CETERA® INVESTMENT MANAGEMENT

COMMENTARY

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Thoughts Around the Infrastructure Proposal

- Recently announced $2 trillion infrastructure proposal will not likely pass quickly.
- Expect economically sensitive asset classes, sectors and industries to benefit.
- Infrastructure spending should further help this economic recovery broaden.

Last week, President Biden announced a $2 trillion infrastructure and green energy proposal as part of the American Jobs Plan. This package includes new spending on transport infrastructure, manufacturing, R&D, housing and elderly care. This spending is anticipated to be spread over eight years and paid for over 15 years with higher taxes, most notably a hike in the corporate tax rate from 21% to 28%. This plan partially addresses the much documented and most pressing problems around repairs to our nation's infrastructure. Despite the impact on corporate taxes, given the rally in U.S. equities, investors have embraced this plan as a potential catalyst to future economic growth.

Since the most recent $1.9 trillion American Rescue Plan was passed quickly and in full, there is optimism that this infrastructure proposal will likewise pass rapidly. However, given the partisanship in Washington, we are not optimistic. For the plan to avoid a filibuster, Democrats will need to win over 10 centrist/budget-conscious Republicans. However, that is unlikely since it includes large social spending and Republicans may not reverse the Trump tax cuts. The most likely scenario is that the infrastructure plan is reduced and passed during the budget reconciliation process in the fall. Under this special procedure, as long as it affects federal spending and revenues, with some exceptions, a bill can be brought up for a vote and pass with a simple majority.

While the infrastructure package will not likely be passed quickly, if and when it does pass, we expect cyclicals and economically sensitive investments to benefit the most. From an asset class standpoint, we expect value companies to benefit more than growth ones. Given their high correlation to economic growth, we also anticipate small companies to outperform larger companies. Similarly, from a sector standpoint, we expect economically sensitive ones such as Industrials, Basic Materials, and Financials to benefit. Also, given the need for new technologies, expect the Technology sector to benefit. From an industry standpoint, we believe automobiles (the plan benefits electric vehicles by potentially reducing caps and increases incentives), semiconductors (for new technologies), and, given that the largest component of the package is for transportation infrastructure, those industries that benefit from building or updating roads and public transportation including engineering/construction, industrial machinery and industrial conglomerates to benefit.

Markets continue to follow our 2021 blueprint that includes a broadening economic recovery and we are optimistic that when some form of the infrastructure plan eventually passes, it will further help drive this recovery. Unlike the temporary, one-shot COVID-relief packages, the infrastructure package is more of a longer, multi-year boost to economic growth. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives.

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