Biden's fiscal policy drives longer-term recovery

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Special Coverage:

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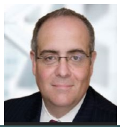
Key takeaways

- **The US$1.9 trillion COVID-19 relief package** (American Rescue Plan ARP) is expected to boost growth further. Total fiscal stimulus has reached nearly US$5.3 trillion within a year.
- The US economy is poised for **a strong cyclical rebound**, and the secular technology revolution should lift productivity and corporate profitability.
- **We remain overweight US equities and US Investment Grade and High Yield bonds** – thanks to contained inflation, low interest rates, stronger economic recovery and supportive policies.



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Key highlights of the US fiscal stimulus

Measures	Benefits	Additional guidelines
Direct payments to households	$1,400 per tax payer and per eligible dependent $2,800 per tax-paying couple	- For an individual income of $75,000, up to $80,000
COVID-19 related unemployment benefits	Extends $300 per week in jobless aid supplements and programs until 6th September	- Makes individuals’ first $10,200 in jobless benefits tax free
Paycheck Protection Program (PPP) loan program	Additional $7.25 billion to the US small business administration	- Includes ‘Cobra Healthcare Insurance’ assistance
Injection of capital to state, local and tribal governments	$350 billion	- 57% allocated to states - 35% allocated to local
Child tax credit	- Increases $3,600 for under 6 years of age - $3,000 for between 6 and 17	- Expands for one year
Earned income tax credit	- Raises maximum credit for adults without children from $350 to $1,500 - Raises the income limit for the credit from $16,000 to $21,000	- Workers over the age of 65 could claim the credit - Valid for 2021
Employee retention tax credits	Legislation expands the credit to encourage companies to keep employees on payroll	
Rental and utility assistance programs	Adds $25 billion in rental and utility assistance programs and $10 billion for mortgage aid	
Restaurants aid	Offers nearly $30 billion in aid to restaurants	
Tax credits fully refundable	Allows reimbursement for the difference between tax credits and liabilities, boosting personal after-tax incomes next year	

Market considerations

- **We remain overweight US equities** – The US economic growth outlook continues to improve, driven by the record levels of fiscal stimulus, accommodative monetary policy which has kept policy rates low and the yield curve flatter. This allows households to refinance mortgages and corporations to issue lower interest-bearing corporate debt. Both corporate cash levels and consumer saving rate are high.

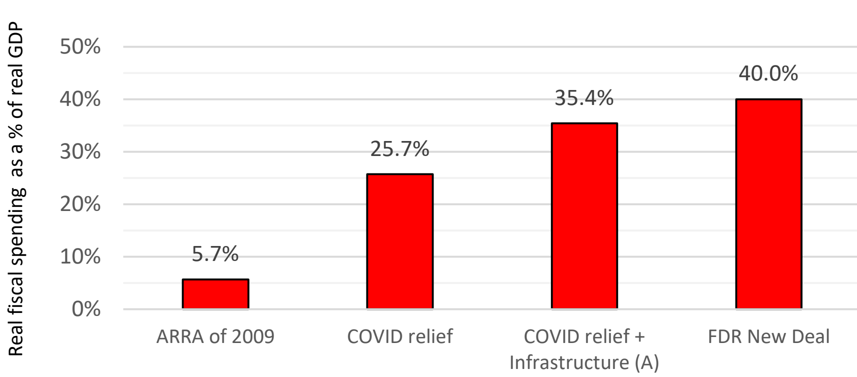
- **Improving cyclical growth outlook** – **We prefer industries that are sensitive to interest rates** – including financials, housing, auto and technology, and pivot deeper into **cyclical exposures** across materials and industrials. The US economy is at the beginning of **a secular technology revolution** that should lift productivity and corporate profitability growth rates.

- **Stronger corporate profits** – Consensus expectations for corporate profits growth for the S&P 500 in 2021 was 40% according to Bloomberg. Any turn around in demand should be quite profitable. The promising earnings outlook and expected further spending support our US GDP forecast upgrade from 3.5% to 5%.

- **We remain overweight US Investment Grade and High Yield Bonds** – We believe there is a limit to the upside for treasury yields and look to select opportunities in Investment Grade and High Yield credit markets. Companies with manageable leverage, longer dated funding and relative stability in earnings are preferred.

- **Inflation risk is temporary** – While we see the risk for higher short-term inflation, increased supply of goods as the economy re-opens should normalise inflationary growth rates in the long run. Gold is our choice to hedge portfolios against the risk of higher inflation and volatility.

COVID-19 fiscal relief spending approaching the size of President Roosevelt's "New Deal" of 1930s



Source: American Recovery and Reinvestment Act of 2009. (A) Infrastructure plan expected to total as much as $2tn and could be included in the next fiscal year budget proposed by the Biden administration, Federal Reserve Bank of St. Louis, HSBC Private Banking as of 3/1/2021.

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