Biden's first 100 days: The investment markets with a new administration

After an election, how should investors view the change in administration? U.S. Bank offers an assessment of how Biden's first 100 days may impact the stock market.

The presidential election of 2020 marked only the fourth time in a century that an incumbent president was defeated when seeking re-election.

Now that Joe Biden is President, how should investors view the change in administration and the seating of a new Congress? To help you better understand, investment leaders from U.S. Bank have reviewed policy positions laid out by the new leadership. Here, they offer an assessment of how the U.S. election results may impact the market.

What to watch for with a new presidential administration

The election of Joe Biden as President marks a change in control of the administration from Republicans to Democrats. Just as important, however, is the makeup of Congress. Given the narrowness of the partisan advantage in Congress, "it's not a foregone conclusion that major changes will occur even with Democrats controlling both houses," says Tom Hainlin, national investment strategies at U.S. Bank. "The parties themselves are not uniformly in lockstep with each other, so that may limit the extent of new legislative initiatives."

While a new $900 billion stimulus measure was passed late last year by Congress, there will likely be an emphasis on further economic measures in the new Congress. "The country's economic footing will be a primary focus in the first 100 days of the new administration," predicts Haworth.

Even though the partisan divide in Congress may restrain the legislative ambitions of the Biden administration, presidents can exert executive authority that doesn't require Congressional approval. Among the areas where action may be expected in the early months of the administration are:

- **A focus on a vaccine strategy.** The successful rollout of COVID-19 vaccines will be critical in helping to overcome the economic challenges created by the pandemic. The new administration has indicated that this will be a top priority.

- **Additional stimulus spending.** This appears to be a priority for the Biden administration as a new bill works its way through the House of Representatives. Markets seem to be anticipating the passage of the bill, which should provide a bridge to a re-opened economy in the wake of vaccinations. Spending appears focused on payments to individuals, phased out for high earners, as well as support for healthcare and state and local governments. At a potential size of $1.9 trillion, it would provide a lift equivalent to more than 8 percent growth for the economy.

- **Minimum wage hike.** One potential amendment to the stimulus package includes an increase in the federal minimum wage to $15 an hour by 2025. It's unclear whether this amendment will survive the budget reconciliation process or the Senate's parliamentary process. The Congressional Budget Office estimates the minimum wage hike would increase wages for 17 million people, lift 900,000 out of poverty, but may also result in the elimination of 1.4 million jobs.

- **Trade policy.** Some dramatic changes in the nation's approach to trade occurred in the Trump administration. "We may see more actions by the Biden administration to improve trade relations with friendly nations, but perhaps no immediate reversal of more confrontational policies with China," says Haworth.

- **Prescription drug prices.** This became an area of increasing interest with the Trump administration and may also be on the radar for the Biden administration. "Prices paid by government entities for prescription drugs could be affected by executive action," according to Hainlin.

- **Expanded healthcare access**. The Biden administration is likely to try to build on the expansion of health insurance coverage that occurred under the Affordable Care Act.

- **Fuel efficiency standards.** The new administration may put a different focus on environmental concerns. "This could have an impact on plans affecting the energy and automotive sectors," says Hainlin.

- **Infrastructure.** While major spending initiatives would require Congressional action, the new administration may pursue other directions. "We could see an environment where the path for completing new infrastructure projects is through public-private partnerships," says Eric Freedman, chief investment officer at U.S. Bank.

The Federal Reserve supports the markets

Even with a new administration, the role of the Federal Reserve (the Fed) in helping keep the economy on track through this pandemic period remains in place. This includes adhering to a so-called zero interest rate policy for the foreseeable future. The Fed's "easy money" stance has clearly been a plus for the investment markets. "Low interest rates and a policy of buying Treasury, municipal and corporate bonds are a big support for investors," says Haworth. "The Fed's actions are likely to help limit any significant downside movement in the stock and bond markets."

With the Fed's decision to maintain its zero interest rate policy, yields across much of the bond market have remained historically low. This makes Treasury securities, such as the 10-year Treasury note currently yielding less than one percent, less appealing. The result is increased interest in corporate and

municipal bonds. It also may help drive investors to stocks, as there is limited upside to be found in the bond market.

The Fed's policies do come with a risk of higher inflation. "By the second or third quarters of 2021, we may have a situation where fiscal and monetary stimulus remains in place while the economy is gaining steam, assuming widespread vaccine distribution is effective," warns Freedman. "We will be closely watching to see if these factors will trigger an inflationary reaction, which could create some challenges for the markets." To this point, inflation has remained under control even with the Fed's dramatic actions.

Positioning portfolios for 2021 and beyond

While the market's strength in early 2020 was centered on a narrow group of mostly large technology stocks, the environment began to change in the latter months of the year. When it comes to the new administration, it's important to keep a big-picture perspective.

Freedman notes that economic volatility from public policies tends to be contained within specific industries rather than affecting the general economy. "Usually with political issues, it's typically not a broad market set of considerations," he says. "It tends to be more sector-focused."

Here are specific themes that U.S. Bank investments leaders will be paying close attention to in the coming months:

- **Secular growth sectors**. According to Freedman, these are industries well positioned to benefit from long-term trends in the economy. Included in this are sectors focused on helping people be more productive, such as information technology and e-commerce. Healthcare is another area that's seen as an effective, long-term opportunity. Freedman notes "longer life expectancies are a reality for most; people are taking better care of themselves and looking for ways to remain more active." This generally entails a bigger investment in maintaining health.

- **Cyclical stocks.** Industrial, Energy and Financial stocks generally lagged the market in the first half of 2020 and for several years prior to that. But in the closing months of the year, these sectors began to draw increased interest from investors and saw stock performance improve. This likely reflects expectations for an upturn in the economy in 2021.

- **Mid- and small-cap stocks.** An improving economy is likely to benefit mid-cap and small-cap stocks. This is in contrast to the environment for much of 2020, where a select group of large-cap stocks dominated the market. "As a sense of normalcy returns to the economy, investors may be willing to take on more risk, which is typically reflected in mid- and small-cap stocks," says Haworth. "That means investors will likely expand their focus to other areas of the market."

Most important to the markets will be the degree to which the economy can stay on track following a brief but severe recession in early 2020. It's fair to anticipate some market uncertainty and volatility in 2021. Hainlin points out that increased volatility has become more woven into the investing landscape — and that it might not necessarily spell bad news, especially when the economy is otherwise sound.

Regardless of how events play out, we think maintaining a properly diversified portfolio that is attuned to your specific comfort level with investment risk is a sound strategy.

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