Charting the Investment Course under the New Administration

PATHSTONE
THE MODERN FAMILY OFFICE™

February 2021

The current administration has charted their course with twenty-five executive orders. Targeted areas include dealing with the pandemic, directives on environmental policy, health insurance, and social justice issues. These executive orders, along with other objectives such as tax policies, infrastructure spending, minimum wage thresholds, and foreign policy, provide an indication of which way the winds will be blowing and how one might adjust their portfolio "sails."

Pandemic Response: The top priority of the administration will be to address the health concerns and economic impact of the pandemic. Focus will revolve around the delivery of vaccines, pushing for greater precautions such as mask-wearing, looking for ways to re-open schools and provide financial support to those most significantly impacted.

Environmental Policy: After the pandemic, global climate change appears to be the next major cornerstone of the President's agenda. He rejoined the Paris Climate Accord, beginning the process of repositioning the U.S. to participate in this arena. All Federal spending will likely be scrutinized with an environmental lens. Infrastructure spending will be directed towards renewable resources, clean technology, and cleanup of damaged land and water resources. Restrictions on the use of federal lands for new oil and gas drilling are in the works, as well as an analysis targeted at reducing any direct or indirect government subsidies to fossil fuel businesses. The President would also like to see the federal government automobile fleet converted to clean fuel sources.

Healthcare Policy: The Biden administration has removed executive orders that President Trump put into place that altered Obamacare, so there are expected changes in this area. We also anticipate that there may be some pressure on pharmaceutical companies to reduce drug prices, though details are not clear at this time.

Diversity, Equity and Inclusion: Several executive orders have been directed at trying to address social justice areas. One executive order points specifically to the effective elimination of private prisons, at least from a federal standpoint. Revisiting criminal justice policies, tied together with an effort to bring more jobs to minority populations and a push for a federal minimum wage of $15 per hour are on the agenda as well. Other items like who may serve in the armed forces and or be counted in the census are also being contemplated.

Tax Policy: With the narrowest of margins in the Senate, the Democrats control Congress and the White House. While that may limit the extent of what they can pass, it is anticipated that there will be change to tax policies unwinding some portion of President Trump's 2017 tax cuts. We anticipate seeing corporate tax rates moving approximately half-way back to where they were prior to the 2017 cuts, going from 21% to 28%. In addition, expect some sort of minimum tax structure that will eliminate loopholes for businesses that have previously been able to avoid significant taxes. On the individual level, high-income earners ($400k plus) are likely to be targeted with higher marginal tax rates. Additional Social Security/Medicare taxes, higher long-term capital gains rates, and most likely a reduction in the estate tax exemptions and/or higher tax rates applied to estates. However, it is still unclear whether the President will pursue these tax policy changes amid the pandemic, making 2021 planning a bit of a challenge.

Foreign Policy: We anticipate that President Biden will still be faced with competitive challenges in global trade, specifically from China. Both countries have prepared campaigns to encourage their populace to buy locally manufactured goods and services, but neither will be happy to face greater barriers to selling overseas. However, be prepared for more foreign policy challenges to reappear after the focus on quelling the pandemic subsides.

Investments that should benefit:

- **Municipal Bonds vs. Treasuries** – If tax rates for individuals rise, tax-exempt bonds become more valuable.
- **Renewable Energy/Infrastructure vs. Fossil Fuel Producers** – A tailwind for one will be the headwind of the other. We have seen many of the traditional fossil fuel companies already react by moving more in the direction of renewable energy.
- **Environmental, Social and Governance ("ESG") focused businesses vs. the rest** – Those that run their business with ESG issues as a priority are not only in demand by consumers but also investors. This wave continues to grow dramatically.
- **Electric Vehicle/Clean Fuel producers vs. combustion engine vehicles**- This will affect not only consumer driving vehicles but also expect a call for change in big rigs, aviation, and marine shipping.
- **Industrial metals**- Copper, lithium, nickel, and cobalt are utilized in the devices that capture and store renewable energy.
- **Technology-enabled businesses vs. analog** – Where technology can improve efficiencies (think water use in agriculture) or (AI-enabled controls and oversight).
- **Healthcare** - Anticipate increase spending to rebuild a national stockpile of emergency supplies to have on hand (e.g. ventilators, protective equipment, syringes, etc.).
- **Cannabis**-Though not really highlighted in the policies above, it is expected that the Democrats will be more favorable to legislation that will be supportive of the cannabis business.

Investments that face headwinds:

- Any business that is perceived to have a negative impact on the environment (e.g. sectors known to be the biggest polluters include those with single-use plastic containers, fossil fuel companies, meat and dairy producers, and agricultural chemical manufacturers).
- Private prisons.
- Businesses that may be forced to raise their minimum wages. Businesses that are faced with higher wage costs will look to automate therefore employing fewer workers.
- Technology monopolies- Likely to face regulatory and anti-competitive scrutiny as well as being targeted from a tax perspective as a group that has been more lightly impacted by taxes.
- All equities- Faced with higher tax rates, may see earnings growth limited and therefore may not be able to support current Price-to-Earnings ratios.
- Treasury bonds- Will continue to see massive issuance as deficits remain at very heightened levels. Normally this massive supply would suggest yields would rise, but with the Fed buying Treasuries and Mortgage bonds at a healthy clip, they have been able to manage to keep rates near all-time lows. This may be challenged if inflation begins to pick up or investors lose confidence in the government/central bank.
- The U.S. dollar- Massive deficits and spending tend to be a negative for the value of the U.S. dollar. However, the value of the dollar will be dependent on many things beyond our borders and outside of our control.

The winds of change can swing the financial markets to and fro, but the jetstream tends to be quite predictable over time. We hope that by diving into more details such as these will spur more thought and dialogue and help us to better trim our sails to capture the current to our advantage. While much will depend on the direction of our leadership, a lot will be influenced by choice of consumers, both of which we need to continue to monitor and adjust to over time. We look forward to continuing the discussion with you.

Disclosure

This presentation and its content are for informational and educational purposes only and should not be used as the basis for any investment decision. The information contained herein is based on publicly available sources believed to be reliable but is not a representation, expressed or implied, as to its accuracy, completeness or correctness. No information available through this communication is intended or should be construed as any advice, recommendation or endorsement from us as to any legal, tax, investment or other matters, nor shall be considered a solicitation or offer to buy or sell any security, future, option or other financial instrument or to offer or provide any investment advice or service to any person in any jurisdiction. Nothing contained in this communication constitutes investment advice or offers any opinion with respect to the suitability of any security, and this communication has no regard to the specific investment objectives, financial situation and particular needs of any specific recipient. Past performance is no guarantee of future results. Additional information and disclosure on Pathstone is available via our Form ADV, Part 2A, which is available upon request or at www.adviserinfo.sec.gov.

Any tax advice contained herein, including attachments, is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of (i) avoiding tax penalties that may be imposed on the taxpayer or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.