



U.S. Fiscal Stimulus: Takeaways for Investors



Timing, scale, and targets of new spending are key considerations.

February 2022

The amount of fiscal stimulus passed into law by the U.S. Congress last year included roughly USD 2.45 trillion in new spending, equivalent to more than 10% of U.S. gross domestic product (GDP) in 2019, as measured by the Bureau of Economic Analysis. This came on the heels of about USD 2.6 trillion dollars of pandemic-related relief spending in 2020.



Katie Deal

Washington Analyst
U.S. Equity Division

There may be more to come if Democrats manage to push through some version of President Joe Biden's Build Back Better plan in 2022. But parsing out the potential economic and investment implications for the near term and the long term requires that we go beyond the headline numbers and delve into the details.

The roll-off of spending that provided a bridge for households and businesses during the pandemic should be most important to the economic outlook over the next 12 to 24 months, given consumers' contributions to U.S. GDP. Meanwhile, longer-dated investments in infrastructure could provide additional fuel for key secular growth trends related to the clean energy transition and help to reshape the U.S. economy over the long term.

Near-Term Relief

President Biden signed the USD 1.9 trillion American Rescue Plan Act into

law in March 2021 to help shore up the economy amid the pandemic. Key components of this package included direct relief to households via one-time stimulus checks, extended and expanded unemployment insurance, and advance payments on the bumped-up child-care tax credit.

Besides bolstering consumer spending, these disbursements appeared to contribute to improvements in consumers' balance sheets. The roll-off of this extraordinary fiscal stimulus could act as a drag on the U.S. economy and some corporate earnings this year and into 2023, in our view. At the same time, the end of direct payments could encourage some workers to return to the labor market, although progress on containing the spread of the coronavirus would also factor into these decisions.

Building for the Long Term

The Infrastructure Investment and Jobs Act was signed into law in November

“...longer-dated investments in infrastructure could provide additional fuel for key secular growth trends related to the clean energy transition and help to reshape the U.S. economy over the long term.”

...the USD 73 billion designated for upgrades to the nation's power grid, in our view, could be critical to greater adoption of renewable energy and electric vehicles.

2021 and authorizes about USD 550 billion worth of new expenditures. About half of that spending is earmarked for projects related to traditional transportation infrastructure: roads and bridges, passenger and freight rail, airports, and ports and waterways.

This influx of federal money should pull forward the start date for much-needed infrastructure upgrades while increasing municipalities' capacity to fund these endeavors. We view these investments as a longer-term tailwind for the economy. This federal money will be deployed over the next five years, but many of these projects will take longer to complete. Investors looking for companies that might benefit from a wave of infrastructure spending should bear this in mind.

On the campaign trail, President Biden set the ambitious target for the U.S. electric power industry to achieve net-zero carbon emissions by 2035. True, the bipartisan infrastructure package did not explicitly include funding for renewable energy. But the USD 73 billion designated for upgrades to the nation's power grid, in our view,

could be critical to greater adoption of renewable energy and electric vehicles.

The intermittent nature of wind and solar power can make it difficult for systems to match electricity supply and demand at a given time. Solar energy poses a particular challenge because peak daytime production does not correspond with peak consumption, which typically occurs during the evening. In our view, investments in power transmission, battery-based storage, and smart technologies will prove necessary to balance load and availability more dynamically to limit the risk of service disruptions.

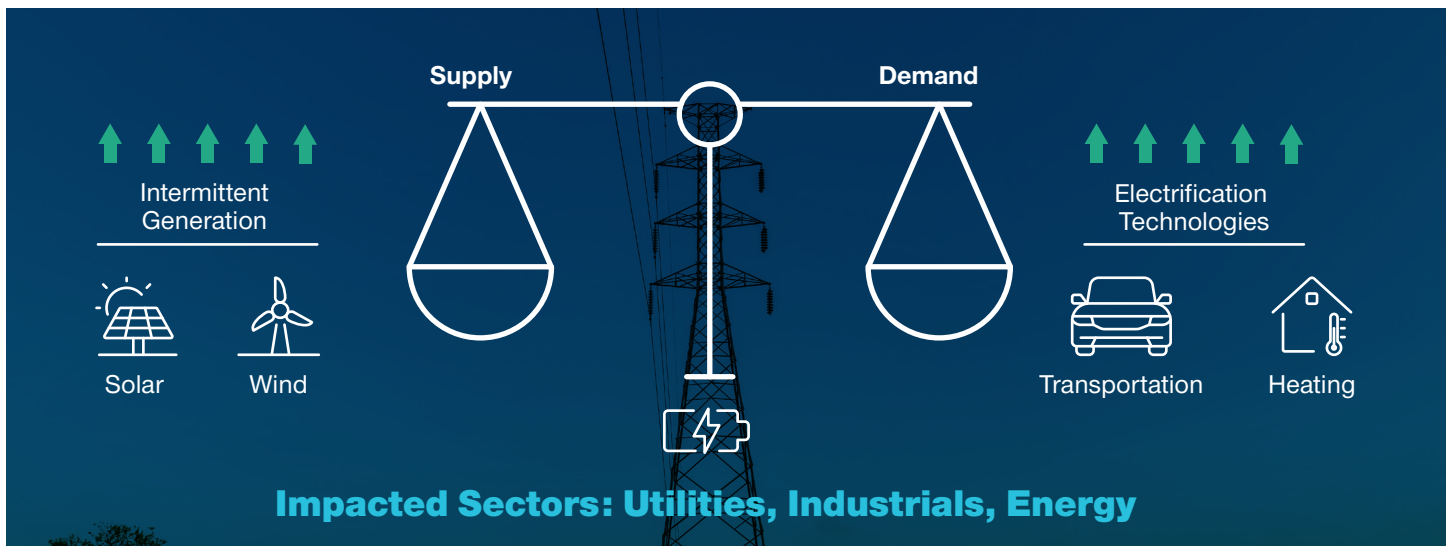
These federal outlays could have important long-term implications for utilities, automakers and other industrials, and the energy sector.

What About Build Back Better?

It remains to be seen whether Democrats can muster enough support to pass a slimmed-down version of the stalled Build Back Better plan using the reconciliation process, which requires only a simple majority in the Senate.

Investments in the Power Grid Are Critical to the Clean Energy Transition

Upgrades needed to balance dynamically between electricity supply and demand



Source: T. Rowe Price.

Several factors suggest the possibility of compromise. Democrats appear to mostly agree on the revenue-raising measures, including higher tax rates for corporations. The approach of midterm elections could also imbue lawmakers with a sense of urgency. Depending on the outcome of these contests, this may be the Biden administration's last chance to achieve its agenda via legislation.

Still, the bill's fate and final shape remain uncertain at this stage. We would expect clarity to emerge as negotiations pick up over the coming months. We are also watching incoming inflation data, as elevated levels could influence lawmakers' appetite for further federal spending.

The potential end of monthly payments related to the expanded child-care tax credit could be a modest headwind to consumer spending in 2022. An earlier draft of the Build Back Better package had proposed extending this program for another year. Whether this measure, or something similar, would make it into the final bill remains uncertain.

Other proposed line items would extend and expand tax credits for clean energy projects and electric vehicles and create new ones for emerging technologies that could advance the transition from fossil fuels. Earmarks for expanding access to health insurance via Affordable Care Act subsidies could also be an incremental benefit for managed care companies.

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T.RowePrice[®]

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.

Mainland 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 mainland of the People's Republic of China ("Mainland China", not including the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the Mainland China. 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 Mainland China. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the Mainland China that are expressly authorized under the laws and regulations of the Mainland China to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the Mainland China. Potential investors who are resident in the Mainland China are responsible for obtaining the required approvals from all relevant government authorities in the Mainland China, 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 Mainland China, or nationals with permanent residence in the Mainland China, or to any corporation, partnership, or other entity incorporated or established in the Mainland China.

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—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. (UEN: 201021137E), 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.

© 2022 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.