CIO Special

May 3, 2021

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Biden's first 100 days: four key perspectives

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Key take aways

- Vaccine success has multiple implications for economic recovery and investment, with USD levels also affected by relative global progress.
- Fiscal stimulus will particularly benefit certain types of consumer discretionary spending and will also help financials, via a normalization in rates.
- Infrastructure spending will have an important ESG (environmental, social and governance) component was well as sectoral implications.
- Increased spending will be partially paid for by tax changes, for example on the wealthy and on global corporations. Reversal of previous tax cuts will have varying impact on different sectors.

01 Introduction

President Biden began his presidency at the start of 2021, as he began his vice-presidency in 2009, amidst an historical crisis. This time around, however, the economic crisis is accompanied a once-in-a-century virus pandemic.

The first 100 days of any new administration allow for the new leadership to highlight their priorities. And while the start of every presidency faces a series of challenges, the stakes now are particularly high: Biden will be very busy fighting off the pandemic through a successful vaccine rollout and passing landmark fiscal packages on economic relief and strategic initiatives like infrastructure.

For Biden, the restoration of jobs or economic growth will not be enough. The new administration has also sought out to restore trust in U.S. diplomacy by repairing alliances, in order to retake a leadership role for the U.S. on the global stage. The Biden administration has been quick to readopt the Paris Climate Agreement, as well as restarting talks with Iran for re-joining the Joint Comprehensive Plan of Action (JCPOA), agreements that were abandoned by the Trump Administration. Sino-U.S. foreign policy challenges remain, as "trade wars" now are shifting to "tech wars" along with other disputes. A bipartisan bill (also supported by President Biden) known as the "Strategic Competition Act of 2021" is designed to reaffirm the U.S.'s commitment and influence in the Indo-Pacific region.

Biden is a believer in the power of institutions, and his cabinet and senior leadership appointments have a relatively high degree of governmental experience, in contrast to much of the Trump administration. Furthermore, the initial cabinet picks have been more diverse in make-up, with a higher percentage of woman and non-white individuals than both of the last two administrations. Biden has so far appeared to have kept his promise by exceeding diversity and inclusion norms in terms of both race and gender.

This report is designed to highlight the key initiatives that the new president has chosen to focus on during the first 100 days, while also providing a guide for what investors should expect as a result. We divide these into four areas, as follows:

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02 Vaccination success: attaining warp speed

The Biden administration has built on the extraordinary efforts to develop, test, and approve a COVID vaccine that had begun under the previous administration's "Operation Warp Speed" program. Rolling out COVID inoculation efforts as fast as possible has always been critical for a fully-sustainable reopening of the U.S. economy. To start off, Biden set an initial goal of providing 100 million doses to be administered during the first 100 days of this administration – but in the event managed to deliver on a revised goal of 200 million vaccinations during April. Currently, over 43.6% of Americans have received one dose, and the rollout has steadily accelerated, despite a pause in the use of one vaccine due to concerns around blood clotting. If the U.S. maintains its pace of vaccinating approximately 1% of the population per day, it should then only take another 3 months to hit the 75% threshold, a possible watermark for herd immunity. Vaccination pace remains critical, given looming coronavirus variants, but to date the U.S. vaccination effort has been one of the fastest and most effective in the world.

Portfolio implications: The U.S.'s vaccination success has multiple portfolio implications via its impact on U.S. recovery. However, the relative speed of the U.S. vaccination may have had an immediate effect on the USD in particular: global investors have taken notice of the global inoculation leaders and laggards, and what was once a consensus trade to be bearish USD at the start of the year now seems more complex.

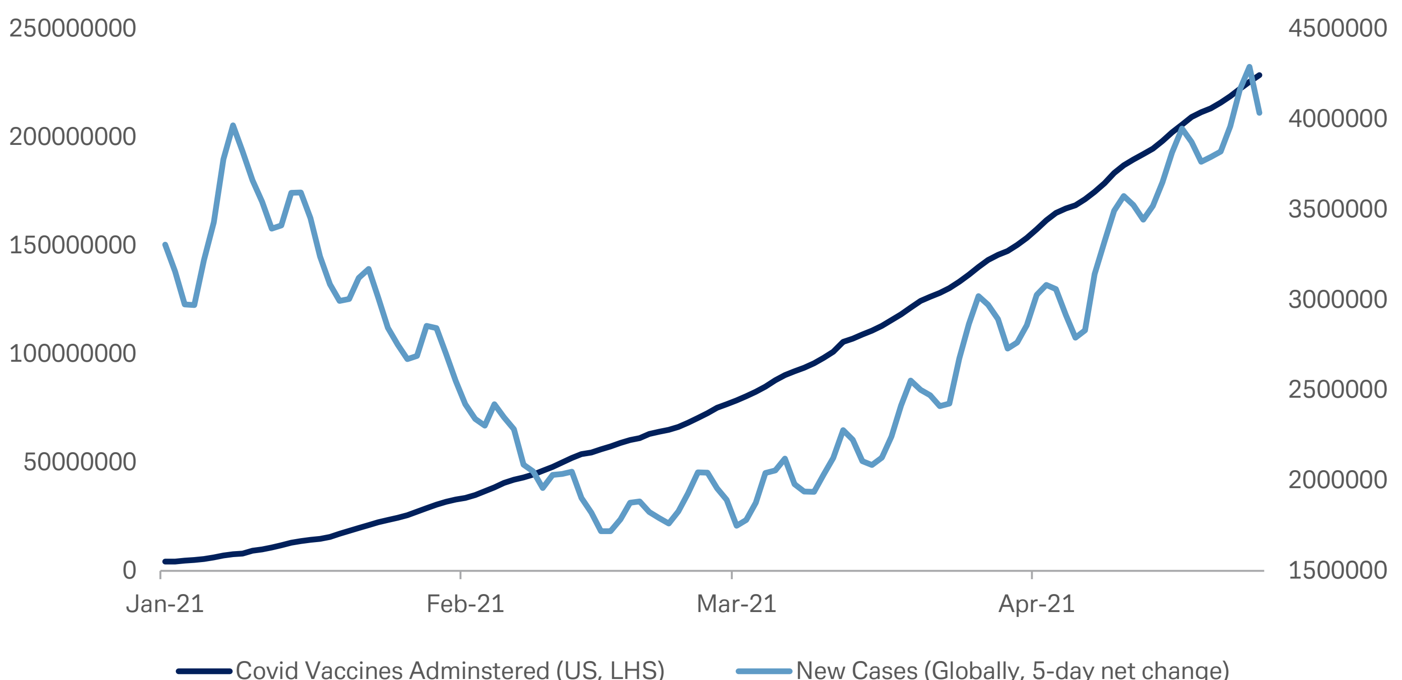
Dollar "bears" have long pointed to the steep "twin deficits" (on the budget and external accounts) as a reason to be short the USD. These two deficits have been exacerbated by the pandemic. COVID relief spending has pushed fiscal deficits to new record highs, and a relatively strong U.S. recovery (compared to other developed markets) has created robust domestic consumption, in turn widening the current account deficit to new record levels, resulting in extremely bearish investor dollar positioning at the start of 2021.

But variation in vaccination progress around has also had a significant impact on FX markets. Throughout the first quarter of the year, the jumpstart in vaccine developments appears to have been one factor providing a tail wind for the USD despite of investors' pessimistic positioning at the start of the year. The U.S. currently ranks 2nd in doses per 100 people amongst the G10 currency space.

However, the U.S.'s vaccination lead may be eroded in future. There are some early signs that demand for jabs might be stalling in some states. Policymakers will need to continue to foster vaccine confidence so demand remains robust as more and more supply is delivered. Moreover, inoculation laggards (like the Eurozone) will continue to pick up pace and expectations of this resulted in some erosion of the USD Q1 strength.

Ultimately, we still believe that the deeper U.S. growth and interest rate differentials will support USD strength over the medium to longer-term, placing us back in the 1.20-1.15 trading range.

Figure 1: U.S. inoculation chart (a race between vaccinations and variants)



Source: Bloomberg Finance L.P., Deutsche Bank AG. Data as of April 26, 2021.

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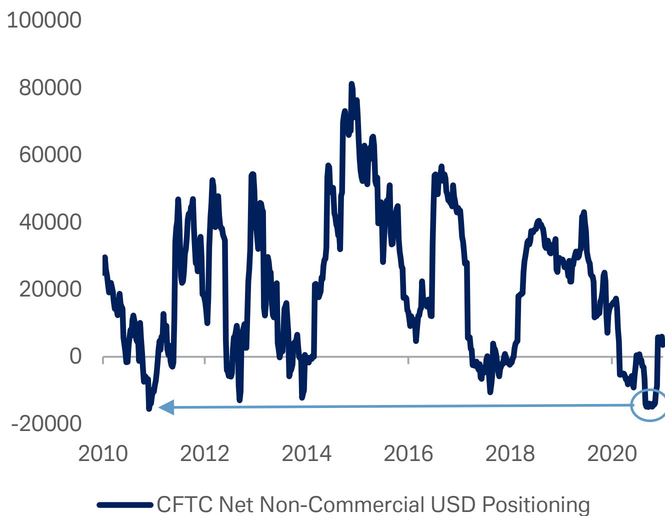
Figure 2: USD positioning started the year very bearish



Source: Bloomberg Finance L.P., Deutsche Bank AG. Data as of April 26, 2021.

03 Fiscal stimulus: massive and front-loaded

The Biden Administration has set out to open the fiscal taps even further with its first landmark package, known as the American Rescue Plan (ARP). The Trump administration, with bipartisan support in congress, started the process via bolstering unemployment benefits and providing support to business and local governments during the pandemic. Biden's first major spending plan pushes these efforts a step further.

The ARP is centered on sending USD1,400 direct stimulus checks directly to consumers, rounding the total number of direct stimulus checks to USD2,000 since last December. Unemployment aid has been extended with a USD300 per week insurance boost that lasts through to September 6. Additional safety-net features includes rental assistance and expanding child tax credits. Another key piece of the plan provided critical funding for vaccination distribution efforts, as well as testing and contract tracing. Pandemic-impacted industries also receive aid along with schools and universities to help with reopening.

The U.S. fiscal response to COVID is already the largest fiscal stimulus measure ever undertaken outside of war time. Comparing its size with the 1930s New Deal or the post-2008 global financial crisis, the cumulative total of the Trump and Biden administration stimulus packages is more than four times as big (rebased to 2020 USD).

What is also notable is that the output gap from the pandemic stands at only a fraction of that following the Great Depression, and just over half of that caused by the Global Financial Crisis. So the U.S. has chosen a much more sizeable and comprehensive response than in the past, relative to the problem at hand. The sluggish response following the 2009 American Recovery and Reinvestment Act likely serves as a recent disappointing reminder for policymakers about what can happen when fiscal impulse is too small.

Fiscal stimulus has been effective. The U.S. economy is set to reach pre-pandemic levels of output by just Q3 2021, much sooner than many other countries or regions which have elected for smaller fiscal stimulus programs.

Figure 3: Stimulus packages compared

	New deal	2008 Recovery Act	Trump 1 & 2 CARES/COVID + Biden COVID 1
Total cost (USD bn – 2020 dollars)	788	1013	4100
Per capita cost (2020 dollars)	6311	3303	12390
Cost compared to nation's output	40% of 1929 output		19% of 2020 output
Increase in federal debt (as a fraction of gross national product)	30.3% 1931 to 1939	32% 2008 to 2011	24% debt held by public 2019 to 2022
Negative output gap after start if crisis	-30% of GDP	-5.5% of GDP	-3% of GDP
Equities 1 year after crisis relative to peak	-37%	-30%	+22%

Source: Deutsche Bank Research. Data as of April 26, 2021.

One important difference with historical stimulus packages is that the USD1.9tn American Rescue Plan (along with the two previous bills under the Trump Administration) are much more front-end loaded. Direct stimulus payments along with robust unemployment benefits have helped prime the U.S. economy for a rapid reopening. Unlike a typical recession, personal income has actually risen during the pandemic (due to government assistance), and personal savings rates have hit 33.7% or the highest level on record in as households stashed direct stimulus checks, building a USD1.7tn excess savings glut. This has led to much stronger GDP forecasts for FY 2021 when compared to the other DM peers, as well as pricing pressures stemming from boosted demand during a period of supply-chain disruptions.

Wealth impacts from a buoyant housing and stock market are likely to add to this strong pent-up demand that's being unleashed. Household wealth in equities and real estate has risen by USD8tn last year according to Federal Reserve data. Historical studies highlight that the surge in housing prices typically has an even more sizable impact on wealth effect spending. As a result, FY 2021 growth is likely to be primarily be driven by strong personal consumption as the reopening continues to unfold. Our forecast is for 5% GDP growth in full year (FY) 2021, the strongest since 1984, with growth in consumption expected to reach 6.8% (consensus), the strongest since early 1950s.

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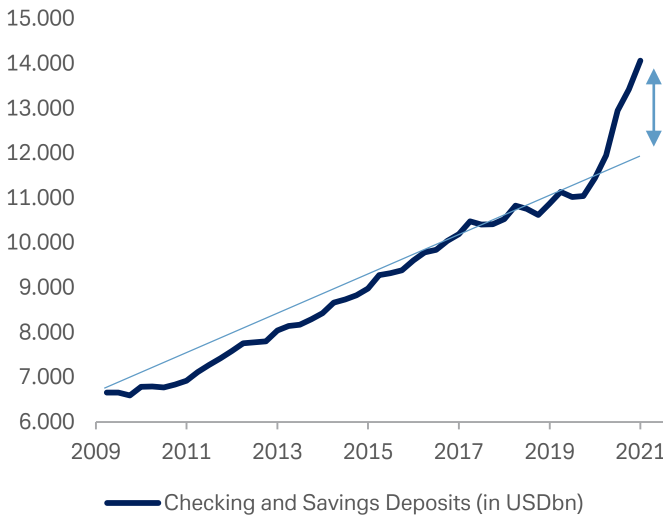
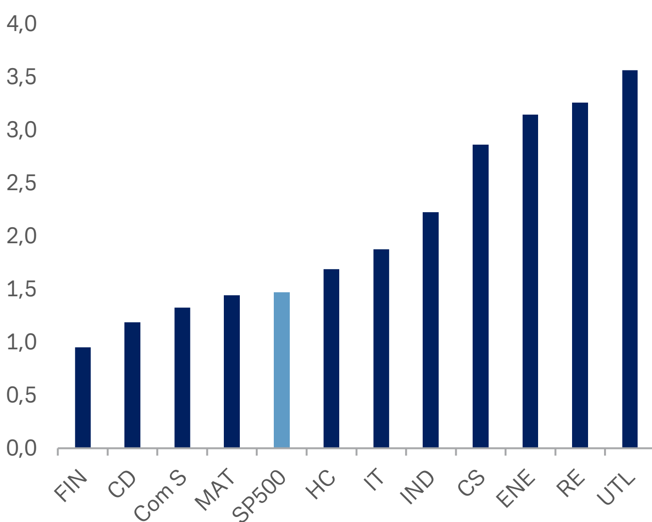
Figure 4: Excess savings during the pandemic



Source: Federal Reserve, Bloomberg Economics, Deutsche Bank AG. Data as of April 26, 2021.

Portfolio implications: As noted, COVID stimulus packages have so far mostly boosted the household sector. Some sectors will gain particularly from the strong economic reopening via healthy consumption levels and reflation. The Consumer Discretionary sector is likely seeing a catch up in some of the more pandemic-impacted industries such as apparel and hotels. Reopening dynamics are going to bolster spending in travel and leisure activities, while some of the more long-term drivers (such as e-commerce spending) remain largely intact. However, some of the "stay at home" names are now likely to see adverse rotation in our reopening scenario.

Figure 5: Sectoral price/earnings growth ratios

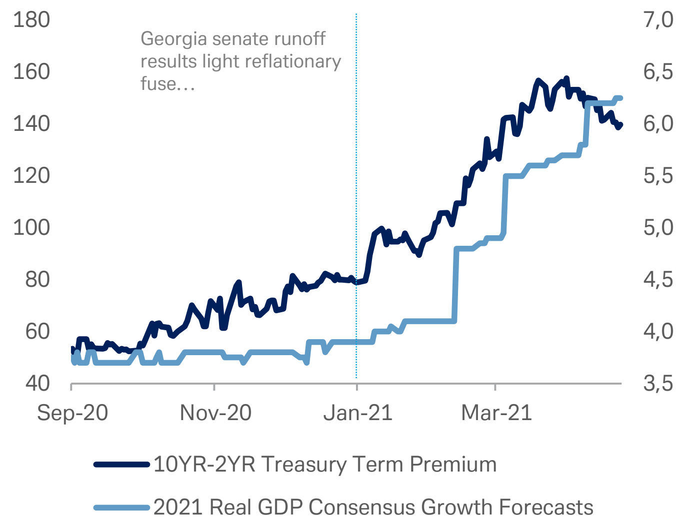


Source: FactSet, Deutsche Bank AG.
Data as of April 26, 2021.

The financial sector should continue to benefit from a normalization in rates, while still also providing a reasonable valuation discount. Financials currently are the least expensive sector, when comparing price vs. expected earnings growth over the next 12 months.

In fixed income, history suggests that the yield curve has a tendency to steepen by up to 250bps (10 year to 2 year) before the Fed initiates a new rate-hiking cycle. This suggests the continued bear-steepening dynamic should hold in through these early innings of this new economic cycle. Investors could look to senior bank loans and other variable rate fixed income structures as a way to shorten their overall duration. Speculative grade credit, such as high yield and senior bank loans, also tend to be supported by the improving default environment usually found in this stage of the economic cycle.

Figure 6: U.S. Treasury yield curve and growth expectations



Source: MacroHive, Bloomberg Finance L.P., Deutsche Bank AG. Data as of April 26, 2021.

04 Infrastructure spending: human and physical

"Build back better" has long been a campaign slogan for the Biden administration that was initially designed to stand alone outside of the post-COVID world. The need for strategic investments in the country's infrastructure has historically had bipartisan support. The U.S. currently ranks 14th in terms of infrastructure provision globally, according to a World Bank Study, lagging behind most of developed market peers.

In early April, the White House released its initial wish list for the so-called American Jobs Plan (AJP). Total spending of USD2.25tn includes over USD621bn for transportation infrastructure, such as repairing and/or building roads, bridges, electric vehicle charging networks, public transit rails, and airports. Over USD400bn will also be set aside for elderly and disabled Americans to expand home and community care under

Notes: , FIN = Financials, CD = Consumer Discretionary, ComS= Communication Services, MAT = Materials, HC = Healthcare, IT = Information Technology, IND = Industrials, CS = Consumer Staples, ENE = Energy, RE = Real Estate, UTL = Utilities

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Medicaid and Medicare. USD300bn will be used to restore the U.S. Manufacturing sector and support innovation hubs for critical industries like semiconductors, and a further USD300bn for housing and water utility initiatives. The remaining USD650bn will be used to fund investments in education, broadband access, job training, and enhancing the electrical grid.

As is implied by this breakdown, the administration's infrastructure ambitions are far broader and comprehensive than what traditionally is defined. The USD2.25tn earmarked can be split into two components. Firstly, more traditional-style infrastructure projects such as roads, bridges, electrical grids, and high speed internet (around 60% of the proposed total). Secondly, spending more focused on "soft infrastructure", such as funding for social programs for broader education, health-care and child care (around 40%). Such "soft infrastructure" concepts which are designed to not only enhance quality of life but also to lift the longer-run growth trajectory of the economy over time, as they should also contribute to productivity growth – the third component of economic growth, along with labour and capital.

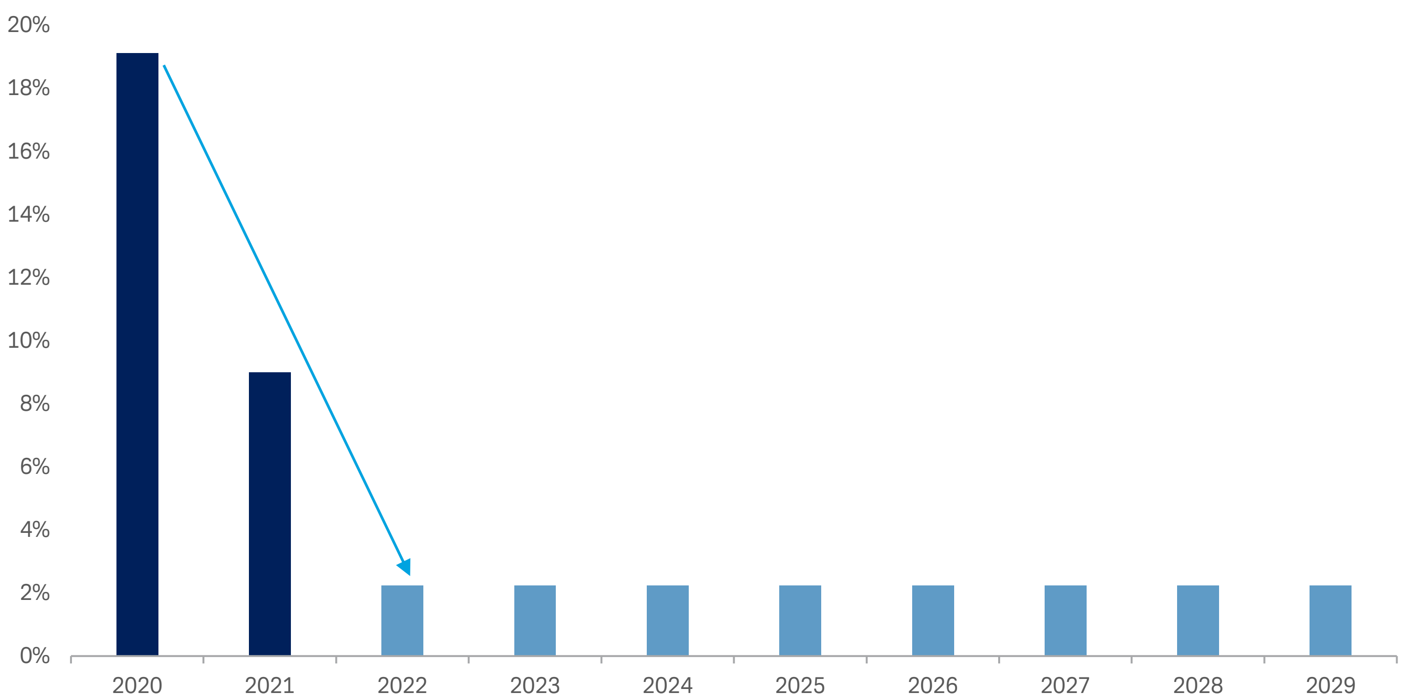
The AJP spending plan is set to be spread over an eight-year time horizon, which makes this type of stimulus much less front-end loaded than the American Rescue Plan. If we were to assume that this spending were spread out evenly over this time frame, then this would imply a figure just over USD280bn per year, much less than the fiscal impulse that the U.S. economy has been receiving with the COVID relief packages.

There also may be yet more infrastructure spending to come. Addressing a joint session of Congress, Biden introduced the American Family Plan (AFP) which is to include an additional USD1.8tn in spending, bringing the total amount of proposed comprehensive infrastructure stimulus to over USD4tn. The AFP's main focus will be to provide human capital benefits such as tax credits to reduced poverty and childcare expenses, free prekindergarten and community college, and a national paid leave program. The details for these "human infrastructure" initiatives are will need to be ironed out, and likely on a partisan basis without many Republicans willing to support such gigantic spending. However, we believe that the bolstering of the Affordable Care Act via the AFP will provide a tailwind for the managed care industry.

Portfolio implications: The details of these infrastructure plans are likely to continue being hashed out in tough negotiations that could extend past Labor Day in September. Nevertheless, investors can begin to consider the strategic opportunities likely to present themselves.

The ESG (environmental, social and governance) component of infrastructure investment will be very important. One of the main objectives of the Biden infrastructure proposal is to address the climate crisis with a focus on green-renewable energy. Funding for clean-energy initiatives, such as electric vehicles and the charging millions of additional charging ports needed to support the change, along with updating buildings and households to reduce emissions are all key ESG themes that investors should consider as part of their strategic asset allocation. Additionally, sustainable or renewable energy will also play a critical role in the country's future energy plans. Investors should continue to strive for ESG allocations to better enhance risk-adjusted performance, especially in the wake of the American Jobs Plan.

Figure 7: Fiscal impulse set to decline (as a % of nominal GDP, ex tax increases)



Note: Referenced to 2020 Nominal GDP levels. Source: whitehouse.gov, Deutsche Bank AG. Data as of April 26, 2021.

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From a sector perspective, it might be worth considering a barbell approach to capture some of the cyclical-value upside potential along with the more robust quality growth style sectors, such as Information Technology. Quality growth names should provide a more stable stream of earnings, while also benefiting from the secular growth trends (such as digitalization) over the longer term. At a sub-industry level, Semiconductors are likely to play a critical role in the expansion of rural broadband networks, along with the broader electrification theme found in the infrastructure proposal. Furthermore, USD50bn has been set aside to help subsidize domestic research and manufacturing as the global race for 5G dominance continues to heat up. The auto industry is likely to benefit as the colossal shift from internal combustion engines picks up steam. Biden's plan has included USD174bn multi-pronged approached to boost the production of electric vehicles, which should provide an additional tailwind to the consumer discretionary sector.

Investing in broader infrastructure names should also be considered. Infrastructure has been one our global key investment themes since 2018, with these political initiatives adding to the case for it. Outside of the typical defensive-style investments such as roads, a key focus for the AJP will be for bolstering network infrastructure to support rural broadband and digitalization. Megatrends in telecommunication towers, data centers, and fibre are likely to be exacerbated.

05 Paying for it all: tax initiative implications

These ambitious proposals for comprehensive infrastructure initiatives (both physical and human) are expected to be partially paid for by new taxes on the wealthy, including through eliminating some of the existing loopholes. The White House has recently proposed a significant increase to capital gains and dividend rates that would lift the top rate to 39.6% for households making USD1mn per year. An increase in the personal income rate to 39.6% from 37% for top earners is also being considered. The administration is also considering adjustments to the estate tax along with eliminating "carried interest". These actions serve as a campaign promise to tax the wealthiest in order to address the nation's growing inequality, by funding the American Family Plan's spending goals.

The American Jobs Plan (AJP) is designed to be both spent and paid for on two distinct time horizons. While the outlays are projected to last eight years, the additional financing through tax increases is going to be over a longer time-frame. The White House has proposed to raise approximately USD2tn over the next 15 years to pay a large part of the initial infrastructure proposal.

As noted in the table below, the administration is choosing to fund the separate (AJP) spending mostly through increases to the corporate tax rate. The United States currently collects the lowest revenues from corporations (measured as a percentage of GDP) amongst the G7 counties, and corporate tax revenues relative to GDP have been steadily decreasing since the 1950s. Biden's proposals is also aimed at moving the U.S. towards a world-wide income-based system (so firms would pay a minimum amount on their global earnings), which would discourage the use of off-shore pass-through entities that have been rising in popularity since the early 1980s. Currently, only five other countries utilize this approach, therefore making a dent here might still be quite a challenge despite the U.S.'s relatively larger influence.

Figure 8: Possible tax initiatives

Tax	Details	10 Year Revenue
28% Corporate Rate	Raising the corporate rate from 21% to 28% (25% is expected)	USD695bn
GILTI	Raising the global intangible low-taxed income from 10.5% to 21%	USD495bn
15% minimum book tax	15% minimum tax on corporations with at least USD100mn in income	USD123bn
Repeal FDI	Repeal of The Foreign Derived Intangible Income, which provided deductions on some foreign income	USD217bn
Anti-Inversion Regulations	Increased regulation preventing U.S. companies from headquartering overseas	USD27bn
Repeal Fossil Fuel Subsidies	Repeal on subsidies on fossil fuels and other loopholes benefitting the industry	USD27bn
Offshoring Penalty	Denial of expense deductions from the offshoring and incentivizing onshoring	Uncertain
Tax Enforcement	Increased IRS enforcement on taxes on corporations	Uncertain
Global minimum tax	Pursuit of global agreement on minimum corporate tax	Uncertain
Total	***Over USD2tn over 15 years***	

Source: Oxford Economics, whitehouse.gov. Data as of April 26, 2021.

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The final details on these tax increases will of course be heavily debated over the coming months, and President Biden appears to be willing to negotiate, for example, on increasing the corporate tax rate, which might result in a halfway-split level of 25%. Increasing taxes on individuals and corporations will be a non-starter for Republicans and the razor-thin majority in the Senate means that investors should pay close attention to the views and behaviour of the moderate cohort of Democratic members. This will likely dampen the prospects of major tax increases to both individuals and corporations. Nevertheless, we currently assume an earnings per share (EPS) hit of USD14 (or 7%) to our 2022 EPS forecast of USD191 for the S&P 500, and multi-national corporations who have revenue sourced in corporate tax-havens may face the largest scrutiny. An increase to the global intangible low-taxed income (GILTI) is specifically targeted at larger multinational tech companies who place profits in low-tax offshore via intangible assets such as software code, patents, and other intellectual property.

In our pre-election CIO Special – U.S. 2020 elections: policy and portfolio implications, we summarized what a partial reversal of President Trump's tax cuts could mean for certain sectors. It is worth revisiting this as we could be entering a more hawkish tax regime. Health Care and Information Technology sectors were the two largest beneficiaries of the previous administration's tax cuts, with Utilities and Materials also reaping significant rewards. Employing a global-based income view on collecting tax revenues may mean that certain industries or subindustries (such as chipmakers or pharmaceuticals) in the Tech and Healthcare space are more vulnerable to increases to their effective rates. Conversely, industries with domestic revenue sources such as railroads or retail apparel are likely to be less impacted.

06 Conclusion

100 days into the Biden administration, the overall U.S. macroeconomic picture appears to be improving and the vaccination rollout has arguably been the fastest out of all the major developed countries in the world. The extraordinary fiscal stimulus measures that have been enacted (by this and the previous administration) since the start of the pandemic have primed the U.S. economy for a grand reopening which should pick up steam in the remainder of the second quarter of 2021 and last throughout the remainder of the year.

Looking further out, challenges do, however, remain. The fiscal impulse (the change in the change of fiscal stimulus) will continue to decrease from positive to more negative in 2022. The front-end nature of the American Rescue Plan (ARP) means that such support spending will fade out soon; infrastructure spending under the American Jobs Plan (AJP) is supposed to be evenly spread over the eight years, but will not fully make-up for the decline in spending under the ARP, meaning that there will be a steep deceleration in fiscal spending from next year.

At the same time, monetary policymakers will have to walk a fine line between supporting the labour market recovery in the wake of rising growth and inflation pressures. The Federal Reserve's faith that pricing pressures during the economic reopening will be transitory may be tested. However, the new average inflation targeting framework is designed to allow for more flexibility with inflation overshoots, and policymakers seem to be zeroed in on reaching the fullest possible of employment possible before changing course. This should keep policy rates well anchored to current levels as "taper talk" will need to come well before any rate adjustments. Avoiding a monetary policy mistake here will be critical for investor sentiment over the next few years. Important dates to keep top of mind begin with the expiry at the end of July of the temporary debt ceiling extension, which dovetails into refunding the Highway Trust Fund at the end of September. Government funding disputes could also sour market sentiment, especially if hard-line frugality prevails over pragmatic compromises.

Investors should also remind themselves of the forward-looking nature in capital markets. Markets appear to be assuming a relatively smooth passage for the comprehensive "Build Back Better" initiatives, but partisan dynamics and a narrow Democratic majority could lead to compromises in terms of the size of tax and spending increases. With the S&P 500's price performance in the first 100 days of Biden's presidency the strongest since 1932, and equity prices a stone's throw away from all-time highs, there is room for market disappointment if positive developments already priced in do not happen. With volatility likely, clients need to remain focused on their longer-term goals while maintaining a diversified strategic asset allocation that should provide robust performance over time.

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Glossary

Earnings per share (EPS) are calculated as a companies' net income minus dividends of preferred stock all divided by the total number of shares outstanding.

ESG investing pursues environmental, social and corporate governance goals.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

The Federal Reserve (Fed) is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

The G7 comprises Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

The G10 comprises Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

The Paris Agreement refers to a 2015 agreement under the framework of the United Nations Framework Convention on Climate Change.

The S&P 500 Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Treasuries are bonds issued by the U.S. government.

USD is the currency code for the U.S. Dollar.

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