THE GLOBAL CIO OFFICE

18th January 2021

President Biden – And Now for Something Completely Different

- **$190 trillion emergency package expected within days**
- **Infrastructure "Build back better plan" expected in February**
- **Acceleration of COVID 19 vaccine distribution**
- **Global trade antagonism toned down**
- **Financial markets like the support for growth but wary of a build of inflation**

Tackling COVID19 – masks and accelerated vaccine distribution

The day when Biden is sworn in as president will mark the first anniversary of the first confirmed COVID-19 case in the United States. Bringing COVID19 under control is crucial to getting the economy moving and mitigating some of the costs on central and local government from the economic downturn. President Biden will have to move fast to make up for what appeared to be benign neglect of the COVID situation in the latter days of the Trump Presidency. Already he has earmarked $160billion of spending to bolster vaccination and testing efforts. Two areas of focus will be mandating masks in all Federal property and secondly to accelerate the vaccination programme's rollout. Joe Biden can direct mask-wearing on Federal property, but he will only be able to 'ask' everyone to mask up around the country for 100 days. Biden is setting a target of 100m vaccinations in the first 100 days of office. As of January 15th, only 12 million people had received shots to date against the Trump administrations target of 20m people vaccinated by the end of 2020.

A proposed $1.9trilion budget – spurring GDP

The new bill would include the following measures.

- $350bn in support of state and local government
- $1trillion in relief to families including $1400 to each American household on top of the $600 already announced. He plans to increase the weekly unemployment benefit to $400 from $300. $30bn of help for those not able to pay their rent.
- Biden is also pushing for a $15 hourly minimum wage which may meet some Senate resistance.

As much as putting money into people's pockets is essential, they also have to have the confidence to spend it. Hence the stimulus programme must work in tandem with the rollout of the vaccine. To date, people have tended to save their payments from the government. Pre-crisis, the average US

person was saving somewhere between 6% and 8% of disposable income. At one point, the savings rate spiked above 30%, and at the end of November was still lingering above 12%.

Going Green

Joe Biden is expected to use an executive order for the US to re-join the Paris Accord after they left on November 4th last year. The US will formally re-join 30 days after a letter is sent to the United Nations. The Biden green plan ensures that the US achieves a 100% clean energy economy and reaches net-zero emissions no later than 2050. We can expect planned investment in clean energy and climate research and innovation. We guess that those water-saving showerheads will be back!

Biden has estimated that they will need to make an investment of $1.7 trillion over the next ten years. They are expecting private investment to come in alongside to total $5trillion. Biden hopes to raise the revenues to pay for the investment by reversing some corporate tax cuts.

Infrastructure spending – wait until February.

Biden's infrastructure plans will not be revealed in any detail until February in a "Build Back Better Recovery Plan". The programs will incorporate many green initiatives and a significant upgrading of basic infrastructure such as road, railways and bridges that many studies have shown are in a state of major disrepair. "It will make historic investments in infrastructure….manufacturing innovation, research and development and clean energy," said Biden.

Anti-trust and big Tech – a bit of a minefield

The Biden transition team are understood to have been primarily focussed on anti-trust enforcement. While investigations into the major tech companies have been a feature of the latter days of the previous administration, there are still little tangible changes in the pipeline. What does concern the new administration is the privacy framework of many of the social media platforms. Also, two elections in a row have seen social media at the epicentre of controversy. The whole area is probably too big and complicated to see early effective measures adopted by the new administration; however, pending action could be a dark cloud.

China trade relations – a steadying hand

In the latter days of the Trump presidency, the onslaught against individual Chinese companies went up a significant notch. Some companies have been delisted, and others have faced severe restrictions on their ability to trade with the United States. It wouldn't be in Biden's interest to significantly reset the playing field in his presidency's early days. We suspect that a significant reshaping of policy would need much debate and negotiation. Hence at this time, we expect maybe minor de-escalation of the tense relationship with China.

North Korea and Iran - concessions on sanctions?

Both countries will be waiting for signs that the US will offer some concessions on sanctions before a serious de-escalation of the recent tensions.

The US and the Middle East – more engagement and building on the progress.

The Trump administration did achieve remarkable progress in bringing a new relationship between Israel and key Middle East countries. An end was brought to the three-and-half year stand-off between Qatar and other major Arab countries. While these were achievements, the lack of leadership concerning Syria and the Yemen have been backward steps. The Lebanon and Iraq are still problems to be solved. Biden has declared "America is back'. Many countries will hope that a de-

escalation of some of the tension with Iran and pragmatism in Syria and the Yemen could be further steps on the road to a more stable and vibrant Middle East.

Financial markets

So far, so good. Since Biden's win, the markets have rallied strongly in anticipation of the aggressive easing of fiscal policy. The initial response from the Federal Reserve to the budgetary package was positive. The Fed reiterated that "now is not the time to be talking about exit" said chairman Powell referring to the Fed super-easy monetary policy that includes quantitative easing and near-zero interest rates.

The most significant risk to the bullish tone comes from the US bond market. The inflation-linked bond market (TIPs) is pricing a view that 10-year inflation will move above 2.0%. At this stage, economists see inflation moving well above 2% in the second quarter and pushing towards 3% in the third quarter. The hit to the global economy last year took the price level down dramatically. Hence year-on-year inflation levels will be exaggerated by the comparisons with a virus hit 2020. We suspect that the Fed would not like to see long term interest rates rise sharply if the sustainability of an improvement in inflation is still in doubt. In the meantime, the equity market might have to bear a 10-year yield of around 1.5% in the coming quarters.

Equity investors tend to invest where the momentum is most robust. This would argue in favour of US markets continuing to outperform global markets. However, it is not as simple as that. **Higher inflation and rising bond yields would favour value over growth, and Europe and Japan have value in bundles.**

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