



# Market Strategy Weekly

March 5, 2021

Senate Republicans are pushing for a number of changes, but ultimately a \$1.9 trillion stimulus bill looks likely to pass. We expect two quarters of blockbuster economic growth as pent-up consumer demand is unleashed. An infrastructure/climate bill will be more challenging for the Democrats, but the appetite is there.

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## STIMULUS IMMINENT | CONSUMER FLUSH | INFRASTRUCTURE BILL CHALLENGING

The focus in Washington remains on the \$1.9 trillion stimulus bill working its way through the Senate. Part of that process (called the “Vote-a-Rama”) allows for Republicans to push for changes, but we expect the bill will pass and be close to its current size of \$1.9 trillion, **with \$1.2 trillion to be distributed in the next six months** (see below).

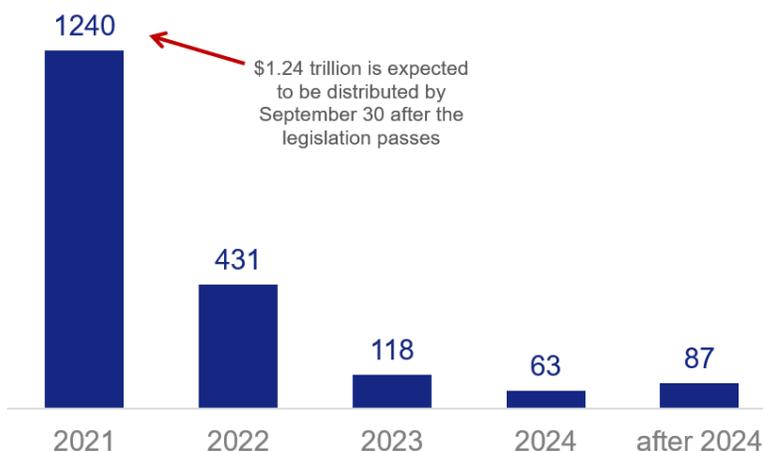
For comparison, the \$900 billion bill passed in December contained \$160 billion in stimulus checks most of which hit bank accounts in the first two weeks of January. The impact was instantaneous, causing January retail sales to spike and Q1 GDP estimates to skyrocket. The current package promises more than \$400 billion in checks. Not only that, but these payments will be deposited as vaccinations ramp up, the weather warms, and local economies move forward with reopening. **We expect two quarters of blockbuster economic growth as pent-up consumer demand is unleashed.**

In the end, we are going to do more stimulus this year than we did last year, and with the economy in a better place. This is important context as the Biden Administration and Congress move to the next fiscal package. **Democrats would like to take up an infrastructure and climate change bill ASAP, but as the economy strengthens, interest rates rise, and the debt ceiling debate approaches, it becomes harder to justify trillions more in spending.** Further, the process will be challenging—the bipartisan route would lead to a smaller bill that omits tax hikes, while the budget reconciliation route would restrict what the Democrats could include in other ways. They would also have to offset the cost of a reconciliation bill, which is where we could see tax increases come into play.

The tax changes most likely to be included in that package are: The corporate rate raised to 25%, the highest individual tax rate raised to 39.6%, the value of income tax deductions lowered to 28% for high-income taxpayers, reinstating the state and local tax (or SALT) deduction up to 28%, and raising the capital gains and dividend tax to ~25%–28%. Estate tax changes will be more challenging. [See here for our overview on potential tax changes](#) (from Jan. 14).

Although we expect the infrastructure / climate change package to be more difficult to pass, there’s no doubt that the appetite is there—so we’ll be keeping our eyes on it. Stay safe, stay healthy, and as always, be sure to reach out to your Baird Advisor with any other questions.

Annual Distribution of Biden Stimulus Plan  
(fiscal years, billions of dollars)



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