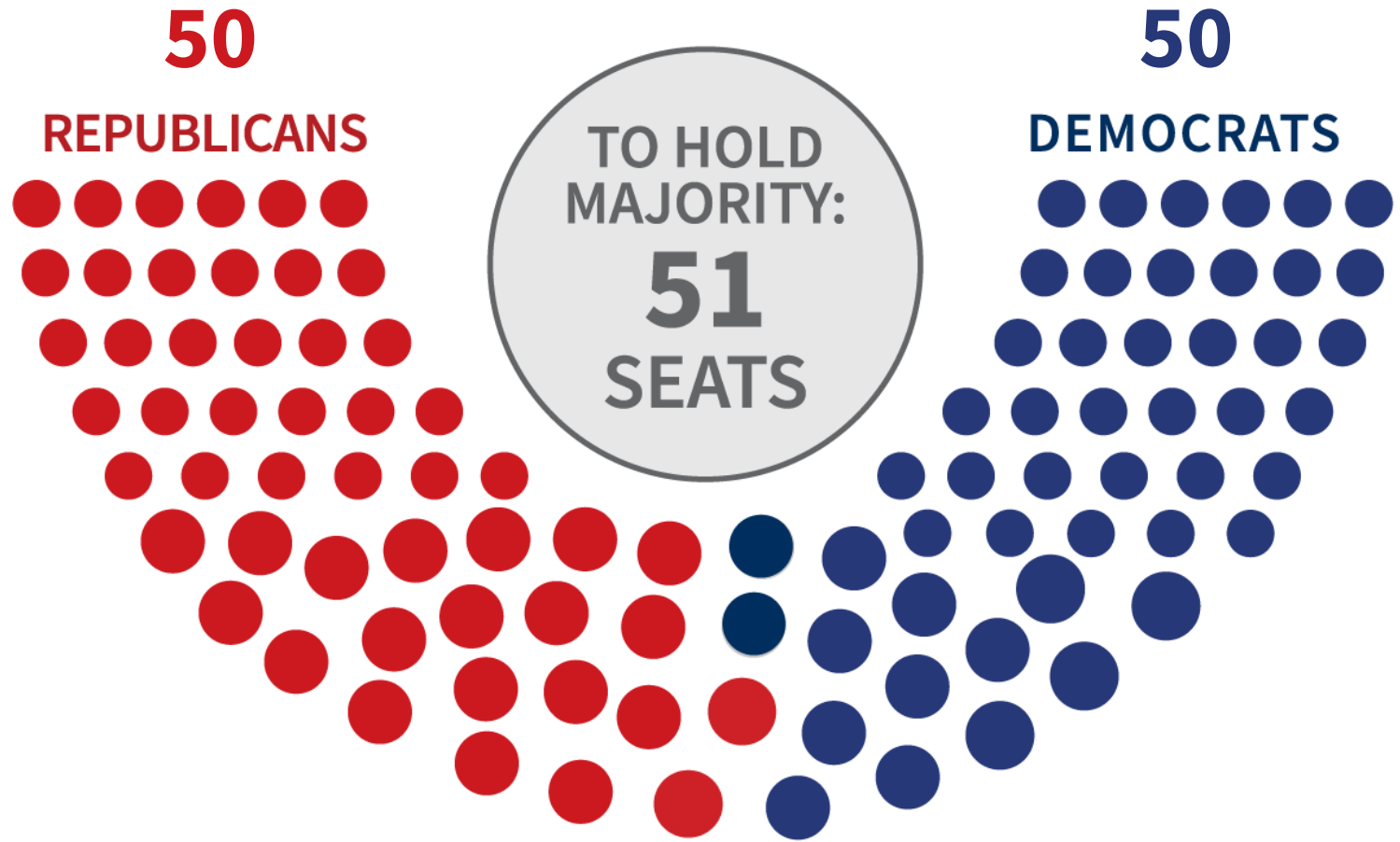


## EARLY THEMES OF A BIDEN ADMINISTRATION

- January 21 – COVID
- January 22 – Economic Relief
- January 25 – Buy America
- January 26 – Equity
- January 27 – Climate
- January 28 – Health Care
- January 29 – Immigration
- February – “Restoring America’s Place in the World”



## SENATE MAKEUP POST-2020 ELECTION



Vice President Kamala Harris casts the tie-breaking vote, handing Senate control to Dems



# KEY IMPACTS OF DEMOCRATIC SWEEP

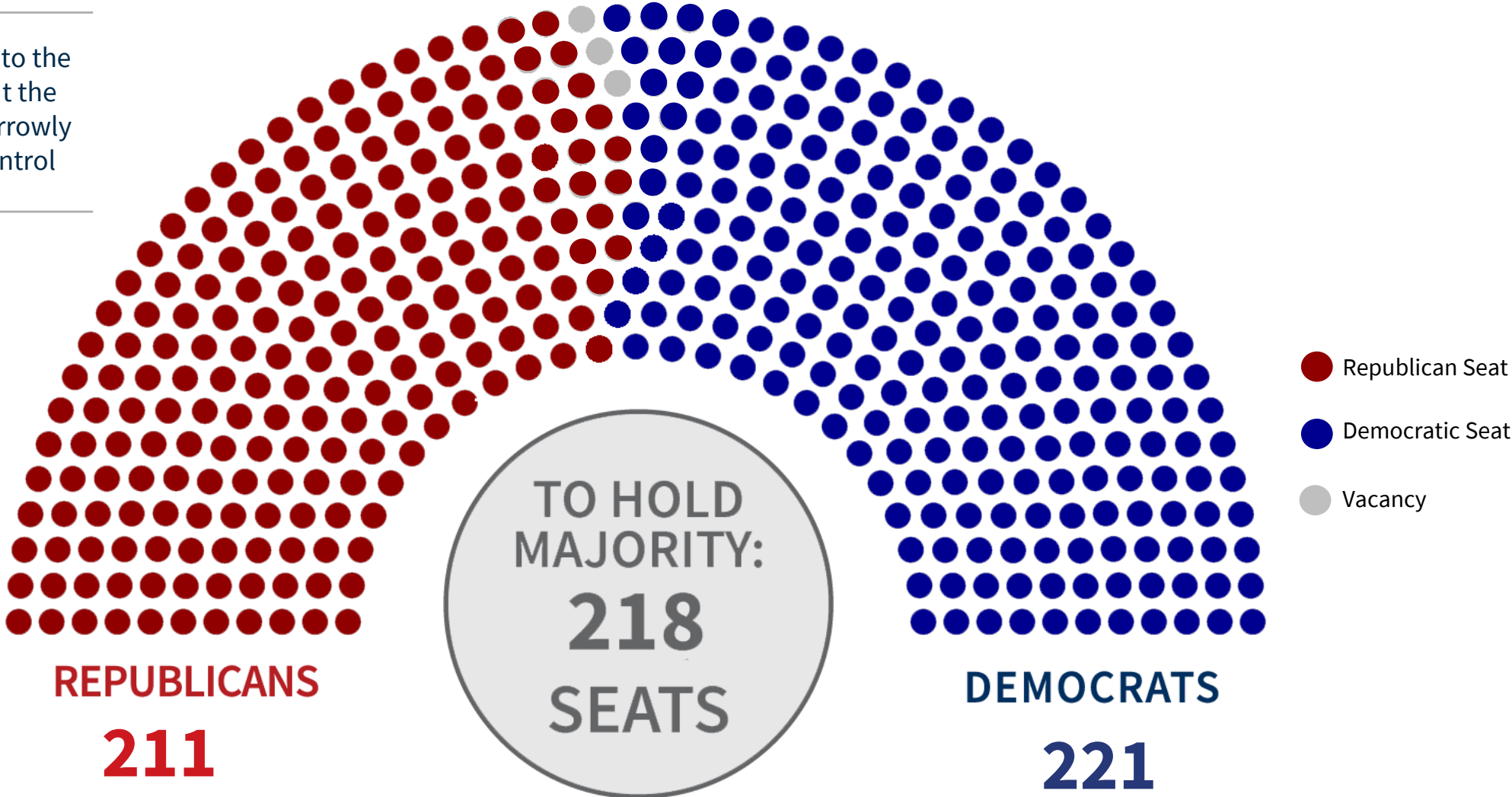
- **Senate Majority.** With a 50/50 tie, control of the Senate goes to the party that holds the Vice Presidency, which is Kamala Harris, making a 50/50 Senate a Democratic majority. Senator Chuck Schumer (D-NY) is serving as Senate Majority Leader and is in control over bills and nominees that receive a vote in the Senate. The power-sharing agreement in the Senate is modeled after the last 50/50 Senate from the first months of 2001. In the agreement, there are an even number of Democrats and Republicans on committees, but Democrats hold the Chair. The agreement allowed bills to advance to the Senate floor without a majority vote (which really does not matter unless you can get 60 votes to overcome a filibuster).
- **Confirmations.** Democrats have control over setting confirmation votes, ensuring many more of Biden picks will receive a confirmation vote. This allows Biden to make more progressive/aggressive regulatory picks. This also put into play the votes of moderate Republicans. Judicial nominees will be expected to receive votes in this scenario versus limited consideration, if Republicans maintained a majority. Senate rules still allow delays in confirmation votes, which were used effectively by Democrats in the minority to slow the confirmation process during the Trump Administration.
- **Taxes/Budget Reconciliation. We expect Democrats to use budget reconciliation in 2021 to enact tax changes and implement other portions of their agenda.** Expect to become an expert on budget reconciliation as we discuss the potential for enacting the Democratic agenda. Budget reconciliation is allowed once per budget (generally there is one budget is passed annually) and only requires a simple majority vote in the House and Senate (no filibuster). It is generally subject to revenue (taxes and spending), but it has limits (current rules do not allow changes to social security) and policy changes come down to a decision of House and Senate Parliamentarians.
- **Congressional Review Act.** Congress has the ability to overturn regulations with a simple majority vote in the House and Senate, but are subject to time limits. The current estimate is that any rule finalized after August 21, 2020 can be overturned, should Democrats seek to use the Congressional Review Act. A list of recent rules that fall within this timeframe, sorted by date, can be found here: <https://www.brookings.edu/interactives/tracking-deregulation-in-the-trump-era/>
- **Appropriations/Debt Ceiling.** Passage of spending bills and debt ceiling still require 60-votes in the Senate, so budget battles, including shutdowns or threats to breach the debt ceiling will return – watch for changes to the debt ceiling rules (revised Gephardt Rule) to prevent Republicans from using it as a hostage taking situation.
- **Fate of the Filibuster.** The filibuster (the 60-vote threshold for votes in the Senate) is not expected to be eliminated for legislation. Changing the filibuster is a change to Senate rules, which only requires a simple majority, so it is within their power to change the threshold, if they have unanimous support. Currently they do not have the support to change the filibuster, but we will be watching to see if there are incremental changes that place more requirements on the minority to sustain a filibuster or elimination on appropriations bills.





# HOUSE MAKEUP POST-2020 ELECTION

Republicans cut into the Dem majority, but the House remains narrowly in Democratic control



Source: Raymond James Research



## WASHINGTON POLICY – FISCAL RELIEF

- **Dems looking increasingly likely to inject large-scale stimulus.** A desire among Democrats to enact a significant portion of President Biden’s \$1.9 trillion economic relief proposal and a counter offer from Republicans of around \$600 billion (seen as insufficient) increases the likelihood of a large-scale package passing Congress via reconciliation. Democrats will pursue a dual track process to see if a bipartisan bill can be achieved (i.e. build off letter from 10 Senate Republicans) but keep reconciliation open, as an immediate back-up plan.
- **What can reconciliation address?** Look for direct aid to individuals, money for vaccinations, unemployment support, and small business loan funding to pass, with other Biden priorities such as a \$15 federal minimum wage being an open question. Senate Budget Committee Chairman Bernie Sanders (I-VT) is pushing for the inclusion of the minimum wage hike in a reconciliation bill, and what can be included is up to for interpretation via the Senate parliamentarian, which may provide Democrats more flexibility. ***Reconciliation has historically been used for changes to mandatory spending, so while we expect Democrats to pursue this strategy, we expect false starts during the process.***
- **Dems may have multiple opportunities for reconciliation bills this year.** The reconciliation process begins with a budget resolution passed by Congress that directs relevant Congressional committees to write legislation meeting budget targets. As a budget resolution was not passed for the current fiscal year, Democrats likely have at least two opportunities for a reconciliation bill this year (FY21 and FY22). Generally, a reconciliation bill individually addressing spending or revenue can be passed once per budget resolution. This may allow Democrats a third opportunity if an economic relief bill targets spending initially, followed by a revenue bill later this year addressing tax changes.
- **Timing – lots of headlines over next few weeks with target date of March for final package.** The House and Senate have passed budget resolutions, with instructions for a reconciliation bill to be developed by February 16. The House is currently aiming to vote on a relief package the week of February 22. Democrats are targeting an early March deadline to pass a final bill in order to avoid a “fiscal cliff” scenario of expiring unemployment support programs on March 14.



# ROAD AHEAD FOR FISCAL STIMULUS

- **Act Fast or Act Big.** A key debate right now in DC among Democrats is whether or “act fast or act big.” There is bipartisan support for additional stimulus checks and funding for vaccine distribution. Next tier is unemployment support and school funding. More controversial remains state and local funding and other support measures.
  - **Stage one: virus response.** Biden’s “American Rescue Plan” provides a blueprint for economic relief measures in the \$1.9 trillion range with emphasis on vaccination, individual relief, and small business support. This is an initial proposal, but we expect a majority of the aid to ultimately be passed via a simple majority vote through reconciliation procedures.
  - **Stage two: recovery.** Later this year, we expect the Biden administration to pursue their “Build Back Better” recovery package with significant investment (in the \$1-2 trillion+ range) targeting infrastructure, research and development, workforce training, and a green energy transition. We expect a revenue agenda to be included in this conversation, principally focused on tax adjustments.
  - **Key points: More stimulus is coming and DC will spend a lot of money in 2021.** Biden’s Treasury Sec. Janet Yellen, in her confirmation hearing, pointed corporate tax changes and tax increases on wealthy individuals as potential revenue sources to finance Biden’s domestic investment agenda. Treasury has leeway to reinterpret rules on the international tax regime for large corporations as a revenue source.

### Overview of Initial Fiscal Relief Proposal

Biden American Rescue Plan	
<b>Responding to COVID</b>	<b>\$400 billion</b>
Vaccination Program	\$20 billion
Expand Testing	\$50 billion
Funding for PPE	\$30 billion
Funding for Education	\$170 billion
<b>Relief to Families and Individuals</b>	<b>\$1 trillion</b>
Individual Checks	\$1,400 and expanded eligibility
Unemployment	\$400 weekly through September
\$15 minimum wage	
Eviction moratorium through September	\$30 billion rental fund
Child Tax Credit of \$3k per child/\$3.6 (children under 6)	
Earned Income Tax Credit increased to \$1,500	
14 weeks paid sick and family medical leave	\$1,400 weekly max
Food Assistance	
<b>Help for Communities and Businesses</b>	<b>\$440 billion</b>
State and Local Government	\$350 billion
Low interest/clean energy loans	\$35 billion (levered into \$175 billion)
Grants to 1 million small businesses	\$15 billion
Support for public transit	\$20 billion
Protect against cyber attacks	\$9 billion
<b>Total</b>	<b>\$1.9 Trillion</b>

Source: Raymond James Research



# WHAT IS AT STAKE? TAX POLICY IMPLICATIONS

- **Budget Reconciliation:** Budget reconciliation is allowed once per budget resolution and allows revenue changes (taxes and spending) with a simple majority vote in the House and Senate (no filibuster). Signature achievements in the Trump, Obama, and George W. Bush Administrations were all achieved through budget reconciliation. There are limits to the scope of budget reconciliation, which would become very important, but we would expect Democrats to prioritize tax changes with a budget reconciliation bill in late 2021, if they have a Senate majority.
- **Short term vs. longer-term.** In conversations with our DC sources, they tell us to think about tax changes in two phases – short-term and longer-term. In the short-term, a Biden Administration would be focused on the recovery and a recovery package. Longer-term, a process would develop to address the individual, investment, corporate, and retirement tax changes. The expectations that process could take most of 2021, with a bill produced late 2021 at the earliest.
  - **Individual Rates.** Biden proposes an increase in the top tax rate to 39.6% from 37%, matching the top rate pre-Trump tax cuts. A bigger move would be to include a 12.4% Social Security payroll tax on wages above \$400,000 (current payroll tax is split between employee and employer up to \$137,700). Caps deductions at 28% for earners above \$400,000 (lowering the value of itemized deductions). **Social Security changes are not permitted under budget reconciliation, which could force Biden and Democrats to adjust this portion of the plan or change the rules.**
  - **Corporate Tax Rates.** Increase corporate tax rate from 21% to 28%. **Create minimum tax for corporations with greater than \$100 million in profits of 15%**, but still allows NOLs and foreign tax credits. Doubles the Global Intangible Low Tax Income (GILTI) earned by foreign subsidiaries from 10.5% to 21%.
  - **SALT Deduction.** Biden has not formally proposed any changes to the SALT deduction (now currently capped at \$10,000). It is a top priority for Congressional Democrats from high-cost states, including Senate Democratic Leader, Chuck Schumer (D-NY). We see SALT changes as a more likely ending the arbitrage between states versus real tax relief for individuals (could have net tax increase for higher earning residence of low-cost states).
  - **Capital Gain Rates.** Ordinary income (39.6%) on capital gains **on income above \$1 million.**
  - **Dividend Rates.** Ordinary income (39.6%) on dividends received **on income above \$1 million.**
- **Timing Debate:** Would tax changes apply to 2021 or would they be phased in? ***Growing market consensus is that anything negative will be phased in and the Biden team is sending similar signals.*** Legislation is not allowed to be retroactive, with the exception of tax law, which can be retroactive to January 1 of the year passed. We believe that Democrats would take a staggered approach, but some changes could begin in 2021. As highlighted earlier, compromise will be necessary to achieve this goal and with zero margin of error, we can expect false starts and potential breakdowns in the process.



# FINANCIAL POLICY IMPLICATIONS

- **Democratic Senate Majority = More Aggressive Regulatory Picks.** The nominations of Gary Gensler to lead the SEC and Rohit Chopra to lead the CFPB are a direct result of the Democratic Senate majority. The leading contender at the OCC appears to be former Obama Treasury official Michael Barr, but progressive groups are pushing back and supporting Mehrsa Baradaran. Baradaran is a law professor at UC Irvine, specializes in banking law and her book “How the Other Half Banks: Exclusions, Exploitation, and Threat to Democracy.” Janet Yellen’s selection and confirmation is still a significant market positive and a signal that the Biden team will prioritize the economic recovery in the near term, but in the medium to longer-term, regulatory changes will be a headwind for the industry.
- **Housing Policy.** The quick push for the CFPB Director to resign brings up a likely push for Mark Calabria to resign, if the Supreme Court gives Biden the authority. Any successor is likely to be very supportive of the Biden housing agenda, which seeks to further expand mortgage credit availability, fund first time homebuyer down payments, address racial inequities in homeownership, and cap rental payments at 30% of income. Overall we continue to see a strong tailwind to housing demand from DC policies.
- **Regulating trading?** The market volatility in heavily shorted equities in recent weeks will cause significant DC attention. We expect bills, hearing and new regulations. The real issues will occur if regulators determine the issue rises to a systemic risk from confidence in the system or the orderly trading abilities of trading platforms. These incidents highlight some of the difference between regulations of depositories vs. non depository institutions. We expect Members of Congress and regulators to use these events to increase support for additional regulation and legislation on non-bank financial companies – private equity, credit markets, asset managers?
- **Financial Transaction Tax.** We frequently are asked “how are we going to pay for all of this?” As Wall Street has been seen as a beneficiary of the robust fiscal and monetary relief, a financial transaction tax could become a potential “pay for.” A 0.1% tax is estimated to raise \$777 billion over a decade by the [CBO](#). While critics argue that it could have negative consequences on liquidity or a tax on retail investors, proponents would welcome a reduction in high frequency trading. The recent trading volatility and anti-Wall Street populist sentiment gives fuel to this fire!



## Policy Implications: Regulatory Transitions

Agency	Official	Term Expires
Secretary of Treasury	Janet Yellen	Tied to President
CFPB	Rohit Chopra*	Tied to President
OCC	To be determined	Tied to President
SEC	Gary Gensler*	Tied to President
CFTC	To be determined	Tied to President
NCUA	Todd Harper*	Tied to President
Fed Vice Chair for Supervision	Randal Quarles	October 2021
Federal Reserve Chair	Jerome Powell	November 2022
FDIC	Jelena McWilliams	June 2023
FSOC Independent Insurance Expert	Thomas Workman	March 2024
FHFA	Mark Calabria	April 2024, pending Supreme Court decision

\* Nominated



# The Biden Financial Regulatory Team

### Secretary of Treasury – Janet Yellen



- Strong indication that Biden Administration will prioritize economic recovery
- Treasury-Fed Merger Complete! There has always been a “Fed put” on the market – is there now a “Treasury put?”
- Chair of the Financial Stability Oversight Council (FSOC) - Systemic Risk Regulator
- Will coordinate with other regulators/Administration/Fed for emerging risks, including geopolitical/national security
- Confirmation vote of 84-15 highlights Yellen’s gravitas and will be critical in selling Biden’s economic policies

### Securities and Exchange Commission – Gary Gensler (nominated) & Allison Herren Lee (Acting Chair)



- SEC is regulator of capital markets, led by a chair and a 4 member board
- Gary Gensler is expected to be confirmed in the coming weeks and viewed as pursuing an aggressive regulatory agenda
- SEC agenda could include response to recent trading volatility, updates to Reg BI, new rules for SPACs, crypto currency regulation, support for ESG investments
- SEC is likely to launch investigations and take enforcement actions – investigations likely influence regulatory actions

### Consumer Financial Protection Bureau (CFPB) – Rohit Chopra (nominated) and Dave Uejio (Acting Director)



- CFPB is primary federal financial regulator for consumer protections
- Rohit Chopra is currently a Senate Confirmed Member of the Federal Trade Commission and former Student Loan Ombudsman for the CFPB
- Investigations and enforcement actions are likely to be hallmarks of a Chopra-led CFPB. Regulations will be developed, but the CFPB’s structure and additional requirements for designating larger participant/small business impact review prolongs process
- Short-term, small dollar credit, mortgage servicing, fintech charters, student lending are expected to be top agenda items

## House and Senate Financial Service Leadership



### Senate Banking Committee – Chairman Sherrod Brown



- Chairman Sherrod Brown (D-OH) is a very progressive Senator and has pushed consumer protections and worker's rights throughout his entire career
- The Senate Banking Committee has jurisdiction over securities and banking law. Has oversight over SEC, CFTC, Treasury and the Federal Reserve
- **What to know:** Senate hearings are generally better structured and with fewer members, easier to follow. We expect Chairman Brown to first focus on the confirmations of Biden's regulatory team and hold hearings on the recent market volatility with heavily shorted stocks, before turning towards a legislative agenda. In a 50/50 Senate little is expected in the form of legislation, but his Chairmanship will shape the financial services debate in Washington and will give political cover to regulators pushing tougher rules and regulations. Bank capital standards, capital management, accounts for non-banked, regulation of non-bank financials, and cannabis legislation all on the agenda

### House Financial Services Committee – Chair Maxine Waters



- Chairwoman Maxine Waters (D-CA) is a very liberal Member of Congress and is known for her aggressive stance on Wall Street regulations.
- The House Financial Services Committee has jurisdiction over securities and banking law. Has oversight over SEC, CFTC, Treasury and the Federal Reserve.
- **What to know:** House hearings have a tradition of being unwieldy and can create interesting headlines. The House is expected to hold hearings into the recent trading volatility. This issue taps into a strong anti-Wall Street sentiment in the US and creates unusual political alliances. The Committee has several high-profile progressive lawmakers (AOC) who will add to the spotlight these hearings receive. Legislation is expected and could pass the House, but passage into law will be more difficult



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