



*For the International
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Paradigm shift: U.S. perspective on post-COVID-19 challenges and policy responses

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Challenges

Jobs

- 10 million still unemployed - women hit especially hard
- Service sector (leisure, hospitality, transport, etc.) struggling
- Small business recovery has leveled off
- Schools slow to return/keeps working parents at home

Vaccine

- Vaccine roll out slow, disorganized
- One-third reluctant to take the vaccine and/or don't trust it
- New COVID-19 variants are proliferating – will the vaccine work on new strains?

Structural

- Rising income inequality
- Structural change hits low skill jobs due to automation and “work from home”
- More discussion about social justice
- Deep political partisan divisions

Debt

- Ultra low rates, fiscal policy support zombie firms
- Rising debt and deficits pose medium-term risk

Opportunities

Economy

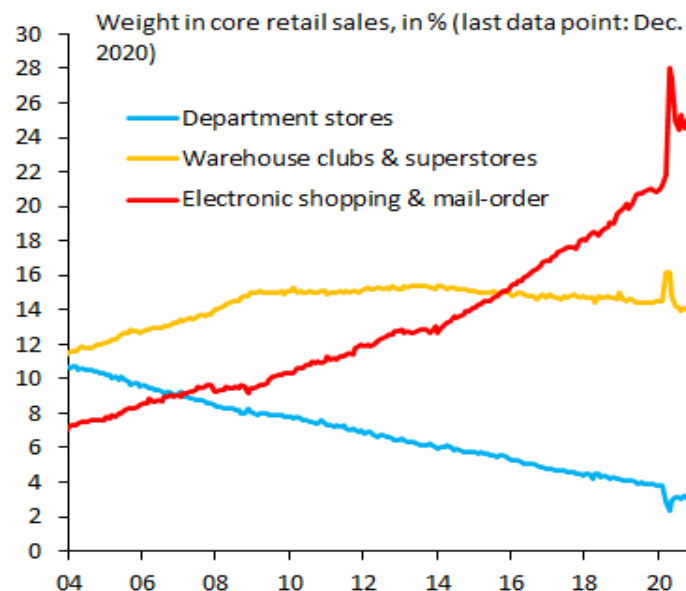
- Global growth was -3.6% in 2020. We expect a +6.1% rebound in 2021. The U.S. (+6.5%) is driving recovery
- Highly accommodative fiscal and monetary policy (declining output gap)
- Personal income above pre-pandemic levels

Financial Sector

- Buoyant capital markets
- Banks are healthy and profitable
- ROE on U.S. banks has been steadily improving since 2020Q2

Other Sectors

- Interest rate sensitive sector (e.g., housing) booming
- Industrial production vibrant
- E-commerce has grabbed market share though at the expense of more traditional retail



Monetary & Fiscal Policy Outlook

- Biden Administration is working to pass a \$1.9 trillion pandemic response package
 - Attack is coming from both the Right (it's too much and not all COVID-19 related) and the Left (it's too much in terms of consumption and not focused on investment. We're shooting bullets now instead of saving them.)
 - The Fed's unprecedented QE is largely financing the deficit adding worries about fiscal dominance
- Fed to remain accommodative for the foreseeable future
 - Core inflation remains subdued
 - Weak dollar has upside potential if it becomes a safe haven
 - Challenge appears to be how the Fed can scale back on QE without interest rates shooting up
- More fiscal support in the pipeline via green infrastructure
 - This is very easy to discuss and very hard to legislate in the U.S. due to fights over how to pay for it, what to prioritize, etc.
 - Second reconciliation could be large

Biden Administration's Domestic Policy Priorities

- Pandemic/COVID-19 response: vaccine, treatment, testing, stimulus
- Restoring growth
- Climate change and transitioning to a net-zero growth model
- Economic inequality, focus on the middle class and social justice/racial equity
- Improving infrastructure
- Scrutinizing technology platforms
- Immigration policy reform



The Green Agenda

“Meeting the challenge would be a once-in-a-lifetime opportunity to jolt new life into our economy, strengthen our global leadership, protect our planet for future generations.”

- Carbon pollution-free power sector by 2035
- Net-zero emissions by 2050
- Whole of government approach: creation of White House Office of Domestic Climate Policy and National Climate Task Force
- Major investments in Green technology, research and innovation
- Increasing attention on corporate disclosure and reporting
- Banks as possible channels to “green” priorities
- Advance conservation, agriculture, and reforestation
- Greening transportation (electrification of autos/truck fleets)

Biden Administration's Foreign Policy Priorities

- Rebuilding ties with traditional allies and strengthening alliances (G7+)
- Restoring the international and regional institutional frameworks (WTO, WHO, NATO etc.)
- Rebalancing and de-emphasizing the Middle East while pivoting “back” to the Indo-Pacific (new coordinating role at the NSC)
- Managing a currently tense, competitive relationship with China
- Tackling trans-national threats: climate change, human rights, countering authoritarianism and fair trade
- Global Posture Review to align military footprint

Priorities can be overtaken by events

- Myanmar military coup
- Russia (Navalny arrest; SolarWinds)
- DPRK (likes to test new Administrations)
- Iran (nuclear program)

U.S.–China Relations: Extreme Competition



- More continuity with Trump Administration policies than expected
- Return to multilateralism
- Trade: less reliance on tariffs (though Trump-era tariffs will remain for now), emphasis on subsidies, support for SOEs, cybertheft, IPR issues
- Technology: re-focus on U.S. competitiveness; continue push to develop secure 5G networks and address cybersecurity threats
- Push China on climate and environmental issues
- Renewed focus on democracy and human rights
- Debt diplomacy and debt transparency: important issues related to Emerging Markets and low-income countries