



Navigating a Landscape of Interlinked Crises

Opportunities presented by public policy in the Biden era.

April 2021

KEY INSIGHTS

- Investors remain concerned about the U.S. legislative and regulatory landscape, given the backdrop of interlinked crises inherited by the Biden administration.
- The coronavirus has brought a new level of uncertainty to markets, raising questions about what tools governments will use to get to a postcrisis environment.
- U.S. President Joe Biden has already adapted his policy rhetoric from “transformation” to “crisis management,” informing his legislative/regulatory agenda for the next four years.



Katie Deal

Washington and Regulatory Analyst

Within T. Rowe Price, our Public Policy Research team supports our analysts and portfolio managers through all stages of the investment process. We work closely with our environmental, social, and governance (ESG) team to integrate policy catalysts and risk factors into the Responsible Investing Indicator Model (RIIM), while helping our investors assess the likely outcomes and implications of legislative, regulatory, and legal decisions for their company holdings and sectors.

Concerns Around U.S. Policy Remain, but of a Different Nature

Between 2016 and 2020, we experienced a marked increase in concern from investors regarding the political volatility driving the legislative and regulatory environment. Despite this spike in economic policy uncertainty, the U.S. equity market still marched higher—with the S&P 500 Index gaining more than 1,000 points (Fig. 1).

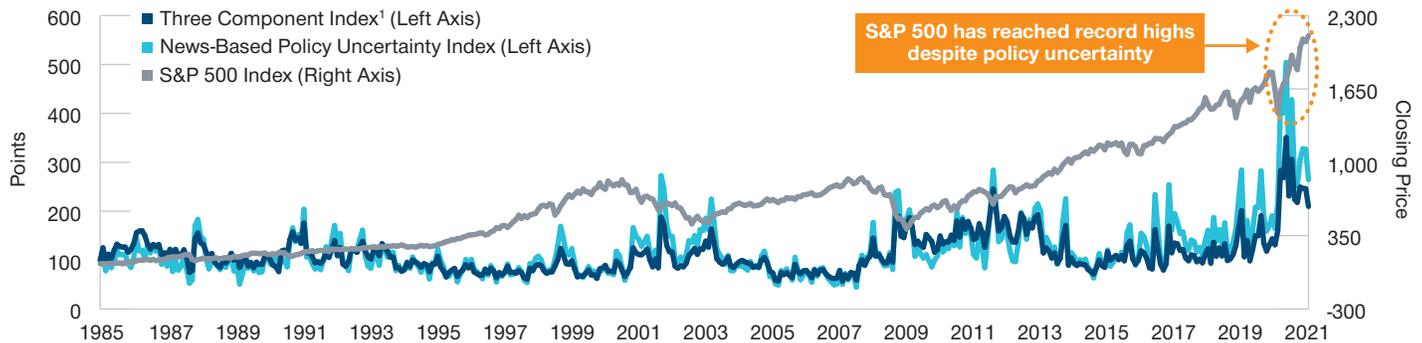
As 2021 has progressed, investors have expressed concern regarding the legislative and regulatory backdrop, but for an entirely different reason: crisis management. With the coronavirus pandemic came a level of market and economic uncertainty that continues to transform investors' expectations about the future—what a “new normal” might look like for the global economy and what tools different governments will use to get to a postcrisis environment.

To this end, we have seen recently elected U.S. President Joe Biden adapt his policy rhetoric from “transformation” to “crisis management,” framing the federal government as a source of stability for American families and businesses—not only for the dual public health and economic crises, but also for the risks posed by climate change and racial inequality.

“...we have seen recently elected U.S. President Joe Biden adapt his policy rhetoric from “transformation” to “crisis management,” framing the federal government as a source of stability for American families and businesses...”

Economic Policy Uncertainty Index Versus the S&P 500 Index

(Fig. 1) Amid a backdrop of interlinked crises, policy uncertainty has spiked



As of January 31, 2021.

Past performance is not a reliable indicator of future performance.

¹The Three Component Index is constructed from three underlying datasets. One component quantifies newspaper coverage of policy-related economic uncertainty. A second component reflects the number of federal tax code provisions set to expire in future years. The third component uses disagreement among economic forecasters as a proxy for uncertainty.

Source: "Measuring Economic Policy Uncertainty," by Scott Baker, Nicholas Bloom, and Steven J. Davis at <http://www.PolicyUncertainty.com>. S&P indices (see Additional Disclosure). Data rebased to 100.

The Biden administration's foremost priority is helping the nation heal from the public health and economic fallout caused by the coronavirus pandemic.

The Challenge of Triaging Interwoven Crises

Coronavirus: Public Health and Economic Crises

The Biden administration's foremost priority is helping the nation heal from the public health and economic fallout caused by the coronavirus pandemic. As such, we expect landmark stimulus proposals to dominate the Biden administration's capacity in the coming year: the American Rescue Plan Act, comprising around USD 1.9 trillion in relief spending, and signed into law on March 11, 2021; and Biden's "Build Back Better Plan," which has been proposed in two phases: the American Jobs Plan, containing clean energy and infrastructure investment; and the American Families Plan, containing "human infrastructure" investments in health care, childcare, and the broader social safety net. Estimates for those proposals combined range between USD 2 trillion and USD 4 trillion in new spending and USD 1 trillion to USD 2 trillion in revenue raisers.

Combined, these plans inject an unprecedented level of federal stimulus into the U.S. economy—providing a striking amount of direct transfer

payments to consumers and incentives for renewable and green technologies. The Build Back Better platform also invests in legacy infrastructure, creating opportunities in utilities and sectors related to grid modernization, broadband internet, transportation, and water systems. The Biden administration may also attempt to incorporate significant labor reforms to expand the workforce and increase the minimum wage—though they would likely not pass under the reconciliation process in Congress. These changes would have dramatic implications for different sectors' recoveries during and after the pandemic and will shift investors' overall expectations regarding tax policy, gross domestic product growth, and inflation.

Climate Change: Legislative Incentives and Regulatory Deterrents

Though a comprehensive, progressive environmental reform package like the Green New Deal is unlikely in this presidential term, we should expect a significant reversal from the regulatory status quo as President Biden builds one of the most progressive environmental policy portfolios

“As the U.S. federal government continues to respond to the changes caused by the coronavirus—and begins to address the crises posed by climate change and societal division—we should expect further policy changes with significant implications for financial markets.

in U.S. history. Specifically, the Biden administration seeks to heavily incentivize consumer and industrial adoption of green technologies—like electric vehicles and renewable power—through legislation; while disincentivizing the continued use and expansion of fossil fuels through regulation, which can be executed on a unilateral basis through federal agencies. The U.S. has also rejoined the Paris Climate Accord and the president will look to establish cross-departmental research initiatives to expand policy recommendations for climate innovations like decarbonization. We also anticipate that the Biden administration will pursue stronger disclosure requirements and assessment of climate risk from firms, affecting our analysis of these firms’ environmental risk. These changes present an opportunity to actively engage with the companies we are invested in, share our experience and expertise; and advise on disclosure best practices, where required.



Societal Division: Civil Rights, Wealth Inequality, and Populism

President Biden has explicitly identified racial injustice as a pivotal crisis facing the United States—intersecting with underlying issues like wealth inequality. We should expect the administration to pursue regulations and policy developments that improve racial equity while addressing workers’ rights. This includes mandated improvement of worker protections, rhetorical support for unionization efforts, and advocacy for a higher federal minimum wage, as well as instigating federal investigations to identify and penalize discriminatory practices. It also includes implementing more progressive corporate and

personal tax proposals to address the inequitable distribution of wealth in the United States. Though gridlock may prevent the Democratic majority from achieving several of these goals, we should expect the Biden administration to pursue these goals through all executive and regulatory tools available.

After the January 6 attack on the U.S. Capitol, concerns over falsified and propaganda-driven information—amplified by algorithms perpetuating the isolation of specific demographic and geographic groups in the U.S.—prompted a renewed push for tech regulation. We will be monitoring how platform companies respond to data privacy, content liability, and market concentration concerns as Congress, the Department of Justice, the Federal Trade Commission, and the Federal Communications Commission begin to propose tools to regulate company behavior. From an investment perspective, the ramifications of such regulatory actions on the operations, and the bottom lines, of those companies most impacted could ultimately prove substantial.

Public Policy in Our Investment Analysis

As the U.S. federal government continues to respond to the changes caused by the coronavirus—and begins to address the crises posed by climate change and societal division—we should expect further policy changes with significant implications for financial markets. We will continue to monitor government action and incorporate it into our fundamental analysis as we pursue the highest-quality investment performance for our clients.

Additional Disclosure

The S&P 500 is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates (“SPDJ”) and has been licensed for use by T. Rowe Price. Standard & Poor’s® and S&P® are registered trademarks of Standard & Poor’s Financial Services LLC, a division of S&P Global (“S&P”); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”). T. Rowe Price is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500.

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

Australia—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

Brunei—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

China—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Indonesia—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

Korea—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

Malaysia—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

New Zealand—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Philippines—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Singapore—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

Taiwan—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

Thailand—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2021 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.