



MORNING BRIEFING

July 21, 2020

Meet the New, Improved Joe Biden

Check out the accompanying [chart collection](#).

(1) “W” follows “V” in the alphabet. What about the economy? (2) Asymptomatic and unmasked virus spreaders. (3) As C-19 cases mount, Trump is falling behind Biden in the polls. (4) Trump now says masks are patriotic. (5) Big government income stimulus during April and May boosted retail sales during May and June. (6) Biden moving to the left along with the Democratic Party’s center. (7) One exception: Biden moves toward Trump’s position on China and Made in America. (8) Jail time for corporate polluters under Biden. (9) Higher taxes on higher incomes and on corporate profits under Biden. (10) Biden-Sanders task force is moving Biden further to the left. (11) Winners and losers under Biden. (12) A Biden Blue Portfolio.

US Economy: ‘V’ Is for ‘Victory’—But Also ‘Virus.’ As the US economy recovered during May and June from the prior two months’ lockdown recession, some key economic indicators traced out V-shaped recoveries. That’s the good news. The bad news is that so-called “Covidiot” have interpreted the lifting of lockdown restrictions as license to gather rather than distance.

In the March 25 [Morning Briefing](#), I first promoted containing the spread of the virus by mandating the wearing of face masks in public as an alternative to lockdowns. I expected that after being forced to stay in place for a few weeks, we would all see mask-wearing as a small price to pay for mobility and an open economy. But I was wrong. Too many of us are breathing in each other’s faces and spreading the virus in public places such as bars and beaches. Many are teens and young adults, who figure that COVID-19 wouldn’t likely kill them anyway. They seem unconcerned about the high risk of asymptomatic spread to more vulnerable older people or the fact that more and more younger people are getting sick enough to require hospitalization.

Unfortunately, President Donald Trump has chosen to ignore my advice. I reached out to my friends in the White House a couple of times in recent weeks explaining why the President should issue an executive order requiring wearing masks in public. Last Tuesday, Dr. Robert Redfield, director of the Centers for Disease Control and Prevention, said the US could get the

coronavirus pandemic under control in one to two months if every American wore masks in public. That makes sense to me. It would allow the reopening of the US economy to continue and would be very bullish for stocks. It would buy us more time, without another round of lockdowns, to develop vaccines. The President's chances of winning a second term in office would be greatly increased if the economy continued to recover, confirmed by rising stock prices. If the economic recovery falters because the virus continues to spread uncontrollably around the country, Trump will surely be a one-term president.

Indeed, Trump seems to be doing his best to associate his handling of the pandemic with defeat rather than victory in the war against the virus. Not only has he refused to take a stance on masks but he also has changed hospital data-reporting procedures, impairing the dissemination of hospital-capacity data, and he is seeking to block funds for coronavirus testing and contact-tracing.

BREAKING NEWS: At 3:43 pm yesterday, just as we were finishing writing this commentary and just before the stock market closed, Trump offered his strongest endorsement yet for wearing face masks in public, tweeting that it is a "patriotic" action to take during the coronavirus pandemic. That's progress, but an executive order requiring face masks in public would be a stronger message.

Nevertheless, it's time to consider the possibility that not only will Joe Biden be the next president, but also that the Democrats will have majorities in both houses of Congress. Before we go there, let's review the V-shaped recovery so far, which could give way to a W-shaped one if we don't stop the exponential spread of the virus in many parts of the country:

(1) *Retail sales.* Remarkably, retail sales jumped 27.0% during May and June after falling 21.7% during March and April ([Fig. 1](#)). Retail sales is only 1.0% below its record high during January and is at a record high excluding gasoline service station sales. This certainly helps to justify the stock market meltup since March 23 ([Fig. 2](#)). Actually, the strength isn't so remarkable in light of the extraordinary amount of government stimulus provided to offset the economic damage caused by the lockdowns.

(2) *Earned income, government benefits, and saving.* While wages and salaries in personal income fell sharply by \$1.1 trillion (saar) in March and April, government social benefits in personal income soared by \$3.1 trillion ([Fig. 3](#) and [Fig. 4](#)). Because so many stores and restaurants were closed, most of the stimulus boosted personal saving from \$1.4 trillion during

February to a record-breaking \$6.0 trillion during April, followed by \$4.1 trillion during May ([Fig. 5](#)).

When lockdown restrictions were eased in May and June, wages and salaries rose along with the 7.5 million increase in payroll employment during those two months, which should be confirmed when June income data are released on July 31. That combined with the pile of savings fueled the V-shaped recovery in retail sales.

(3) *So, what's next?* While the weekly gasoline usage data series that Debbie and I follow has continued to recover nicely since the week of April 24 through the July 10 week, retail sales could run out of gas if the employment rebound stalls, as a result of another round of virus-related lockdowns, just as the \$600-per-week in federal jobless benefits expires at the end of July. There are already signs of a slowdown in the recovery that was stimulated by government support payments. For example, weekly data on consumer credit- and debit-card spending have been stalling in July so far ([Fig. 6](#)).

The government's policymakers timed the stimulus benefits to end when they expected that the easing of lockdown restrictions would be reviving employment. Instead, the worsening of the pandemic in the US is likely to cause Washington to provide yet another round of stimulus. Now let's move on to recent political developments that could potentially be very unhealthy for the economy and unsettling for the stock market.

US Politics I: Left Full Rudder. Democratic presidential candidate Joe Biden is widely believed to be a centrist in the Democratic party. That doesn't mean much since his party continues to move to the left, dragging centrists including Biden along. How far Biden has moved to the left should become clearer over the next few weeks, after he names his running mate and presents his acceptance speech at the Democratic National Convention on August 17. Until then, we can look to Biden's official campaign website and the report recently released by his policy task force—which we will discuss at length on Thursday—for his agenda.

Melissa and I doubt that Biden would turn the nation's rudder hard to the left as soon as he took the helm; he'd more likely start with a less extreme left full rudder. But that would be a radical change from the course pursued by the current administration. A radical policy change early next year could put the economy on a rocky path, perhaps causing a double-dip W-shaped scenario.

Wherever the specifics of Biden's policy agenda settle, it's clear that his approach favors big government, i.e., making direct investments in infrastructure and jobs as opposed to incentivizing the private sector to promote growth, as the Trump administration has done. Biden's team also emphasizes climate change.

Biden envisions a clean energy future where corporate polluters would be jailed, workers would unionize, and city dwellers would ride bikes and other zero-emissions modes of transportation. Investments in infrastructure and workers would be made to benefit low-income communities.

On the other hand, Biden would likely carry Trump's torch when it comes to preventing China from overtaking the US as global technology leader, albeit using different tactics. Here's more on Biden's top three policy priorities per his campaign [website](#):

(1) *Climate first*. Biden's website promotes "environmental justice" and greater economic equality. Corporate executives who exacerbate environmental injustice would be held personally accountable and subject to jail time.

To achieve better water and air quality in underprivileged communities, Biden would take an "all-of-government" approach, creating new and combining existing White House departments. Departments that would be prioritized include the US Department of Justice, Environmental Protection Agency, Department of Health and Human Services, Occupational Safety and Health Administration, and the Centers for Disease Control and Prevention.

COVID-19 and other infectious diseases would be deemed "climate disasters." Poor conditions in low-income communities created at the hands of corporate polluters have exacerbated COVID-19, the plan claims.

(2) *"Build back better" (BBB)*. Biden aims to achieve "net-zero emissions, economy-wide, by no later than 2050" with a "\$2 trillion accelerated investment" in infrastructure. New "sustainable jobs" would be created to build roads and bridges, green spaces, water systems, electricity grids, universal broadband, and zero-emissions public transit systems.

Fair labor standards would be emphasized for those put to work on this plan. Companies receiving procurement contracts would have to commit to "pay at least \$15 per hour, provide

paid leave, maintain fair overtime and scheduling practices, and guarantee a choice to join a union and bargain collectively.”

Specific components of the BBB plan include: i) 1 million new jobs for the US auto industry to create clean-vehicles zero-emissions public transportation options for major US cities; ii) a carbon-pollution-free power sector, powered by solar and wind energy by 2035; iii) energy-efficiency upgrades for 4 million buildings and 2 million homes, construction of 1.5 million sustainable homes and housing units; and iv) reduction of costs for critical clean energy technologies to be made in America.

Enhanced public transport options would spark “the second great railroad revolution.” All new American-built buses would have zero-emissions by 2030. Infrastructure would be built for pedestrians, cyclists, and micro-mobility vehicles like e-scooters.

(3) *Made in America*. Biden’s administration would promote buying, making, innovating, and investing in America. Aggressive trade enforcement actions would be taken “against China or any other country seeking to undercut American manufacturing through unfair practices.”

Biden’s main Made-in-America goal is to prevent China (by way of the “Made in China 2025” plan) from overtaking the US on R&D (by way of direct federal R&D investments). China’s efforts to steal American intellectual property would be confronted by an international allied response. The plan would also bring back critical supply chains that produce critical goods from China and other countries, leveraging the Defense Production Act and starting with a 100-day supply chain review.

Each Made-in-America initiative is tied to specific investments and incentives, including: Buy America (\$400 billion procurement investment in clean vehicles, materials, medical supplies, and technologies with at least 23% of federal contracts awarded to American small business), Make It in America (incentives and low-cost credit for manufacturers), and Innovate in America (\$300 billion investment in R&D for breakthrough technologies from electric vehicles to lightweight materials to 5G and artificial intelligence). Biden would eliminate tax incentives for pharmaceutical and other companies to move production overseas.

US Politics II: The Taxman Cometh. The Tax Policy Center (TPC) analyzed the revenue and distributional effects of Biden’s 2020 campaign tax proposals in a March 5 [document](#) based on

information released by the Biden campaign and conversations with its staff as of the end of February.

TPC notes: “Biden would increase income and payroll taxes on high-income individuals and increase income taxes on corporations. He would increase federal revenues by \$4.0 trillion over the next decade. Under his plan, the highest-income households would see substantially larger tax increases than households in other income groups, both in dollar amounts and as a share of their incomes.”

Here are the report’s highlights:

(1) *Individual income and payroll taxes.* “High-income taxpayers would face increased income and payroll taxes. Biden’s plan would roll back income tax reductions from the Tax Cuts and Jobs Act of 2017 (TCJA) for taxpayers with incomes above \$400,000. It would also limit the value of itemized deductions for taxpayers in income tax brackets above 28 percent. His plan would tax capital gains and dividends at the same rate as ordinary income for taxpayers with incomes above \$1 million and tax unrealized capital gains at death. Biden also would subject earnings over \$400,000 to the Social Security payroll tax.”

(2) *Business taxes.* “Biden’s plan would increase the top corporate income tax rate from 21 percent to 28 percent and impose a 15 percent minimum tax on companies’ book income. The plan also would double the existing minimum tax on profits earned by foreign subsidiaries of US firms, raising it from 10.5 to 21 percent.”

(3) *Tax expenditures.* “Biden’s plan would reduce tax expenditures for investments in fossil-fuel production and commercial real estate. It would also provide additional tax credits for investments in electric vehicles, renewable energy, and energy-efficient technologies as well as tax benefits for family caregiving, student loans, and childless workers age 65 and older. His plan would make tax incentives for retirement saving more progressive by replacing the deduction for traditional individual retirement account (IRA) and defined-contribution pension plan contributions with a refundable tax credit as well as by automatically enrolling most workers without pensions in IRAs.”

(4) *Distributional effects.* “Biden’s spending proposals would have important distributional and economic effects. Those proposals include changes to Social Security benefits, federal

financial aid for postsecondary students, and housing assistance as well as creating a public insurance option for Affordable Care Act Marketplaces.”

US Politics III: The Task Force. Biden’s move to the left of the political spectrum certainly was confirmed by the recently released 110-page [Biden-Sanders Unity Task Force Recommendations](#). Immediately after it was released on July 8, Senator Bernie Sanders (D-VT) predicted that Biden could become the “most progressive president” since Franklin D. Roosevelt.

The task force’s stated mission is to “use federal resources and authorities across all agencies to accelerate development of a clean energy economy and deploy proven clean energy solutions; create millions of family-supporting and union jobs; upgrade and make resilient our energy, water, wastewater, and transportation infrastructure; and develop and manufacture next generation technologies to address the climate crisis right here in the United States.” Scattered amid impassioned rhetoric within the document are the key policy proposals. We will review them on Thursday.

Strategy: Blue Wave Winners & Losers. Biden has emerged as a polling favorite over Trump for the 2020 presidential race despite running a relatively low-profile campaign that hinges on Trump’s self-destructing. With the continued spread of COVID-19, its resulting economic burden, and unfavorable public perceptions of Trump’s management of the fallout, his campaign has some serious PR work to do. But even if Biden wins, his policies might not make it very far unless the Democrats win a majority in the Senate while keeping their majority in the House.

That’s possible, according an [article](#) in the 7/14 *Washington Post*: “Democrats need to net four seats total in November’s election, or they need to net three and for Democrats to win back the White House, which would allow the vice president to cast tie-breaking votes.” It added: “But Democrats will probably also have to win in at least one state that has traditionally been difficult for them at the Senate level, such as Georgia or Iowa.”

If a Democratic sweep occurs, increased corporate taxes and regulations are likely to follow. Corporate costs could significantly increase from higher labor standards, including a higher minimum wage. Corporations benefited greatly from President Trump’s tax cuts, but that likely would change under a Biden administration. Investors and wealthy Americans could see higher taxes under a Biden administration too.

To make the best of what might not be a good outlook for the stock market in this scenario, investors might start looking at building a “Biden Blue portfolio” that focuses on areas where public investment would be great. Here’s more on the likely winners and losers in the event of a blue Election Day sweep:

(1) *Pockets of winners.* Winners in a blue wave likely would be domestic energy-efficient technologies (e.g., wind and solar), railroads, homebuilders, building contractors, and engineers, manufacturers and material suppliers, broadband network providers, utilities, autos, medical suppliers, and innovative technologies (e.g., artificial intelligence). Pot stocks, too, would benefit from the federal decriminalization of marijuana.

(2) *Industry losers.* Industries that could suffer in a blue sweep include airlines and aerospace, pharmaceuticals, and healthcare. The airline industry would be particularly challenged by the Biden emphasis on emissions standards. Air pollution is mentioned plenty of times in the task force document, as are energy-efficient railroads and buses; but airlines would not benefit from public spending and probably would suffer from higher regulations. US-based multinational pharmaceutical companies might see costs increase if they are forced to move supply chains to the US and would likely be pressured to reduce drug costs to consumers. Private healthcare companies would take a profits hit if the Biden administration expanded upon a public healthcare option. Frackers could lose out severely to green energy technologies.

CALENDARS

US: **Tues:** Chicago Fed National Activity Index, API Crude Oil Inventories. **Wed:** Existing Home Sales 4.8mu, MBA Mortgage Applications, EIA Crude Oil Inventories. (DailyFX estimates)

Global: **Tues:** Canada Retail Sales 21.0%, Japan M-PMI Flash Estimate 39.5, Guindos, Buch. **Wed:** Canada Headline & Core CPI 0.3%/0.9% y/y, Guindos, Buch. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500/400/600 Forward Earnings ([link](#)): Forward earnings rose for all three of these indexes last week. LargeCap’s forward earnings has risen for nine straight weeks, MidCap’s is up in six of the past seven weeks, and SmallCap’s posted its sixth gain of the past eight weeks. LargeCap’s forward earnings is now up 3.7% from its lowest level since August 2017;

MidCap's has risen 8.0% from its lowest level since May 2015; and SmallCap's is up 6.4% from its lowest point since August 2013. These indexes had been on a forward-earnings uptrend from November until mid-February, before tumbling due to the COVID-19 economic shutdown. LargeCap's is now 18.3% below its record high at the end of January. MidCap's and SmallCap's are 28.2% and 41.7% below their October 2018 highs, with the former up from an 11-year low and the latter at a record low. The yearly change in forward earnings soared to cyclical highs during 2018 due to the boost from the Tax Cuts and Jobs Act (TCJA) but began to tumble in October 2018 as y/y comparisons became more difficult. In the latest week, the yearly rate of change in LargeCap's forward earnings improved to -17.0% y/y from -17.3%. That's up from mid-May's -21.2%, which was the lowest since October 2009, and down from 23.2% in September 2018, which was the highest since January 2011. The yearly rate of change in MidCap's forward earnings rose w/w to -27.7% y/y from -28.4% y/y, and is up from a record low of -32.7% at the end of May; that compares to a TCJA-boosted 24.1% in September 2018 (the highest since April 2011). SmallCap's rate rose w/w to -38.2% y/y from -38.9% y/y and is up from a record low of -41.5% in early June. SmallCap's prior record low in its y/y percent change occurred during July 2009 and compares to the TCJA-boosted eight-year high of 35.3% in October 2018. Analysts' y/y earnings growth forecasts for 2020 are down substantially since early March, but have been relatively stable since late May as analysts wait to digest the Q2 earnings results. Here are the latest consensus earnings growth rates for 2020 and 2021: LargeCap (-23.4%, 30.9%), MidCap (-35.2, 49.2), and SmallCap (-52.7, 82.8).

S&P 500/400/600 Valuation ([link](#)): Valuations were up across the board last week, but remain below their cyclical and record highs in early June. LargeCap's forward P/E rose 0.1pt w/w to 22.0. Its early June reading of 22.4 was the highest since May 2001 and up from 13.3 in mid-March, which was the lowest since March 2013. MidCap was up 0.5pts w/w to 20.5, which is down 2.4pts from its record high of 22.9 in 1999 when the SMidCap series began. SmallCap gained 0.6pts w/w to 23.7, and is down 3.0pts from its record high of 26.7. That compares to MidCap's 10.7 and SmallCap's 11.1 in mid-March, which were their lowest readings since March 2009. LargeCap's forward P/E in mid-February, before COVID-19, decimated forward earnings, was 18.9, the highest level since June 2002. Of course, that high was still well below the tech-bubble record high of 25.7 in July 1999. Last week's level compares to the post-Lehman-meltdown P/E of 9.3 in October 2008. MidCap's P/E was below LargeCap's P/E again last week, where it mostly has been since August 2018. It was last solidly above LargeCap's from April 2009 to August 2017. SmallCap's P/E is still above LargeCap's, though. It had been mostly below from May 2019 to May 2020 after being solidly above from 2003. During mid-

March, SmallCap's P/E was briefly below MidCap's for the first time since July 2008.

S&P 500 Sectors Quarterly Earnings Outlook ([link](#)): Analysts on the sidelines are ready to jump off the bench and adjust their future forecasts as Q2 earnings results come in. Indeed, the S&P 500's Q2 blended EPS estimate/actual rose 26 cents w/w to \$23.02. That \$23.02 estimate represents a decline of 44.3% y/y on a frozen actual basis and -43.2% y/y on a pro forma basis. For Q3, the estimate rose 21 cents w/w to \$31.70, which represents an earnings decline of 24.8%, or 24.1% on a pro forma basis. That compares to a 12.8% decline in Q1-2020, a 3.1% gain in Q4-2019, a 0.3% decline in Q3-2019, and y/y gains of 3.2% in Q2-2019, 1.6% in Q1-2019, 16.9% in Q4-2018, and 28.4% in Q3-2018 (which marked the peak of the current earnings cycle). The last time earnings fell markedly y/y was during the four quarters through Q2-2016. None of the sectors are expected to record positive y/y earnings growth during Q2 and Q3, down from five recorded positive but low-single-digit y/y earnings growth in Q1. Looking ahead to Q3, all 11 sectors are expected to post less worse growth on a q/q basis as the US economy reopens, and only Energy is expected to report a loss. Here are the S&P 500 sectors' latest Q3-2020 earnings growth rates versus their blended Q2-2020 growth rates: Utilities (-1.5% in Q3-2020 versus -4.5% in Q2-2020), Information Technology (-3.3, -7.8), Health Care (-4.4, -8.8), Consumer Staples (-6.3, -16.5), Real Estate (-14.3, -15.8), Communication Services (-20.5, -29.8), Materials (-23.8, -38.5), Financials (-26.2, -51.7), Consumer Discretionary (-49.9, -116.1), Industrials (-61.8, -89.3), and Energy (-111.2, -159.0).

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).