Wentz Weekly

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Up Next: Infrastructure Spending Plan

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The U.S. may see a multi-trillion dollar investment into infrastructure and other programs according to several new reports. President Biden's "Build Back Better Recovery Plan" package is expected to include spending on infrastructure projects, a large focus on climate change initiatives, and social issues including women in the labor force, free community college, national paid leave program, and childcare. How to approach the legislation is a question given the size of the proposal and the slim majority Democrats have in the Senate. Some reports indicate the White House plans to introduce the programs but may split it into several different pieces of legislation to avoid a very large bill – one bill that focuses on core infrastructure, before focusing on a package that includes the more individually focused initiatives.

The plan for a large infrastructure program would be costly and to raise revenue, would very likely be combined with increases in individual and corporate taxes. Early reports show priorities for the Biden Administration regarding taxes include peeling back Trump's corporate tax cuts and raising the corporate tax rate. On the individual side, taxes are almost certain to increase for the wealthiest individuals with possibly income tax rates returning to pre-Trump levels, while eliminating a series of deductions, and adjustments to taxes paid on inheritances. Capital gains tax may also be a topic but something we see less likely to be included. The Senate Finance Committee Chair Ron Wyden is preparing a tax proposal that is expected to be released soon and will include much of these tax changes. The challenge will be to craft something that gains bipartisan support which is critical given the 50-50 split in the Senate – if it fails to get approval from all 50 Democrats it will likely fail to advance. We would expect the administration to push a bill though using reconciliation as an alternative, similar to how the latest stimulus package was passed, which only needs a simple majority of 50 votes in the Senate.

Financials, particularly large banks, got a boost on Thursday after the Fed said temporary restrictions that have been in place on dividends and share buybacks will end on June 30, pending the bank's annual stress tests. During the beginning of the pandemic, the Fed halted buybacks and capped dividends in effort to force banks to preserve capital while the Fed assessed capital plans and requirements more frequently due to heightened uncertainty. Banks will have to perform well in the latest round of stress tests in order to have the restrictions lifted. If the bank has capital levels below those required by the stress test in the latest round, and again by September 30, they will face even stricter restrictions.

Disposable personal income was lower in February than in January, more than accounted for by a decrease in government social benefits when a majority of the $600 stimulus checks were distributed. Despite the stimulus payments, household incomes after taxes and transfers (i.e. government social programs) was still higher in February than in December (the month prior to stimulus payments), and excluding the various relief programs, disposable income was at its highest level ever thanks to the recovery in employment income. Overall, on the headline level personal income decreased 7.1% in February, after a 10.1% increase in January according to the Bureau of Economic Analysis. Spending figures decreased as well but to a lesser extent, however it was the largest decline in 10 months mostly due to extreme weather that hit most of the country in February. Consumer spending is an important number as it accounts for roughly two-thirds of U.S. economic activity. Consumer spending dropped 1.0% in February following a 3.4% increase in January. Spending on goods dropped 3.0% after increasing 8.4% in January, while spending on services rose 0.1% after a 0.9% rise in January. The savings rate, which surged to 19.8% in January driven by consumers saving stimulus payments, fell to 13.6% which is still nearly double the 10-year average. As mentioned in previous posts, the historically high savings rate along with significant pent-up demand will continue to drive economic growth over the medium-term.

Company News

- Intel announced plans to spend $20 billion and build two new manufacturing plants in Arizona. It also introduced a business, Intel Foundry, that will offer manufacturing services for semiconductor companies that design chips but do not fabricate them.
- On Tuesday, Penn National Gaming was the newest member of the S&P 500. Also, CEO Snowden says foot traffic is accelerating in its casinos and its Barstool sports betting app betting handle on March Madness topped the handle for the Super Bowl in just the second day of the tournament, suggesting strong demand on the app.
- In what may be the new normal, Disney confirmed it will release its newest films, which it also said will be delayed, on its streaming service at the same time it will hit theaters.

The Week Ahead

The economic calendar is busy with beginning of the month reports and will contain several data reports for March. On Tuesday we will see the Conference Board's Consumer Confidence survey results and the S&P Case-Shiller home price index where lagging data should show home prices to have continued their strong gains in January. On Thursday jobless claims are released, results from several manufacturing surveys, along with spending on construction. Finally, on Friday the main event is the employment report where the consensus has a stronger 619,000 nonfarm payrolls added in March. We are still in a quieter stretch of the quarter for earnings reports, but there are still notable companies reporting quarterly results this week. Reports will come from Blackberry, Chewy, Lululemon, McCormick and PVH on Tuesday; Walgreens and Micron on Wednesday; and CarMax on Thursday. Auto stocks may be in focus as well, especially the EV sector, as most auto companies report monthly and/or quarterly sales figures.