



In First 100 Days, Biden Maps Big Changes to Economy

Expect tax hikes to fund infrastructure upgrades and innovation.



May 2021

President Joe Biden's first address to Congress conveyed, in no uncertain terms, that his first 100 days are a precursor for what's next on his agenda: a significant, paradigm-shifting investment in America's infrastructure and social safety net that builds on the USD 1.9 trillion relief package passed earlier this year.



Katie Deal

Washington Analyst, U.S. Equity Division

The massive expenditures and the tax increases necessary to finance those plans could—if enacted—have important implications for both markets and the U.S. economy. In our view, the technology, health care, industrials, and utilities sectors appear the most likely to be impacted by potential legislative actions.

Building Back Better

Biden's "Build Back Better" platform to reshape the economy comprises two packages: the "American Jobs Plan" (AJP), which focuses on infrastructure spending and fostering innovation in critical industries, and the "American Families Plan" (AFP), which seeks to improve access to education while expanding and extending tax credits for lower-income households and those with children. The latter proposals aim to accelerate the return of workers with young dependents to the labor market and could provide a boost to consumer spending.

We expect these spending and revenue provisions to pass before year-end through the budget reconciliation process, which only requires a simple majority vote in the Senate. Given the likely moderation of some spending and tax rate proposals, anywhere from USD 2.5 trillion to USD 4 trillion in spending and USD 1 trillion to USD 2 trillion in tax increases could become law.

Spending Priorities

Investors are likely to focus on the evolution of the AJP, which proposes about USD 2.25 trillion to USD 2.5 trillion in spending. Highlights include a possible USD 621 billion in support for infrastructure and clean energy technologies, especially electric vehicles, modernizing and expanding the electric grid, and structural and environmental upgrades to buildings. This total also includes funding for the deployment of 5G wireless networks

“...the technology, health care, industrials, and utilities sectors appear the most likely to be impacted by potential legislative actions.”

The big U.S. technology companies and multinational pharmaceutical firms would likely bear the brunt of a tougher international tax regime.

and broadband connectivity as well as investment in traditional infrastructure, such as roads and bridges. The latter expenditures would be augmented with a USD 500 billion highway bill due for reauthorization later this year.

The AJP would allocate about USD 880 billion for “critical technologies,” including semiconductor manufacturing, vaccine development, and other industries where domestic capabilities are deemed strategically important to U.S. competitiveness and security. Outlays would include substantial spending on innovation-focused federal procurement and research and development, with an emphasis on clean energy and greening American industry. The plan also expands and/or extends tax credits related to advanced technologies, manufacturing, and supply chain reshoring.

Many of these spending initiatives appear to have sufficient backing within the Democratic party, although Congress still needs to identify the funding mechanisms and details behind the execution of these policy priorities. Potential beneficiaries of these measures could include utilities, companies in the electric vehicle supply chain, sellers of semiconductor manufacturing equipment, and industrials names whose products promote efficiency and the clean energy transition.

Footnote (Part of) the Bill

The expenditures in the AJP and the AFP would be funded, in part, by tax increases on corporations and individuals. However, we see the potential for the final package to involve more deficit spending than proposed by the Biden administration.

Tax proposals intended to finance the AJP include an increase to the statutory corporate tax rate to 28%—up from the 21% rate instituted by the Tax Cuts and

Jobs Act of 2017, but still lower than the previous rate of 35%. With some Democratic senators advocating for a 25% corporate tax rate, a levy closer to Biden’s initial proposal would likely require a phase-in period to garner enough votes to pass.

Biden appears to have sufficient support to increase taxes on corporations’ international revenues, given the broad political appeal of taking a tough stance on offshore profits by U.S. businesses. Biden’s proposals would eliminate deductions that lower multinational corporations’ effective tax rates and increase the levy on global intangible low-taxed income (GILTI) to 21% from 10.5%. Although the negotiation process could moderate the GILTI rate somewhat, it is unlikely to fall significantly lower than the level proposed in Biden’s plan. The big U.S. technology companies and multinational pharmaceutical firms would likely bear the brunt of a tougher international tax regime.

The Biden administration has also advocated for some form of a minimum tax on book income¹ to target large U.S. companies paying low effective tax rates. But if this proposal garners enough political will to pass, the introduction of tax deductions and concessions for specific industries—especially those championed in the AJP and AFP—could moderate its impact.

On the individual side, the AFP proposes taxing capital gains and dividends at the ordinary income rate (39.6%) for those earning more than USD 1 million. This rate may drift down to 28%, a level that many policymakers believe is optimal for generating revenue.

All these revenue-raising proposals remain in their early stages; given the potential implications for corporate earnings and investors, we will

¹ Book income is the net income that corporations report in their financial statements to shareholders. This financial metric can differ meaningfully from taxable income, or the amount of income on which a company pays taxes.

closely monitor how the negotiation process evolves.

Sectors to Watch

Although the AFP does not include measures to reduce health care costs, the administration may wait until 2022, a midterm election year, to seek expanded access to health insurance through the Affordable Care Act and measures to lower prescription drug costs. Investors should also monitor the

possibility of government action related to mega-cap U.S. technology platforms, particularly addressing privacy concerns and practices lawmakers have described as anticompetitive.

With Biden's first 100 days in the rearview mirror, the potential changes to come over the next 12 to 18 months will have important ramifications for the markets, the economy, and specific industries.

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.