

Stimulus

President-elect Biden released his administration's stimulus plan, which seeks to spend \$1.9 trillion to battle the pandemic and to support the economy until the pandemic is no longer suppressing economic activity. The \$1.9 trillion will include an additional \$1,400 in payments to individuals on top of the \$600 approved in December, \$400 per week in supplementary unemployment benefits that will now extend through September, \$480 billion in aid to state and local governments and to schools, expanded food assistance, expanded child tax credits, a \$15/hour nationwide minimum wage and a mandate that any size employer provide up to 14 weeks of paid sick leave. Equity markets in the U.S. and Treasury yields pulled back from their recent surge. Most of this spending will be deficit financed, though Biden did indicate that the more permanent parts of the package will likely be paid for by future tax increases.

Our Take: The recent run-up in equity prices and Treasury yields likely reflected market expectations for a sizable stimulus that would provide at least a short-term boost to economic growth and possibly inflation. Over the medium term the inclusion of several items that will pressure businesses and the lack of support to help keep firms functioning through the pandemic will make it less likely that the package leads to a self-sustaining recovery after the pandemic fades, and this may explain some of the pull-back following the announcement of the package's composition. Longer term, this package plus the over \$2.5 trillion already spent on pandemic relief further pressure the fiscal sustainability of the U.S., and this is likely to diminish long-term growth unless policymakers act to significantly alter the trajectory of U.S. debt growth.

Retail Sales

Retail Sales fell 0.7% in December. Sales rose 2.9% in 2020.

Our Take: Retail sales have fallen for three straight months and year-over-year sales growth is currently at a five-month low. Large swaths of the economy remain shuttered due to the pandemic. Any sustained growth will require containment of the virus.

Inflation

December consumer prices rose 0.4%, while producer prices increased 0.3%. Core prices rose just 0.1% for both consumers and producers. Consumer prices are up 1.4% year-over-year and producer prices have risen 0.8%.

Our Take: Inflation remains tame. There is a chance for an uptick in the next few months, but inflation is unlikely to be a problem for the foreseeable future.

Municipals

Texas Comptroller Glenn Hegar released an updated revenue forecast. The current budget shortfall estimate is \$950 million, down from last summer's projected shortfall of \$4.6 billion. Hegar attributed greater-than-

expected sales tax collections as one reason for the decreased shortfall. Lawmakers will begin work on the next two-year budget when they return to session.

Our Take: Fiscal uncertainty surrounding the pandemic remains in Texas and throughout the country. However, the larger-than-expected sales tax collections, including healthy online sales tax collections, were a bright spot for Texas last quarter.

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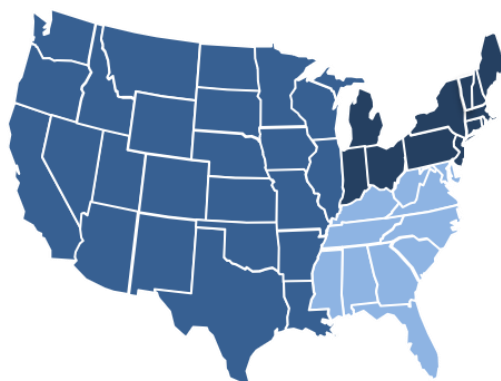
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