

**Special Episode: What the American Rescue Plan Means for the Economy, Markets, Corporations and Investors**

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**Jake Siewert:** This is Exchanges at Goldman Sachs where we discuss developments currently shaping markets, industries, and the global economy. I'm Jake Siewert, Global Head of Corporate Communications here at the firm. Recently, Congress approved a sweeping \$1.9 trillion Coronavirus relief package, called the American Rescue Plan. The plan authorizes federal spending in the form of another round of stimulus payments for most Americans, additional unemployment aid to those out of work, and also makes some changes to the tax code to benefit families with children. This, on top of two prior stimulus packages.

Today, we have a "special episode" where we'll dive deeper into the impact of this influx of stimulus on the economy and its impact across markets. To do that, I'm joined by four guests from different divisions here at Goldman Sachs: Alec Phillips of Goldman Sachs Research; Amelia Garnett of our Global Markets Division; Susie Scher of our Investment Banking Division; and Ashish Shah of our Asset Management Division.

**Jake Siewert:** Our first guest today is Alec Phillips, Chief Political Economist from Goldman Sachs Research. Alec is here to talk about the economic implications of the stimulus package that was just signed into law. Alec, welcome back to the program.

**Alec Phillips:** Thanks. Glad to be here.

**Jake Siewert:** So, as I just mentioned, Congress recently passed the 1.9 trillion-dollar American Rescue Plan. The last in a series of economic stimulus plans. How does this compare to the stimulus you'd been forecasting? And where is the money going?

**Alec Phillips:** Yeah. So, you know, I think by the time we got to the final stages we knew it was going to be pretty close to what

the President had initially laid out. I mean, I think it was actually, you know, in many ways surprisingly close to what the President had laid out.

The final package came in at 1.84 trillion. So, just under 8.5 percent of GDP. You know, a little less than the 1.9 he called for. But you know, pretty similar.

We had built in 1.5 trillion, so, just under 7 percent of GDP into the forecast. But we kind of knew by the time we were getting close to the final vote that it was going to exceed that.

You know, in terms of where the money's going, probably the most obvious thing is the payments to individuals. So, between that and the expanded child tax credit, that's worth a bit over 500 billion. So, that together, the biggest piece of the bill. 350 billion in state and local aid. Another 170 billion for schools on top of that. So, that's the other really big piece. And then unemployment benefits is probably the other pretty notable thing. So, they've extended \$300 a week in extra benefits plus expanded eligibility through September.

None of that is particularly surprising. But I would say all of it was, like, a little bit bigger than what we would have expected. You know, most of it shouldn't have, in terms of the difference between where we were and what ended up happening, it shouldn't have a huge impact on 2021. The payments to individuals and the child tax credit will have a positive impact compared to what we've been expecting, but a fairly modest one.

Some of the big differences, actually, came in things like state and local aid where it's going to take states a long time to spend that money. And so, a decent amount of this is going to take until 2022 or in some cases '23, '24 to spend out.

So, you know, overall, I'd say the general structure of it was pretty similar to expectations. It's just that the amounts on some of these things were a bit bigger than what we'd been expecting.

**Jake Siewert:** So, in light of those changes and slightly broader bigger package, what changes are you making, along with your team, to longer term fiscal assumptions?

**Alec Phillips:** Well, you know, I think probably the most important thing that came out of this package was the expansion

of the child tax credit, and just in terms of its implications for longer-term fiscal policy. The background on that is it was \$2,000 per child, limited to certain incomes. That's move up now to a maximum of \$3,600 per child. Again, limited to certain incomes. It's hard to see Congress letting that expire at the end of the year. And the novel development here is that the Treasury would be sending checks out or payments out on a periodic basis, maybe it's monthly basis, maybe it's every couple of months. And once they start doing that, my guess is that there's going to be a lot of pressure to continue doing it.

And so, we are now assuming that that gets extended. That probably is worth a little bit more than 100 billion per year. And so, that will add to fiscal support in 2022, 2023, and beyond.

And then the other thing is, it does seem likely that at least some of these unemployment benefits will probably be extended beyond their current expiration in September. So, we're assuming a bit more there too.

I mean, I think, the big question now is what happens on infrastructure and a next round of fiscal? And so, we are making some assumptions there. We're assuming a little bit more than 100 billion next year in additional spending there. But you know, I think there's a lot of uncertainty about what all of that's going to look like. And so that's, you know, very much a placeholder at this point.

**Jake Siewert:** Well, let's talk a little bit more about that. What details are available on the next potential fiscal package that seems to be focused on infrastructure? And the big talk is that there'll be some pay force in that, which is a nice way of saying taxes.

**Alec Phillips:** Yep.

**Jake Siewert:** What are you expecting, you know, on that end for the rest of 2021 as far as a legislative outlook?

**Alec Phillips:** Well, I think it's hard to see how President Biden will come in smaller than his campaign proposal, which was \$2 trillion. I think where you may see it turn out to be a little bit smaller is how much happens in the next few years. So, if you look back to the campaign, Biden had proposed \$2 trillion, essentially, in his first term, so, over four years. Normally Congress looks at these things on either a five or a

ten-year basis. And so, you know, 2 trillion over ten years seems like a pretty realistic approach.

You know, it could be bigger than that. And I think the main risk to the upside in terms of the size would be if it goes beyond, you know, what we would think of as infrastructure to other things like, for instance, childcare, maybe some education related incentives. There's talk about, you know, student loan debt relief. Possibly some healthcare items. And the reason I think that this is, at least, going to come up in the discussion is because this is probably the last big fiscal package that Congress passes before the midterm election. There's a technical matter, always a chance, that they could do another one. But politically, they may run out of steam. And you know, from a fiscal and deficit standpoint, they may run out of appetite to do yet another large one.

And so, I think there's going to be a lot of pressure to get as much as they can in this next package because whatever doesn't get included in this package is probably going to be, you know, essentially left until after the midterm election where, you know, there's clearly a chance that Republicans are able to take the majority in the House. We'll see what happens there. But there's no certainty about that. And so, you know, there's going to be pressure to make this bigger, not smaller.

On the tax side then, I think the big question right now is how much of this package are they going to try to pay for? My sense is that the Biden administration is probably leaning a little bit toward the low end of that, so paying for, you know, just a fraction of it. Whether it's a quarter or a third, or who knows, but somewhere in there. Whereas I think the marginal vote in the House and Senate, so, centrist Democrats are generally, I think, leaning towards larger shares being paid for.

You know, I think we know that there are some things that are going to be in play. A corporate tax rate increase is probably going to be in play. President Biden has proposed taking that to 28 percent. Or at least he did during the campaign. I don't think it's likely to get that high. But you can certainly imagine it getting to 24 or 25 percent, something like that. Capital gains, the President proposed during the campaign to take that to the order income tax rate. Again, seems unlikely to get that high. But you can certainly imagine it rising, maybe to the high 20s or something like that. And those two things together would probably generate several hundred billion dollars. Along with some smaller changes, maybe they could get

to a trillion dollars. I'd be, personally, surprised if they could get much more than that through the tax side.

And there are some things they could do outside of taxes to maybe raise a little bit of money. Prescription drug pricing is one possibility. But overall, I think it's going to be difficult for them to raise more than, let's say, a trillion dollars over ten years. And that will probably even be a challenge.

And so, if you take just the hypothetical scenario where they want to offset half the cost of the bill, then that essentially leaves you with a \$2 trillion bill. One trillion paid for. All of that is in flux. They may want to spend more. They may want to pay for less. We'll see what happens. But I think that's sort of the broad contours.

And we'll probably find out more in a few weeks. It looks like President Biden's going to address a joint session of Congress, or at least that's the talk, next month. And I'd imagine that at that point he lays out at least some more detail around all of that.

**Jake Siewert:** So, how do all of these fiscal policy dynamics, a \$1.9 trillion package passed, a \$2 trillion ten-year package in the offing, how do they change your outlook for GDP growth in the United States and what your projections are for unemployment?

**Alec Phillips:** So, I think as far as the growth impact, what just passed is probably going to have the biggest growth impact. And the infrastructure piece is probably going to be smaller simply because while the numbers might seem comparable, you know, you're talking about around \$2 trillion for each, the piece that just passed is essentially almost \$2 trillion concentrated in 2021, and to a lesser extent 2022. Whereas infrastructure if it happens is probably around 2 trillion, maybe it ends up being more than that, but spread out over several years.

So, in terms of the economic impact, based on what's passed and everything else that's going on, we are assuming 8 percent growth this year on a Q4 to Q4 basis, so that just means, you know, averaging the growth over the four quarters. And that's relative to a 6 percent consensus estimate. So, we are well above consensus on that.

For next year, also above consensus, but less so. So, 2.9 for us

versus 2.6 for consensus. So, getting back to sort of a more normal growth rate, but still clearly above trend.

And you know, in terms of unemployment, we are expecting the unemployment to decline just a little bit faster than what we'd been expecting previously based on this package. So, we are essentially expecting 4 percent at the end of this year. 3.5 by the end of next year. So, pretty low levels. And getting, basically, back to sort of pre-COVID trends.

From there, you know, obviously, it's going to depend a lot more on the progression of everything else and less on fiscal policy. Namely the Fed, among other things. But clearly, this is a pretty big boost.

**Jake Siewert:** So, Alec, obviously some very, very big stimulus packages between the Trump administration and now the Biden administration. And not very much of it paid for, or almost none of it paid for. People have not been very focused on financing all of this deficit spending. Could that outlook change? And could we see a little more fiscal restraint if interest rates begin to creep up?

**Alec Phillips:** Yeah, so I think, I mean, we have seen interest rates creeping up. Now that's probably not so much because of what's happening, at least directly, in terms of issuing debt. It's, you know, obviously more because of the growth outlook and to a lesser extent maybe the monetary policy outlook.

In terms of the treasury's ability to finance all of this, I mean, I guess one thing I would say is that while interest rates are rising, the treasury has a fairly long, what they call, average maturity. Which means that for every percentage point increase in the rate in the market, it's going to take several years for that to flow through into the Treasury's borrowing costs, because they borrow a lot, you know, over the longer run. So, I think the way people are looking at this right now is really that these are one-time expenses. And that, if we look at deficit projection several years out, we basically do get back down to the pre-pandemic run rate in terms of deficits. But, you know, with a larger debt stock. And as rates increase over time, if they do, then that means, essentially, the same interest rate multiplied by a larger debt stock gives you a somewhat larger interest expense.

Right now, I think that all of that is well under control. But it does leave a little less flexibility over the longer run. And

if we do see interest rates creep up, you know, more substantially, then that is probably something that would lead Congress to start to cut back on spending or to raise taxes.

You know, I would say if you think about interest expense, it's, you know, depending on the year, a few points of GDP in a context of a budget that's around 20 points of GDP. So, these are adjustments that can be made. If interest expense rises, maybe it's worth, you know, a fraction of a point of GDP. Spending can be cut by that much. Taxes can be raised by that much. So, it's definitely manageable. But it's something that is probably going to influence fiscal policy making over the medium and longer term, more just because the debt stock is going to be larger.

**Jake Siewert:** All right, Alec, worth keeping an eye on. But a healthy outlook for the economy, especially in the latter half of the year. And good projections on unemployment. Thank you very much for joining us today. Great to hear from you.

**Alec Phillips:** Thanks. Good to be here.

**Jake Siewert:** We'll now turn to Amelia Garnett from our Global Markets division for her perspective on the ramifications for markets of all this stimulus. Amelia, welcome back to the program.

**Amelia Garnett:** Thanks so much for having me, Jake.

**Jake Siewert:** So, in the wake of the passage of the stimulus bill we're seeing strong performances across all markets as we have since last year. Is this a different rally than what we saw last year?

**Amelia Garnett:** Yes, I think the composition of the rally is wildly different, in fact. If you think about the first leg of the rally coming out of COVID, that was led by a handful of stocks which had a disproportionate impact on the returns of the S & P just by variation of their market cap weighting. So, you can think the internet-dominant brands who were able to operate their businesses through the pandemic and also benefited from a low rates environment.

Then came November 9th when Pfizer announced that they had a highly effective vaccine candidate. And the nature of the rally really changed from that point. Suddenly we saw investors looking to play themes most related to the vaccine, to

reopening, and to inflation. I think there's another theme at hand as well, which is relevant to current market dynamics, which is the increase in retail participation which is leading to some wild price swings in certain pockets of the market.

I think that the combination of increased savings, being stuck at home, and low rates has led these retail investors into nonproductive financial assets. And now with stimulus checks hitting as well, I would expect this theme to prevail.

**Jake Siewert:** So, Amelia, markets go from growth to value and value to growth, that's a classic rotation. Which phase are we in today?

**Amelia Garnett:** It's fair to say that the dominant theme right now has been from growth to value. And to put numbers to it, our value basket has actually outperformed our growth basket by 25 percent since those November vaccine headlines.

But if we kind of break down the legs of the move, as I alluded to before, immediately after COVID, the Fed cut rates aggressively and embarked on this period of low rates in order to stimulate inflation. And that lit a fire under long-duration equities like high growth stocks and a handful of dominant tech companies that derive value long into the future.

Since the vaccine announcements, we're now living in a world where we're desperately trying to get back to normal. Retail is reopening. Travel and leisure is picking up. And growth looks ripe to rebound. And that's a great environment for value stocks in cyclical sectors like retail, materials, and industrials, as well as energy and financials. But I would say that the strong run in value stocks, these [UNINTEL] at a pretty interesting juncture at the moment. And I think a good example of that and what it looks like under the surface, we now have a live entertainment company that hasn't hosted a concert in 12 months that's trading at all time highs despite the fact that the economy hasn't actually reopened. So, seeing that kind of market exuberance is causing some to question whether or not this value leg has more to run, and what the upside potential is from here. And whether the likes of the FANG stocks are actually more cyclically exposed than we necessarily thought.

**Jake Siewert:** So, has the market already priced in further stimulus? And how does that balance with concerns about inflation?

**Amelia Garnett:** Yeah, so, I think on your first question, I think the market certainly is pricing in this latest round of stimulus. You know, we all know that consumers are going to spend money in the economy and potentially directly into stock markets. And we've seen these reopening and consumer exposed stocks and cyclicals outperform of late. But I think that as we think about further stimulus, which could come in the form of infrastructure spending, we know that there are offsets. You know? President Biden is telling you that he's going to finance those future stimulus packages through tax hikes. And so, it's not coming for free. And I think the investors are aware of that.

As per your question around inflation concerns, this is a huge topic of discussion in the global markets division. The pace at which we see inflation rise in the US and across the globe will have huge ramifications for monetary and fiscal policy. And as we've seen in recent weeks, when the market starts to price in the probability of higher inflation and, subsequently, rate hikes, particularly if those rate hikes are priced pretty quickly, it can have a pretty damaging impact on equity and credit valuations.

As per whether or not these inflation concerns are justified, one area that we as a firm are pretty convinced that we'll see inflation materialize is on the commodities space. And so, I might just spend two seconds outlining that. But essentially, over the last 20 years there's really been no capex going into the old economy. So, think the oil and gas sector, metals and mining. All of those fresh dollars of investment have gone into the new economy. So, things like tech, biotech, and telecom. And the result is that we have a real lack of supply in the things that we need like oil and gas relative to the demand that we expect to materials when the economy turns back on. And you can't just turn on oil like that. You need to have prices rise in order to incentivize more supply to come back into the market.

We also now have stimulus aimed at the lower income brackets who have a higher propensity to consume in a more commodity intensive manner. And a shift away from globalization towards establishing one's own supply chain. So, all of these factors have huge inflationary forces that will impact both macro and micro markets.

**Jake Siewert:** So, you alluded to the growth in retail and some of the activity there. Should we expect a lot of the stimulus

checks to end up in the equity market? And will that reignite some of the volatility that we've seen this year?

**Amelia Garnett:** Yeah, I think that's a great question. And it's highly topical. So, over the next few weeks we expect around 400 billion dollars of direct payments to hit American wallets across the nation. And potentially, a meaningful share of that will end up in the equity markets. There have been various surveys and stats circulating that I'm sure people have seen that suggest that particularly young people might put up almost 50 percent of their stimulus checks into the equity market. Now, whether or not these numbers are even close to the truth and whether or not these flows have already materialized is a valid question. But I would still say that this is an important and relevant dynamic for markets for two reasons. The first is that retail trading now accounts for almost as much volume as mutual funds and hedge funds combined. So, the retail impact is really meaningful right now. The second is that there is historical precedent. When we saw the stimulus checks hit the last few times around back in April and December of last year, the popular retail names outperformed and we saw huge call volumes as well on these same names. So, I think it is important. But that said, I would also argue that a lot of these names have already started to reflect the signs of increased retail participation. So, it's not necessarily clearly where the follow through will come from.

**Jake Siewert:** So, looking at had, we're already hearing talk of a large infrastructure bill, perhaps financed a little bit by higher corporate and capital gains taxes to offset some of the investment there. How was the market thinking about that possibility?

**Amelia Garnett:** Yeah, as I think I already alluded to, I think investors are well aware that the infrastructure stimulus is not coming for free. I mean, President Biden has been very clear that they'll look to fund these stimulus packages through tax offsets. And I think in investors' minds, that does truncate the upside distribution to equity markets somewhat.

That said, there are just so many cross currents in markets right now. And so, I wouldn't say that this is a huge topic of discussion with our clients despite it becoming a more topical agenda item for the Biden administration.

In terms of just thinking about what is priced into markets from a corporate tax reform perspective, one way that we track it is

to monitor our custom tax baskets that groups companies into beneficiaries and laggards in different tax regimes. So, back in 2017 when President Trump cut taxes, this basket moved materially in favor of companies that have historically paid higher taxes. And then in the lead up to the election last year where the concept of higher taxes was very topical, we saw some of those 2017 moves reverse. Of late, we've really seen no movement in this basket, which I think is surprising given the murmurings from the Biden administration are picking up. And I think we would all agree that this does present downside risks to equity markets. So, certainly a space to watch.

**Jake Siewert:** All right. We'll wait and see. Amelia, pleasure to have you on. We look forward to having you back when you're schedule permits. But thank you very much for joining us today.

**Amelia Garnett:** It's always fun to join. Thanks so much.

**Jake Siewert:** Next up, we'll hear from Susie Scher, the Chair of the Global Financing Group in our Investment Banking Division. Susie's going to talk about how stimulus is having an impact on corporations and how the corporates are thinking about accessing equity in debt capital markets in this environment. Susie, it's great to have you back.

**Susie Scher:** It's great to see you, Jake. Or hear you.

**Jake Siewert:** Yeah. Or both. Let's see, we've spoken to Alec Phillips and Amelia Garnett about the impact that the stimulus has had on the economy and on markets. Now let's talk about the perspective from our corporate clients. How do you think that the stimulus and its impact on corporates will change their outlook on growth and strategic activity?

**Susie Scher:** Well, listen Jake, it's really all about the impact of GDP and what people think happens going forward. And, you know, as you know, the magnitude of the support we've seen in the US really can't be understated. There's never been anything like it with nearly 9 trillion injected into the economy. That's 40 percent of US GDP. We've now reached a point where if the total volume of stimulus were its own economy, it would actually be the third largest economy worldwide, only behind the US and China. That's just the stimulus.

This bodes well, not only for consumer spending. So, that will affect corporates and the expected consumption boom, especially in virus sensitive industries like travel and dining once we

reopen. But it also just gives our corporate CEOs a lot of confidence to contemplate M & A, and investors the confidence to fund it. And in fact, we've already seen a pickup in M & A. you know, 2020 was a depressed year for M & A, only 93 billion in volume versus 230 billion on average annually in the last five years. And we're starting to see that return to normal. And I think it'll go beyond what we would call normal.

So, we've already seen 30 billion in just the first two months of 2021. And every day M & A is announced. And M & A is also bigger, I think, this year than it was last year. So, more deals. Bigger deals. More sectors. And CEOs that have been afraid to do something during COVID because there was so much uncertainty.

**Jake Siewert:** So, obviously, more M & A means more financing. What's the broader outlook for debt financing? What impact have we seen on corporate issuance?

**Susie Scher:** So, in the grand scheme of things, development in credit spreads and the widespread pandemic easing have brought all in financing levels, still very close to the all-time tights at right around 2.25. The investment grade index is just 50 basis points away from the lowest levels ever that we saw earlier this year. And coupled with the fact that markets are very much recovering and in a healthy place today, clients have been really keen to opportunistically pull forward their financing plans, or at a minimum, lock in today's low rates to take advantage of these levels, especially ahead of what people think will be rising US interest rates and in reaction to rising rates potential spread volatility. So, as a result, US supply is already up to 400 billion year to date. Which is up 32 percent versus this time last year. With issuers eager to capitalize on the current dynamic. Although, we know last year at this time was the beginning of the COVID-related emergency liquidity financing. So, that may even out as we roll into April and May.

**Jake Siewert:** So, how about equity financing? Last year was a big year for a lot of equity issuance. But how do you think the levels this year will compare?

**Susie Scher:** I mean, Jake, equity financing is the incredible story. We've never seen anything like it. The rate of issuance is already much higher than that seen in 2020 with a street pricing almost 700 equity deals for 212 billion in volume so far this year versus just 200 equity deals for only 54 billion in volume year to date late year. Just past the end of Q1 we're

already up 40 percent on 2020's fiscal volume. And the real story is the IPO market, which is already at 65 percent of 2020 volume. And that's driven by record SPAC activity. And I said I would try to get through at least one day every week where I didn't say SPAC. But there you go, Jake. I just said it.

With the stimulus package bolstering continued macroeconomic recovery, our outlook for US-listed equity issuance is very strong. And that's actually true across the globe.

**Jake Siewert:** All right, so financial markets are in much better shape this year, much better shape than the economy as a whole so far this year. So, do you see any headwinds to the relatively positive outlook?

**Susie Scher:** Sure. I think, you know, the first headwind people would think about is that valuations are high as the market's forward looking. And right now, the market's like extra forward looking, taking account of projected earnings out, you know, more than normal. And so, something that shakes this investor confidence and the ability of stimulus checks and vaccination to facilitate economic recovery could dampen this outlook. And that could be a number of things. Could be, one, rising rates. Even time the ten-year trends up, people get nervous. I don't think people should be nervous. I think we've got a lot of room all the way up to 2 percent. Above 2 percent, maybe good reason for the market to be nervous about rates and inflation.

The second thing is, anything around the virus could spook the market, either, you know, news around people not wanting to be vaccinated or, you know, god forbid, something happening that's negative around vaccinations, negative side effects suddenly in a portion of the population. But you know, listen Jake, the US is already 20 percent vaccinated with the first dose. So, you know, knock on wood, I think we would have seen that.

The other thing that could spook markets is, you know, for some reason the more contagious version of the virus or some reason some other variant virus develops, but I think those are corner cases. Investors really want to own the market. They want to own fast-growing and disruptive companies backed by strong fundamentals. And strong IPO cycles increase the likelihood that companies, you know, are going to go public is a good thing.

The one other thing that you could worry about is, and I'll say SPAC again. That perhaps some companies are using either the

regular way IPO process or the SPAC process to go public too early. And if those IPOs begin to underperform, investors may get spooked. But listen countering all these concerns is the fact that, you know, rates are not being raised ahead of market expectations. So, I think the market feels good about that. And investors just feel great about the possibility that we're coming out of this global pandemic.

You know, and if you think about it, I almost think you could see an even better market because, you know, investors are really just humans. And if you think about it, as humans we've been locked in our houses for a year. As consumers go out and spend, and companies are more confident, investors are just going to feel better. If you think about it, if you could just go out to dinner and then go to work the next day and own equities, you're going to do that. And so, I'm very, very bullish on 2021 and forward.

**Jake Siewert:** All right, Susie, we all look forward to getting out of our houses and offices. So, pleasure to have you on.

**Susie Scher:** Great to see you Jake. Thanks for having me.

**Jake Siewert:** Before we wrap up, last but certainly not least we'll hear from Ashish Shah, Co-head of Goldman Sachs Asset Management's Global Fixed Income and Liquidity's solutions business. Ashish will talk about the influx of spending into assets and the impact that will have on portfolios. Ashish, welcome to the program.

**Ashish Shah:** Thanks so much for having me, Jake.

**Jake Siewert:** Ashish, the stimulus we've talked about at great length here, and combined with the improved economic growth and the prospects for even higher growth, and the pace of vaccinations, investors are starting to worry a little bit about a rise in inflation and interest rates. What does that mean for your take for fixed income investors? And has your investment outlook changed?

**Ashish Shah:** Sure. So, the brighter outlook has, without question, impacted fixed income investors in the places you would have expected. First, the growth exposed area with floating rate options like bank loans have performed really well. While longer duration parts of the market that don't have as much growth have lagged.

Going forward, I'd say that, you know, this growth is going to be really good for credit quality. And this steep yield curve, as well as credit curves, represent a really good opportunity for investors that want to diversify away from some of the gains that they've built in the equity markets and are afraid of rising rates. These steep yield curves are going to cushion the rate rises that we might end up seeing over a long period of time.

And if you want income, I'd say that high yield bank loans and that merging markets represent great opportunities on a go-forward basis from here.

**Jake Siewert:** So, the stimulus package that the President just signed into law, the 1.9 trillion dollars, includes a pretty significant amount of money, \$350 billion in relief for municipalities. Talk a little bit about how the funds might be used by state and local governments and the state of their finances today.

**Ashish Shah:** Sure. So, as you know, this has been a really challenging period of time for state and local governments. They've had to deal with a drop off in revenues, particularly from state tax receipts. And also, they've had a lot of additional costs in dealing with the COVID crisis, whether it's healthcare supplements or added services around schools, et cetera. And so, the first thing we expect them to do with this money, which is a tremendous amount of money to help replenish their coffers, is to offset some of those costs that they've gotten, as well as revenue declines.

But because they're not allowed to use these funds for tax relief, we expect these municipalities to both use the funds to strengthen up their balance sheets, and that's going to be in areas particularly hitting the state and the local governments that have had more challenges when it comes to excess debt, as well as to really invest in parts of their infrastructure. So, areas like schools, healthcare, and transit operations are really going to benefit. You know, when you think about that and how it impacts all of us, that means that they're going to be able to deliver more and better services to their constituents. And that's a fantastic outcome.

**Jake Siewert:** All right, well I look forward to better subway service here in New York. What might the implications for the muni market be and the muni investors given that backdrop?

**Ashish Shah:** So, this aid is coming at a time when revenues were already rising from the economic bounce that we've seen, as well as stock market strength that we've been experiencing. And so, it's going to be a really positive trend for municipal credit quality. So, state and local governments that have been under pressure from the rating agencies are suddenly finding themselves actually benefiting from improved ratings or improved rating outlooks. And so, that's a fantastic thing if you're a municipal holder across both high yield names as well as high grade names.

The other thing you're going to find is that as we look forward, you know, because they're flush with cash, state and local issuers are not going to have to issue as much. And so, with less issuance and likely more demand, because of the potential for rising taxes, we think you're going to see really good performance from the muni sector, even in the face of modestly rising rates.

**Jake Siewert:** And so, finally, what might that influx of spending mean for investors' portfolios? And how should investors think about navigating those changes?

**Ashish Shah:** Investors are going to benefit broadly and for years from a much healthier consumer that has come out of this crisis. The stimulus payments that have been made to consumers have really been helpful in helping consumers de-lever their balance sheets, pay back debt, pay back student debt. And now, those same consumers are looking forward and saying, "Hey, you know, maybe I'm supposed to buy that house that I've been saving for or worried about buying because I had too much debt." So, that's going to be really positive in sectors like broader housing, as well as, you know, the areas that have been directly impacted by COVID, the service sectors, that consumers haven't been able to participate with, but are kind of desperate to engage with, whether it's, you know, going on vacation or going out to a restaurant, I think you're going to see just those services sectors, the face to face sectors, really do well.

You know, at the same time, the concern you might have is that in the face of that growth, that it's going to be a challenge for investors because the Fed's going to want to slow the economy down. And I think what we've heard from the Fed and we certainly heard it today, is that the Fed wants the economy to get to full employment and actually to go beyond that, to make sure that that full employment really is broadly inclusive. And that they're going to keep rates very low and financial

conditions very accommodative until they see inflation average closer to their target of 2 percent. And so, that friendly Fed is going to be really good for investor portfolios.

**Jake Siewert:** All right, Ashish. Thank you very much for joining us today. Sounds like a mostly rosy scenario.

**Ashish Shah:** Looking forward to the next 12 months. That's for sure.

**Jake Siewert:** All right. Thank you very much. And thanks again to our other guests Alec, Amelia, and Susie. A very interesting discussion.

That concludes this special episode of *Exchanges at Goldman Sachs*. Thank you very much for listening. And if you enjoyed the show, we hope you subscribe on Apple Podcasts and leave a rating or a comment. And please tune in later this week for our weekly Markets Update.

This podcast was recorded on March 17th, 18th, and 22nd in the year 2021. Thank you for listening.

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