



## 2nd Quarter 2021

### Biden and His First Term Agenda

The current state of politics has made Biden set an early theme to tackle domestic policy by working with Congress on a \$1.9 trillion COVID relief package. Biden's American Rescue Plan is filled with \$400 billion for COVID testing and vaccine distribution, \$1 trillion in stimulus and unemployment benefits, and \$440 billion in aid to businesses. The latest package comes as the government previously shelled out \$3.5 trillion last year in fiscal support.

This new package takes a non-traditional viewpoint of infrastructure by encompassing areas like modernizing the economy, handling climate change, addressing racial and economic inequalities, and investments in the workforce.

### The Outlook on Inflation

Higher inflation can be worrisome to investors because it may bring up memories of the Great Inflation of the 1970s and 80s. While concerns center around the rise of commodity prices or the results of aggressive fiscal policy, it seems unlikely that there will be a lasting period of higher inflation even after re-inflation occurs.

During the pandemic, the surge in liquidity helped minimize financial stress while supporting growth and lifting asset prices. Overall, these things did not further raise inflation.

Barring any major disruptions, the long-term expectations for inflation are that it will not become a serious issue.

### Why the Global Energy Transition Matters

One of the largest global trends of our time is the energy transition, commonly referred to as decarbonization. This trend is not going to be seen just in the next couple years but will likely stay for the long haul. In the grand scheme, the economy has traditionally depended on fossil fuels and, as that diminishes, both technological and regulatory factors will push for the adoption of renewable energy.

It is pertinent for investors to conceptually acknowledge how this key trend will impact the entire energy industry, as well in related areas such as transportation, agriculture, and manufacturing.

In fact, there are nearly 300 large companies across industries worldwide who have committed to use 100% renewable sources for electricity in the next 20 to 30 years, some already accomplishing this goal.

Sustainable investing provides an array of options that are not just stocks in solar, electric vehicle, or hydrogen companies. As a matter of fact major lenders, automakers, and consumer goods companies have all taken more active roles in doing their part to promote the use of clean energy within their industries.

# Economic Snapshot

The faster arrival of vaccines and the further fiscal support have significantly boosted the outlook for GDP growth in 2021. Growth is expected to be led by a rebound in consumer services, which had been held down through the pandemic. Chair Powell has indicated that the Federal Reserve (Fed) will remain accommodative until the central bank is a lot closer to its goals. A moderate, transitory increase in inflation will be tolerated, but the Fed remains firmly committed to a long-term goal of 2% (on average). Risks include a possible reluctance to be vaccinated and difficulties matching unemployed workers to available jobs.

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	GROWTH	Led by a recovery in consumer services, GDP growth is expected to be strong. Fiscal support will add to that strength and ensure the recovery remains robust into 2022.
	EMPLOYMENT	Nonfarm payrolls are still down by about 9.5 million from where they were before the pandemic. Job growth should be strong, but there may be some difficulties in matching unemployed workers to available jobs.
	CONSUMER SPENDING	As vaccines become more widely distributed, we should see a strong recovery in consumer services, perhaps with some moderation in spending on consumer durables (which had been strong during the pandemic).
	BUSINESS INVESTMENT	Business spending on equipment appears to have picked up, reflecting optimism about the global economic recovery. Investment in business structures is likely to be mixed.
	MANUFACTURING	With economic strength showing up sooner than expected, manufacturers have generally struggled with supply chains. That should clear up over time.
	HOUSING AND RESIDENTIAL CONSTRUCTION	Mortgage rates are off their lows, but demand for housing is expected to remain strong as work-from-home continues beyond the pandemic. Supply constraints will likely add to home prices, reducing affordability.
	MONETARY POLICY	Fed officials expect short-term interest rates to remain low through 2023. The monthly pace of asset purchases is likely to be reduced at some point, but probably not anytime soon.
	FISCAL POLICY	Fiscal support is now much larger than many thought possible, and an infrastructure package is possible later this year. Lawmakers should work to put the budget on a long-term sustainable track, but not now.
	REST OF THE WORLD	A mixed bag, but a worse outlook than three months ago. Most developed economies have successfully tamped down the number of new infections, while many emerging economies have done a lot worse.
NEUTRAL	INFLATION	Year-over-year inflation should pick up in the near term, reflecting a rebound from low figures a year ago. Sharp increases in commodity prices do not translate into higher inflation at the consumer level, but CPI inflation is expected to rise moderately (and temporarily), as the economy improves.
	LONG-TERM INTEREST RATES	Bond yields normally rise in an economic recovery. However, Fed asset purchases should prevent long-term interest rates from rising too much.
	THE DOLLAR	The trade deficit is likely to widen further, putting some downward pressure on the dollar (if not offset by increased capital inflows). However, a stronger US economy ought to be supportive over the long term.

Raymond James, "The Longer-Term Market Impact of the Biden Agenda: A Preview of a New Economy?" *Investment Strategy Quarterly*. Pg. 4-6,19, Web.  
 Raymond James, "The Inflation Outlook: What Me Worry?" *Investment Strategy Quarterly*. Pg. 7-9, Web.  
 Raymond James, "Global Energy Transition: What It Is, Why It Matters, and How to Invest in this Theme" *Investment Strategy Quarterly* Pg. 14-16, Web.  
 Raymond James. "Economic Snapshot." *Investment Strategy Quarterly*. Pg. 17, Web.

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