

MARKET SIGHT LINES



Major Shifts in D.C.

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As we started 2021, with Joe Biden being sworn in as our 46th president, and a Democrat-controlled Congress, we anticipated change in D.C. Now with the \$1.9 trillion stimulus package enacted, the questions remain: What's in focus going forward, and how drastic will the shifts be in D.C.? In this week's Sight|Lines, we briefly review what we see in focus going forward in 2021 and into 2022. To go deeper, we invite you to watch our [Client Webinar: D.C. Update](#), being held on March 30 at 2:30 p.m. EDT.

\$1.9 Trillion Fiscal Package

Before we get to a look forward, let's consider some learnings from the recently enacted \$1.9 trillion relief package. First, consider the widespread support provided in this package. It includes funding for state and local governments, school reopenings, and expanded tax credits, provisions which were last year, in part, unfavored by Republicans. The Senate used budget reconciliation for the package, which passed the chamber on party lines by a vote of 219 to 212. The speed and manner in which this passed is a signal that Democrats will be aggressive going forward.

Higher Taxes

President Biden campaigned on higher taxes, with key elements including a higher corporate tax rate (28% versus 21%), a higher top marginal tax rate (39.6% versus 37%), the prospect of regular income treatment on capital gains for higher earners, and revisions to estate tax treatment to tax or eliminate the step-up in cost basis on investment holdings, and possibly reduce the exemption on federal estate taxes. Inevitably, the tax reform will be tied to more spending on the Biden administration's priorities, particularly infrastructure.

\$3 Trillion Infrastructure Plan

We've recently learned that administration officials are developing an infrastructure plan designed around President Biden's campaign agenda, with the overall plan potentially costing as much as \$3 trillion over 5-10 years. Developed and implemented with multiple proposals, the first is expected to focus on roads, bridges, and other infrastructure programs, and the first proposal may include climate change initiatives.

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A second proposal is expected to include a focus on “human infrastructure,” such as education, considering things like universal prekindergarten and tuition-free community college, and programs to increase women’s participation in the labor force. The proposal would also make permanent the expanded Affordable Care Act premium tax credits to help individuals purchase health insurance.

Learnings from Biden Administration Nominees

Two key Biden administration nominees, Gary Gensler and Rohit Chopra, are expected to guide their respective agencies in a new direction, with implications for the capital markets.

Consider Gary Gensler, whose nomination as Chairman of the SEC is pending a vote by the Senate. He had a contentious relationship with Wall Street as chairman of the Commodities and Futures Trading Commission under Obama. That may continue. We expect his focus to include more aggressive enforcement (e.g., for Regulation Best Interest), cryptocurrency regulation, disclosure requirements on climate risk and ESG (environmental, social, and governance), and special purpose acquisition company (SPAC) regulation.

The Consumer Financial Protection Bureau (CFPB) is the United States government agency responsible for consumer protection in the financial sector. Under Rohit Chopra, if he’s ultimately confirmed, we expect the CFPB to ratchet up enforcement, with a focus on fair lending and technology companies’ entrance into financial services, for example.

Foreign Policy

In our geopolitical dashboard, we’ve identified U.S.-China tensions as a key risk and focus. We’ve expected the Biden administration to stay tough on China, and the U.S. seemed to signal this approach at the first high-level meeting held with Chinese officials in mid-March. There was a tense public exchange of comments from both countries, each being critical of the other’s approach domestically, for example. We expect a similar approach with Russia, with whom tensions also remain high.

Midterms

When either party gains control of the U.S. government, the winning party leaders move quickly to implement their agenda. As they do, both parties have in mind the midterm elections. In 2022, for example, there are at least 20 Republican and 14 Democratic seats up for reelection. The actions taken by Congress in these two years will be considered by voters as they make their decisions in 2022.

Conclusion

Given the aggressiveness of the 2020 elections, it is no surprise that change is afoot in D.C. with President Biden in the White House and the Democratic Party controlling Congress. The president and Congress worked together to swiftly enact the latest fiscal package, giving us a sense of what to expect going forward: rapid and meaningful change. To go deeper on this topic, we invite you to watch [Client Webinar: D.C. Update](#), being held on March 30 at 2:30 p.m. EDT. A replay will be available afterward.

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