



Presented By: Jeff Bush

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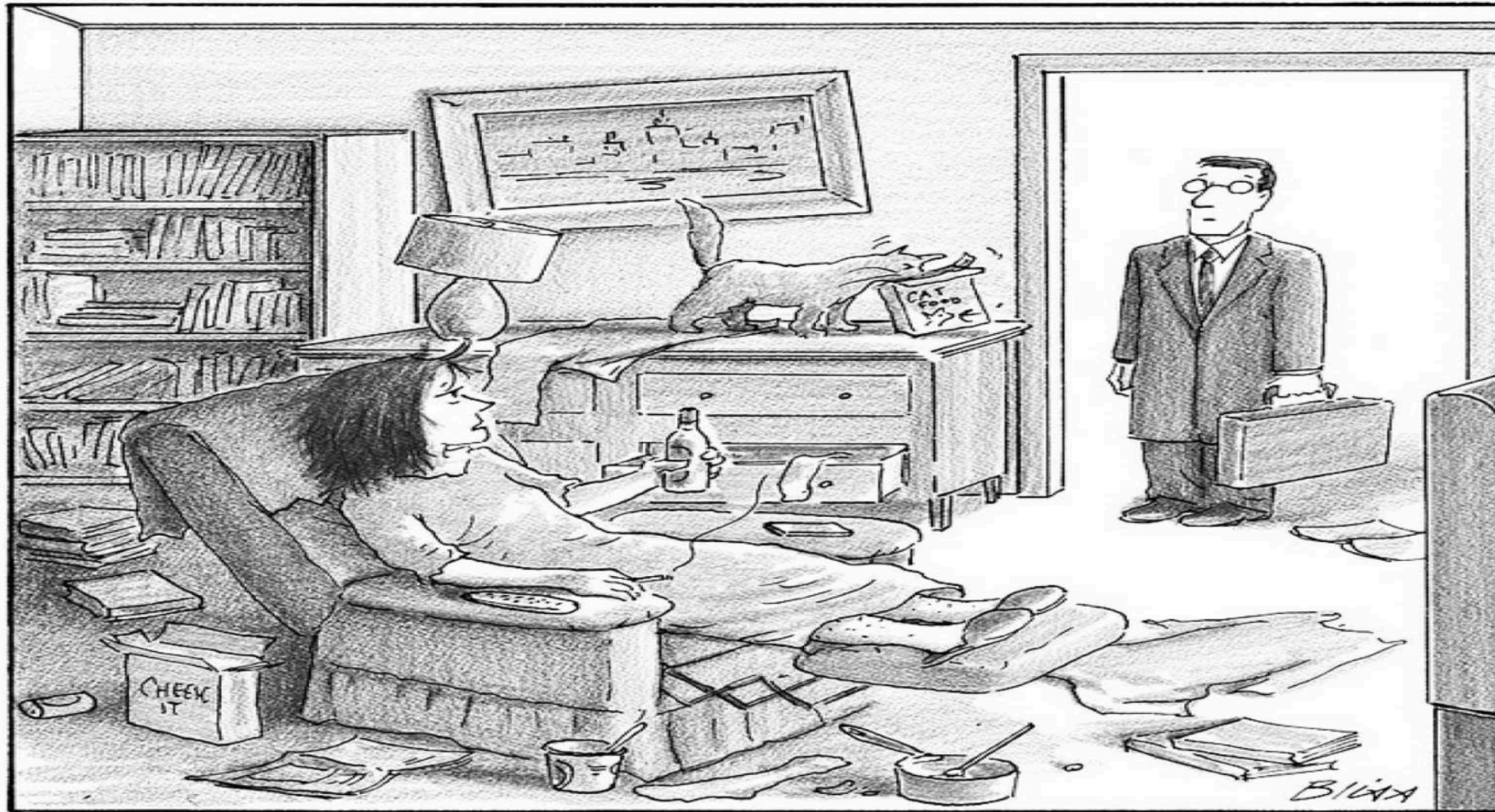
Agenda

- **Coronavirus stimulus/rescue**
- **Infrastructure/Trade**
- **Fiscal/Monetary policy impact**
- **2020 election**

Agenda

- **Coronavirus stimulus/rescue**
- Infrastructure/Trade
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Coronavirus



“Face it—nothing gets done in an election year.”

The Washington Post, Feb. 10, 2020

- **Mandated sick leave** (firms <500 employees)
 - 2 weeks paid leave
 - 100% pay for quarantined or symptomatic persons, max \$511/day
 - 2/3 pay if caring for a quarantined person or for children whose school or place of care is closed, max \$200/day
- **Expanded Family medical leave** (firms <500 employees)
 - 12 weeks for same reasons as above
 - First two weeks may be unpaid, thereafter 2/3 of regular pay
 - Capped at \$200/day (\$10,000 aggregate)
- Both programs paid for **w/refundable tax credits** against their FICA taxes

Coronavirus Stimulus- Round 2

Round 1
\$8Billion package

- **Unemployment insurance**
 - \$1B from the federal government to support benefit enhancements
- **Nutritional support** for elderly & young
- Free coronavirus **testing**
- **Increased Medicaid funding by 6.2%** (was 56%)
 - Medicaid enrollment expected to rise significantly with unemployment
- **Tax day delayed to July 15** (normally April 15)
 - Individuals, Trusts, Estates, Corporations & Non-Corporates
 - **Quarterly estimates, Tax filing & payment, and 2019 IRA contributions**
- **Waives PAYGO** requirements
- **Cost \$150B**

Coronavirus Stimulus- Round 3- Individuals

Round 1
\$8Billion package

Round 2
\$150 Billion package

- **Waives PAYGO for Round 3**
- **Recovery checks**
 - Based on most recently filed tax year's adj. gross income
 - Single- <\$75,000 = \$1200, Married- <\$150,000 = \$1200 each spouse
 - \$500 for every child
 - Phased out between \$75k and \$99k for singles, \$150k & \$198k for married
- **Coronavirus related early withdrawals from qualified retirement plans**
 - Waiving the 10% penalty for early withdrawals
 - Maximum \$100,000
 - Still taxable, but the taxes can be spread over three years
 - Can reinvest the money in the plan within the three years and avoid taxation
- **Waive 2020 401(k) and IRA RMDs**
- **DB plans can delay 2020 payments to January 1, 2021**

Coronavirus Stimulus- Round 3- Individuals

Round 1
\$8Billion package

Round 2
\$150 Billion package

- **Additional unemployment insurance- \$600/week**
 - GOP concerned it could incentivize people not to work when combined with state unemployment benefits
 - Roughly ½ of workers will receive more under this program vs. employment
- **Permit charitable deduction without income limitations**
- **Suspend student loan payments, interest free, until September 30**
 - Employer-paid tuition in 2020 to, or on behalf of, an employee-student are tax-free to the student-employee
- **Increase in food stamps program**
- **Increase in farm bailout program**
- **POTUS commits to pay coronavirus care bills for the uninsured**

Coronavirus Stimulus- Round 3- Businesses

Round 1
\$8Billion package

Round 2
\$150 Billion package

- **Deferral of Social Security payroll taxes**
 - **Employer share only**
 - Employers and self-employed are eligible
 - Deferred taxes are paid over 2 years- $\frac{1}{2}$ by 12/31/21 and $\frac{1}{2}$ by 12/31/22
- **Refundable employment tax credit of 50% on qualified wages for employers subject to closure**
 - Credit taken against employment taxes due
- **Permit use of net operating losses without income limitations, and allow net operating losses carrybacks**
- **Permit the deduction of business interest expense without income limitations**

Coronavirus Stimulus- Round 3- Businesses

Round 1
\$8Billion package

Round 2
\$150 Billion package

- **SBA will cover existing loan payments for 6 months**
- **New SBA loans up to \$10mm**
 - **Paycheck Protection Program (PPP)**
 - Accessed through local lenders
 - Can used to pay:
 - Compensation
 - Paid sick & medical leave
 - Insurance premiums
 - Mortgage and rents
 - Utility payments
 - **Under SBA guidance, borrowers must certify a PPP loan is necessary, taking into account their current business activity & their ability to access other sources of liquidity**
 - Can defer payments for up to 1 year
 - **501c(3) organizations, Tax-exempt veteran's, Tribal business concerns eligible**

Coronavirus Stimulus- Round 3- Businesses

Round 1
\$8Billion package

Round 2
\$150 Billion package

- **Forgiveness of new SBA loans up to \$10mm**
 - Up to the amount paid for:
 - **Interest on existing mortgage**
 - May not exceed the principal amount of the loan
 - **Payment on rent for an existing lease**
 - **Employee compensation**
 - Reduced proportionally by:
 - **Maximum compensation of \$100k per employee**
 - **Number of employees retained vs. previous year, and**
 - **reduction in pay of ANY employee beyond 25% vs prior year**
- **Companies that lay off employees and re-hire them post crisis will not be penalized for having a reduced payroll**

Coronavirus Stimulus- Round 3- Industries

Round 1
\$8Billion package

Round 2
\$150 Billion package

- **Loans, loan guarantees, & other investments to businesses at risk of mortal losses**
- Maximum 5 years
- Limitations imposed
 - No stock buybacks for the life of the loan plus one year
 - No dividend payments for the life of the loan plus one year
 - Must maintain existing employment levels **“to the extent practicable”** during the life of the loan, and cannot reduce employment by more than 10%
 - Limitations on total compensation for highly paid employees for the duration of the loan plus one year

Coronavirus Stimulus- Round 3- Industries

Round 1
\$8Billion package

Round 2
\$150 Billion package

- **Loans, loan guarantees, & other investments to businesses at risk of mortal losses**
 - Set-asides for Airlines, cargo air carriers, businesses crucial to national security
 - Oversight board & Inspector general to oversee the lending and report publicly
 - Companies owned by POTUS, VPOTUS, Execs and families of, are not eligible
- **Treasury has broad authority to adjust these rules and limitations**

Coronavirus Stimulus- Round 3- Other

Round 1
\$8Billion package

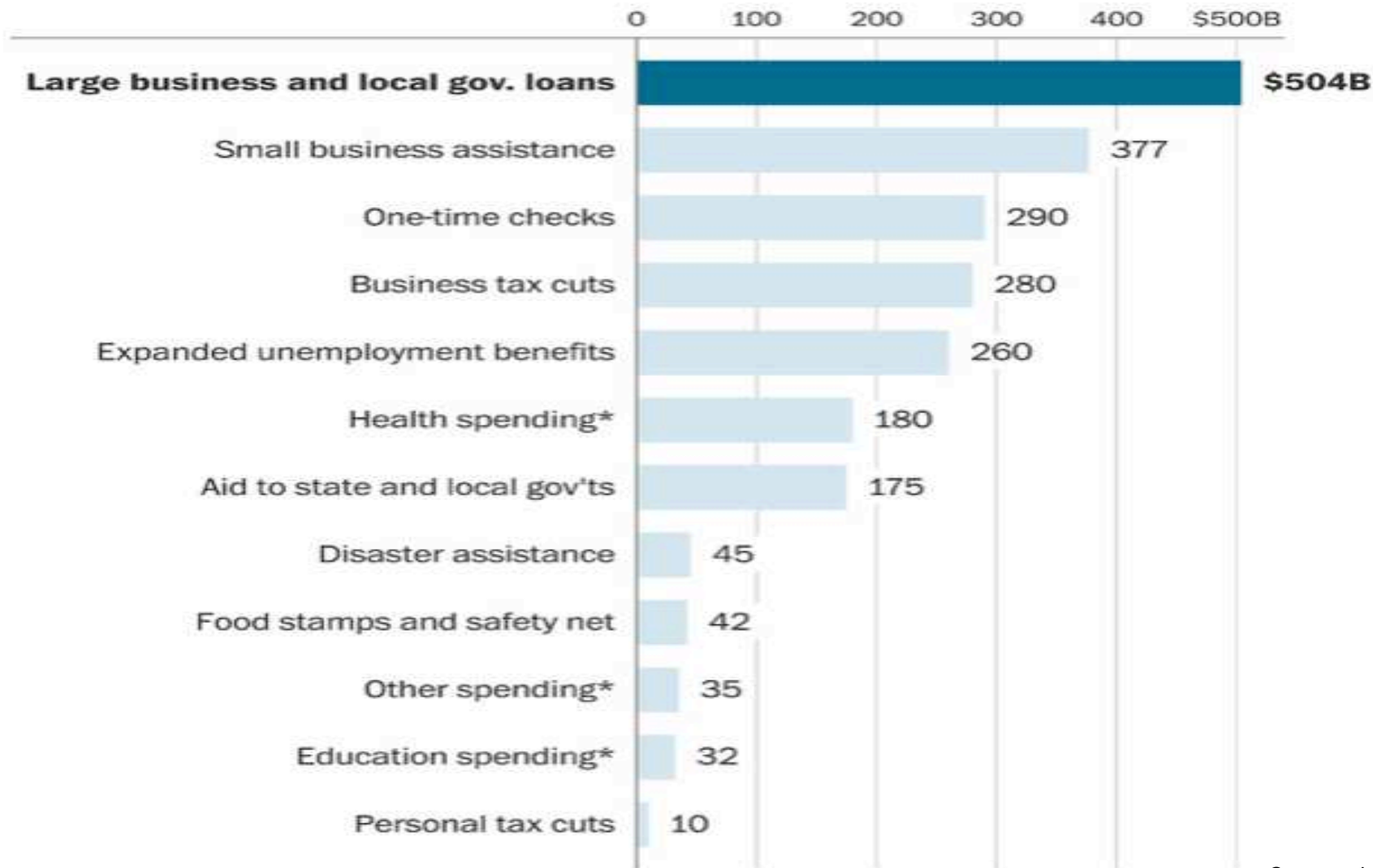
Round 2
\$150 Billion package

- **Liberalization of banking and accounting rules to extend and expand lending**
- **Government and healthcare**
 - Direct financial aid to state & local governments and private non-profits providing critical and essential services
 - Healthcare grants
 - Hospitals
 - Healthcare providers
 - Therapeutics
 - Medical preparedness needs
 - Vaccine testing, drug innovation and development

Coronavirus Stimulus- Round 3- CARES Act

Round 1
\$8Billion package

Round 2
\$150 Billion package



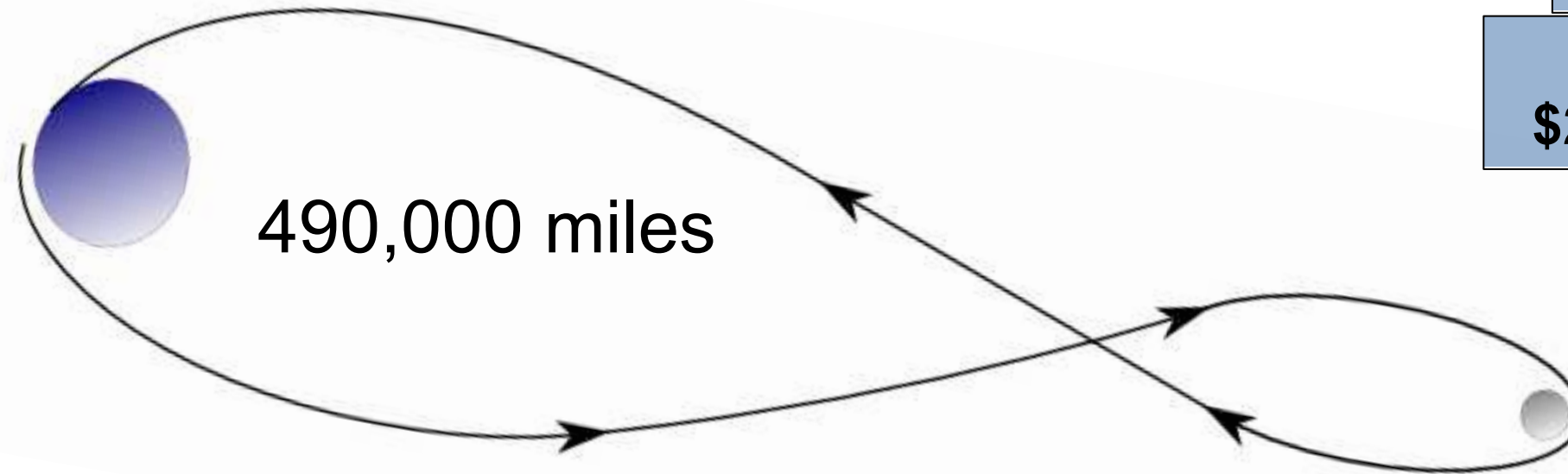
Congressional Budget Office, reported by The Washington Post 3/26/20

Coronavirus Stimulus- Round 3- CARES Act

Round 1
\$8Billion package

Round 2
\$150 Billion package

Round 3
\$2.2 Trillion package



$2,200,000,000,000 / 490,000 =$

Approximately **4,500,000**

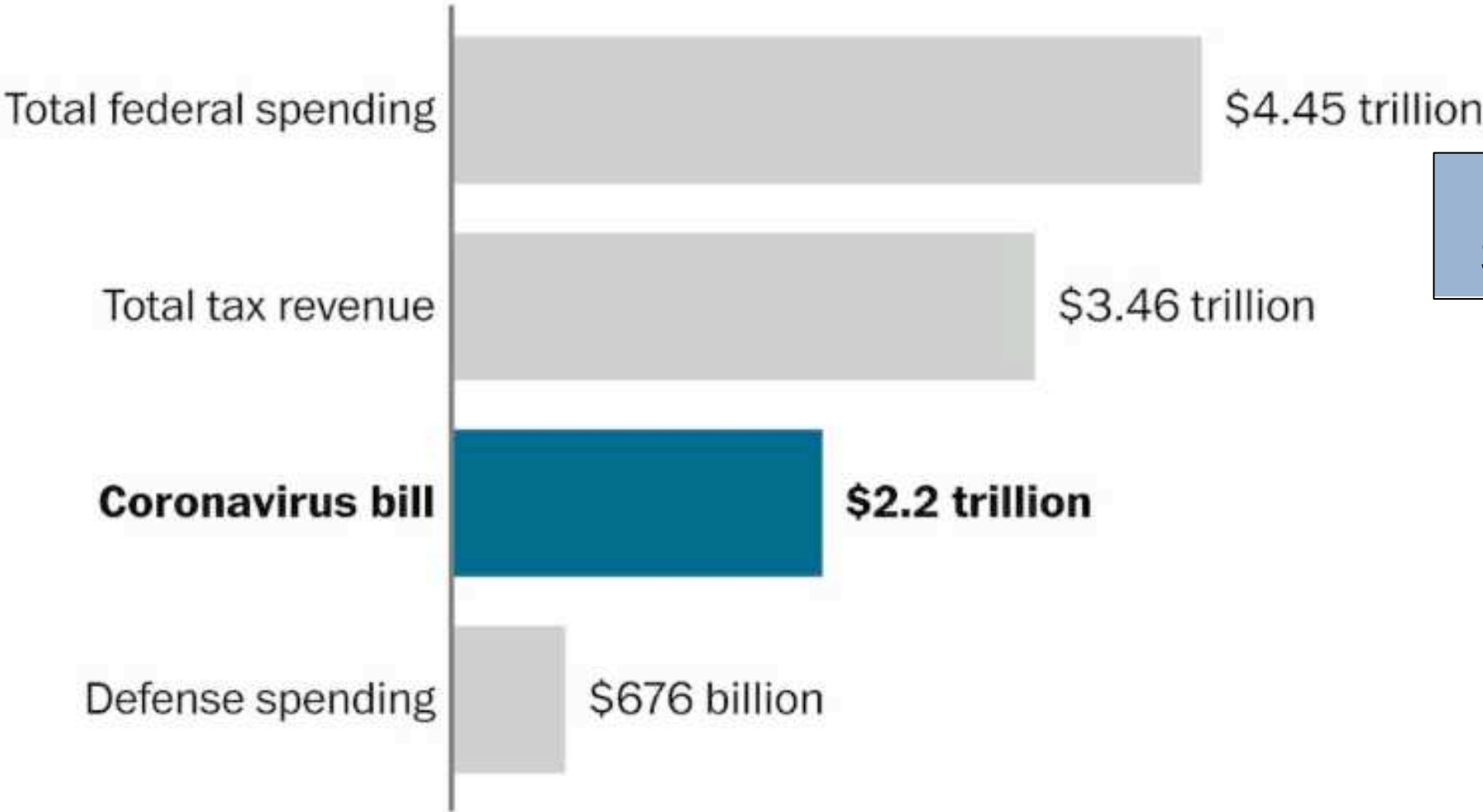
www.History.Nasa.Gov, Robin Wheeler figure 15

Coronavirus Stimulus- Round 3- CARES Act

Round 1
\$8Billion package

Round 2
\$150 Billion package

Round 3
\$2.2 Trillion package



Congressional Budget Office, reported by The Washington Post 3/26/20

Coronavirus Stimulus- Round 3.5- CARES 1.5

- **Deal comes together**
 - \$310B addition to PPP
 - \$60B allotment specifically to community banks
 - \$75B for hospitals
 - \$25B for testing
 - \$60B Economic Injury Disaster Loan program
 - \$10B Miscellaneous
- **Expected to pass this week**

Round 1
\$8Billion package

Round 2
\$150 Billion package

Round 3
\$2.2 Trillion package

Round 3.5
\$480B package

Coronavirus Stimulus- Round 4- CARES 2.0

- **Additional funding for PPP**
- **Substantial aid to states & municipalities (Pension funding)**
 - **GOP could restrict fund usage to coronavirus response**
- Additional checks to individuals
- Extension of unemployment benefits
- Worker protections
- **Increased Social Security payments**
- Federal student debt cancellation
- Additional funds to backstop the Fed lending facilities
- **Infrastructure investments- perhaps 50-year bonds**
- **Taxes**
 - **Payroll tax cut**
 - **Capital gains tax cut**
 - **Eliminate \$10k cap on SALT**
 - **100% meals and entertainment for businesses**
 - **Immediate business deduction for capital purchases extension**

Round 1
\$8Billion package

Round 2
\$150 Billion package

Round 3
\$2.2 Trillion package

Round 3.5
\$480B package

Round 4
\$????? package

Agenda

- Coronavirus stimulus/rescue
- **Infrastructure/Trade**
- Fiscal/Monetary policy impact
- 2020 election

Sector Impact - Infrastructure

- **Both parties and POTUS agree investment needed**
- **Current grade of U.S. Infrastructure- D+**
- **Senator Barrasso bi-partisan plan- \$287B over 5 years**
 - Narrowly focusing on road & bridge construction and repair
- **House Democrat plan- \$760B over 5 years**
 - Broader definition of infrastructure including rail, water, broadband etc.
- **POTUS- \$2T focused**
- **\$2T in improvements & repairs to bring U.S. to “above average”**

*American Society of Civil Engineers, Infrastructure Report Card 2017, March 2017

Sector Impact - Infrastructure

- **Funding**

- Gas tax increase, fees, fines, Build America Bonds, etc,
- **House fiscal conservatives lack the votes to require revenue offset**
- **Allows for deficit-financed infrastructure spending**

“I’m the king of debt.”

Donald J Trump, then presumptive GOP nominee 6-22-16

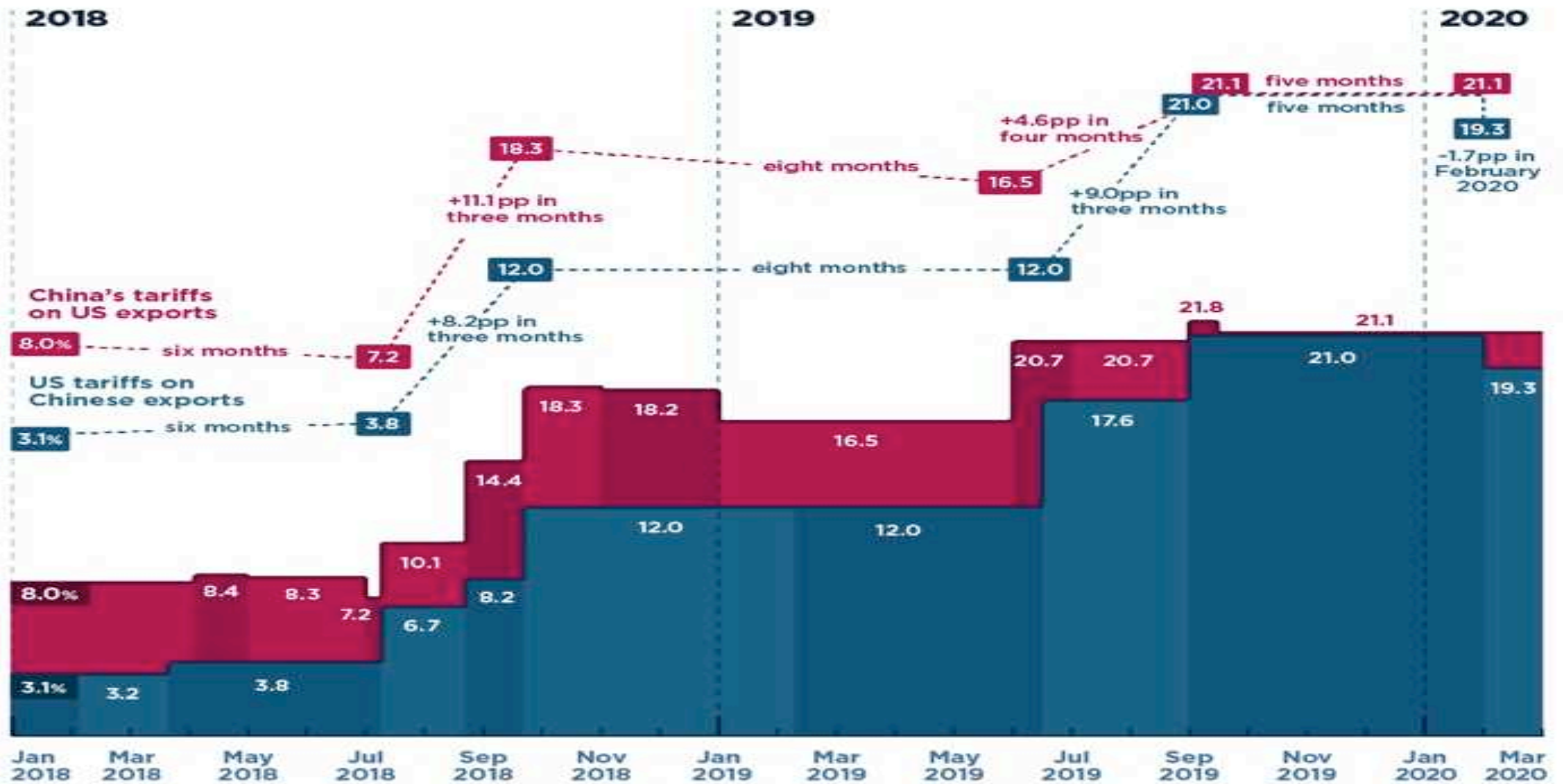
- **Construction, material stocks, telecom, tech would benefit**

“[The problem is] more and more of our imports come from overseas.”

President George W. Bush (2000)

Trade

Average tariff rate, percent

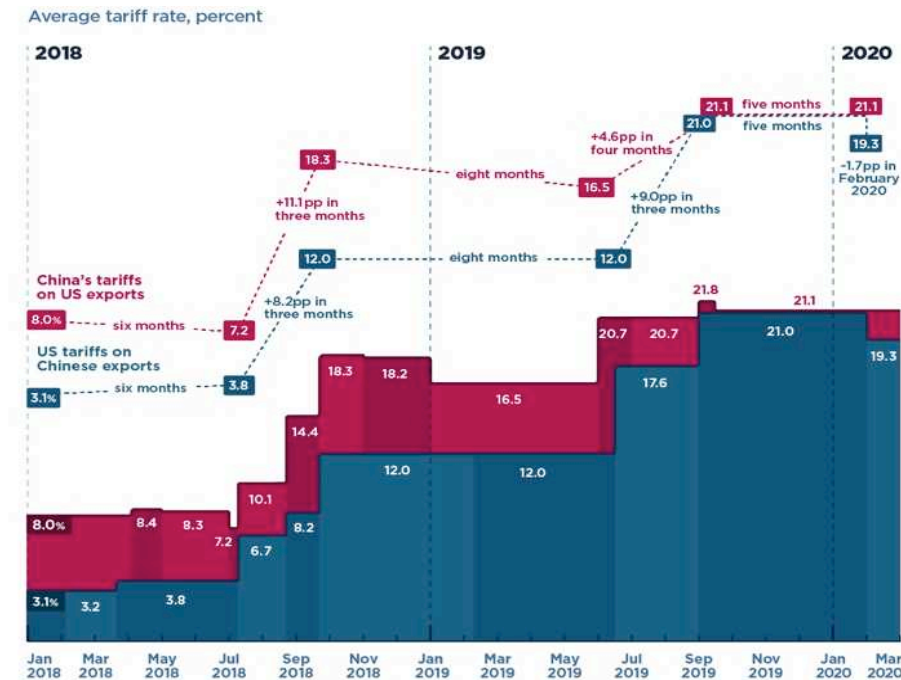


Peterson Institute for International Economics, December 19, 2019

Trade- US/China phase 1 trade deal done (Détente)

• US agrees

- The existing 25% tariffs remain on middle market and raw materials, covering 65% of imported goods from China
- 15% tariffs implemented in September 1, 2019 are halved to 7.5%
- December 15, 2019 scheduled tariffs cancelled



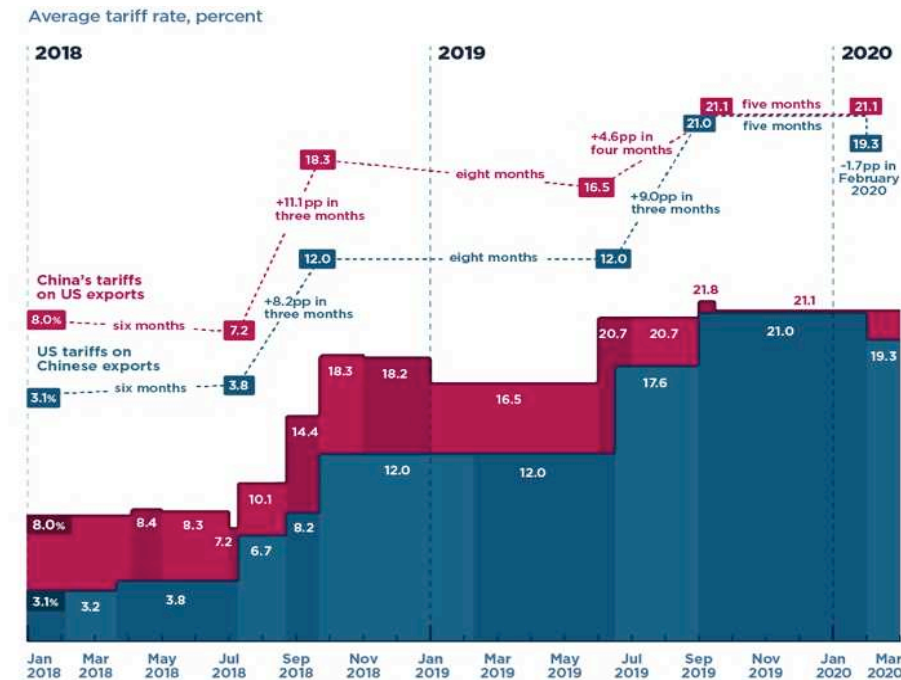
Source: Trump Signs China Trade Deal, Putting Economic Conflict on Pause, NYT 1/15/20

Peterson Institute for International Economics, December 19, 2019

Trade- US/China phase 1 trade deal done (Détente)

• China agrees

- Purchase \$200B of goods over the next two years
 - \$45B of agricultural product in 2020, a 200% increase
- Loosening of US joint venture ownership rules
 - Financial Services, Manufactured Goods, Agricultural, Energy etc
- Modest intellectual property protection
- End forced technology transfer
- Agrees to stop manipulating their currency
- Snap back on all tariffs if China does not comply
- **Possible shortfall of purchases due to Coronavirus**

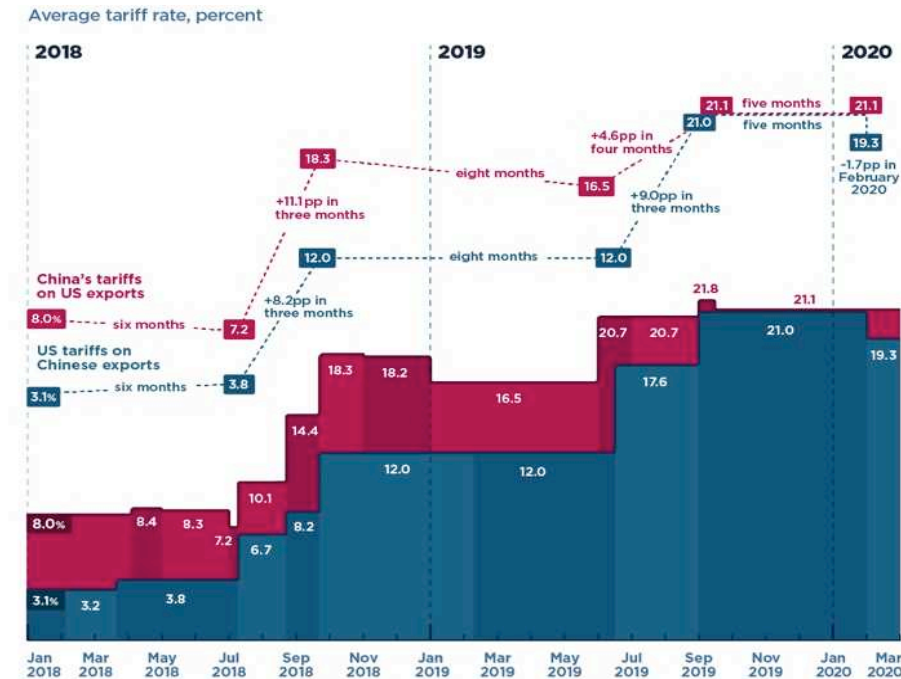


Source: Trump Signs China Trade Deal, Putting Economic Conflict on Pause, NYT 1/15/20

Peterson Institute for International Economics, December 19, 2019

Trade- US/China phase 2

- **US being called on to eliminate tariffs due to coronavirus**
- US drops all tariffs
- China stops subsidizing industry
- China agrees to stop hacking secrets from US companies
- Timing- post 2020 election at best
- **Discussions of de-linking supply chains**



Source: Trump Signs China Trade Deal, Putting Economic Conflict on Pause, NYT 1/15/20

Peterson Institute for International Economics, December 19, 2019

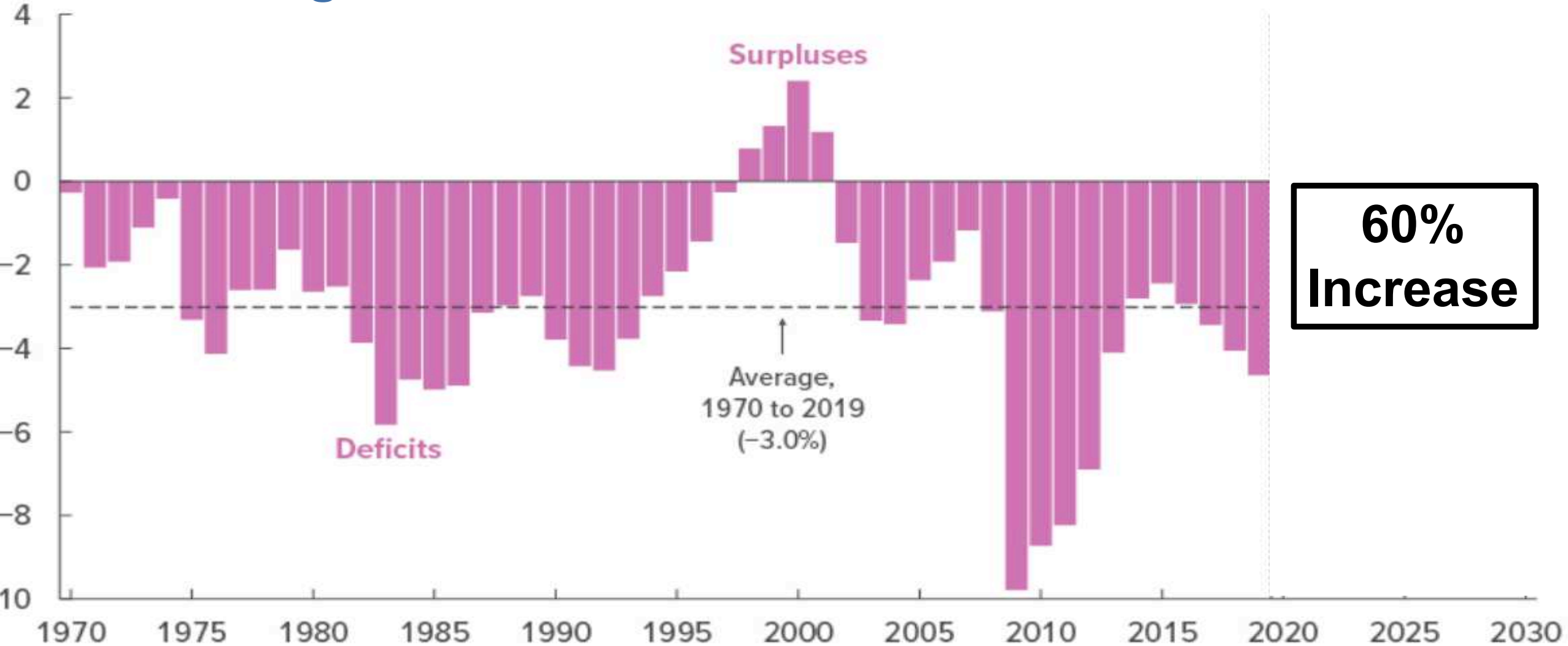
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- Infrastructure/Trade
- **Fiscal/Monetary policy impact**
- 2020 election

**“Who the h@#% cares
about the budget?”**

President Donald J. Trump (January 2019)

Annual Budget Deficit



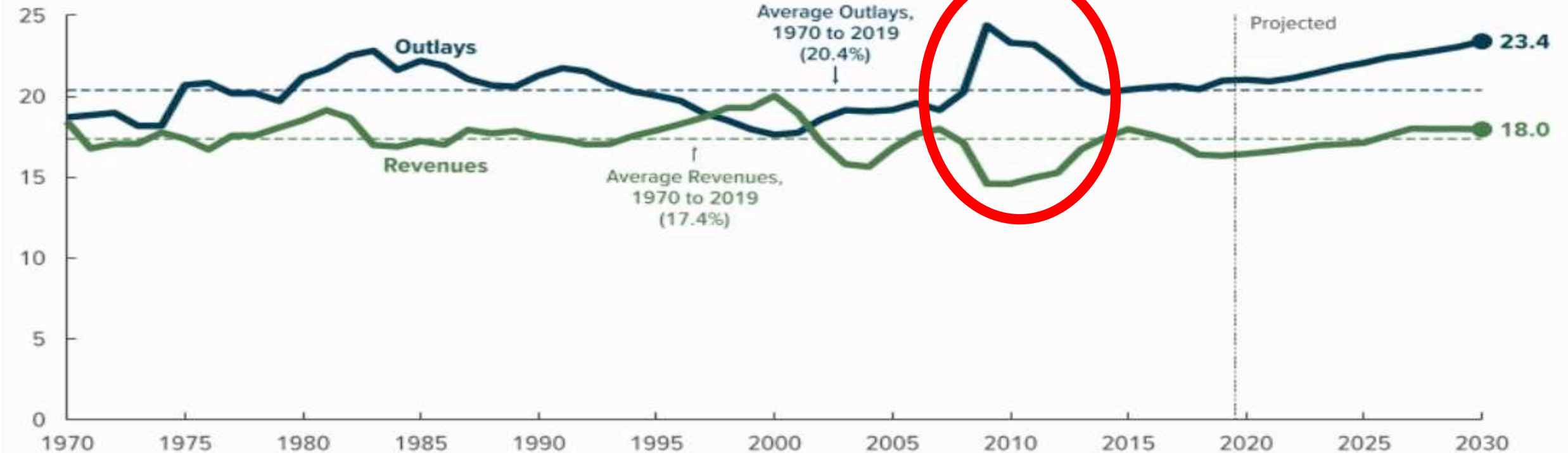
CBO-The Budget & Economic Outlook 2020-2030 (Jan 2020)

Fiscal Reality- Spending

**2008 Financial Crisis
Bailout \$870B**

Total Revenues and Outlays

Percentage of Gross Domestic Product



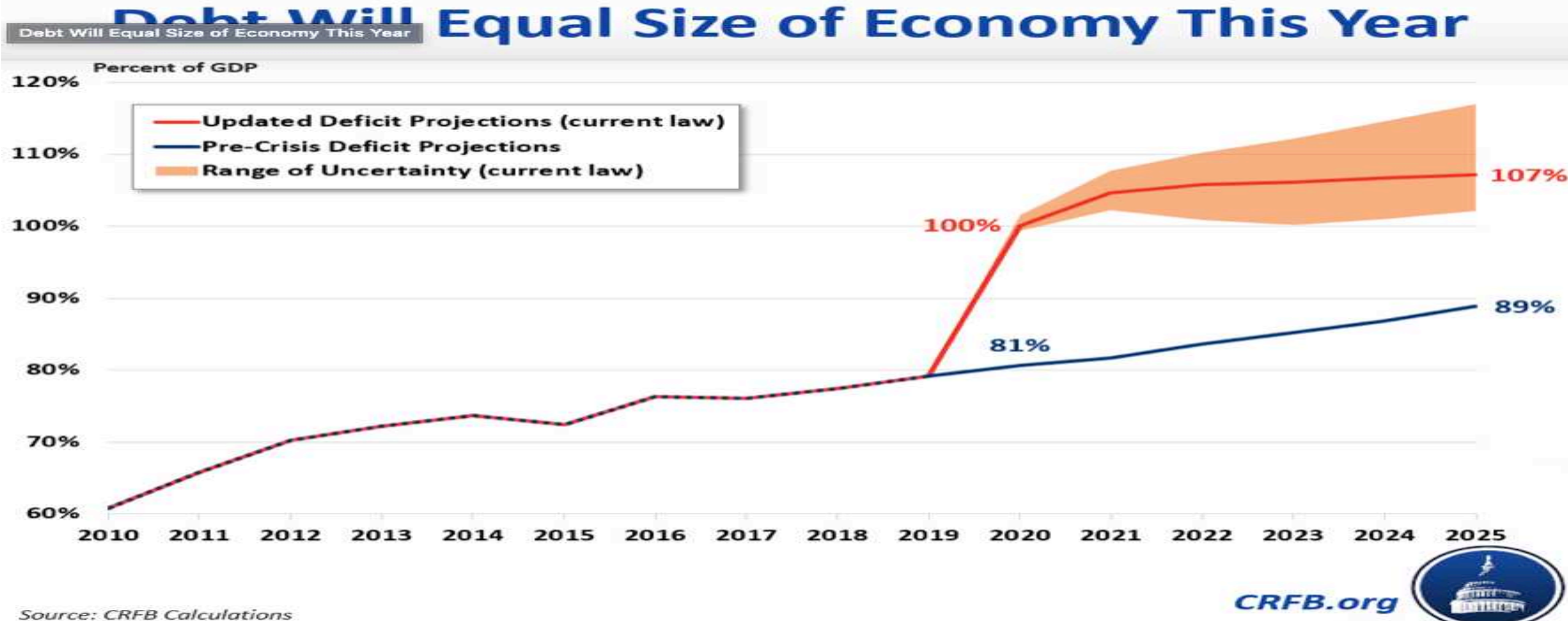
CBO-The Budget & Economic Outlook, Jan 2020

Fiscal Reality

**2008 Financial Crisis
Bailout \$870B**



Fiscal Reality



Committee for a Responsible Budget (April 2020)

Fiscal Reality- Testing Modern Monetary Theory (MMT)

MMT proposes that a country with its own currency, such as the U.S., doesn't have to worry about accumulating too much debt because it can always print more money to pay interest.

- Will absolutely, positively work **until the day is doesn't**
- Eventually, with a return to equities, oversupply of treasuries and the governments need to refinance debt, interest rates will be forced higher. **Perhaps, un-affordably high**

Macroeconomics, Red Globe Press

Monetary policy and the Fed- Coronavirus

- Lowered rates- 0%-.25%
- Unlimited QE
 - Like 2008, purchasing treasuries & mortgage backed
- Also Purchasing
 - Corporate bonds
 - Loans backed by consumer goods (auto loans etc)
 - Commercial paper
- 4-Year bridge financing for investment grade companies
 - 6-Month deferral on interest payments
 - No share repurchases and no dividend payments during deferral
- Backstopping Money Market
- International Repo facility for foreign banks

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Voting In A Pandemic

- **State conventions in turmoil primarily due to the calendar**
 - Live events vs. virtual
 - Platform debate challenged by mail-in or virtual methods
 - Convention goes savvy- Likely will be fine
- **National conventions have a bit more time (August)**
- **National election concerns**
 - Staffing due to coronavirus concerns
 - Turnout- 2020 was on pace to be a record turnout year
 - Double digit increase in voter enthusiasm vs. 2016 and 2012
 - Risk of last-minute changes due to a virus resurgence

Voting In A Pandemic

- **Is Mail-In balloting the holy grail?**

- Wisconsin primary proved the process can be problematic
- General election voters are NOT savvy as state convention goes
- 3 of 4 important states have split governments
 - Democrat Governors & Republican Legislatures (PA, MI & WI)
- 17 “most competitive” states have existing mail-in balloting in place
 - Participation varies from <10% to over 73%
 - State rules vary tremendously (deadlines, ID requirements, signature requirements etc.)
 - Slow return results
 - Added confusion, apathy and could lead to concerns of election legitimacy

**“I’m not a member of
any organized party.
I’m a Democrat.”**

Will Rogers

Democratic Primaries

Federal

Biden (VP)

Delaney (MD)

Gabbard (HI)

Klobuchar (MN)

Sanders (VT)

Warren (MA)

State

Bennet (CO)

Bloomberg (NY)

Buttigieg (IN)

Patrick (MA)

Business

Steyer

Yang



Joe Biden

Third Party Run

- Justin Amash
- Mark Cuban?



Getty Images

Democratic Primaries

- **Democrat crevasse- Progressive vs. Moderate**
- **Progressive's agenda affects many sectors and adds market volatility**
 - Pharmaceutical and health insurers: Medicare-for-All, drug pricing controls
 - Defense companies: reduced focus and funding for on defense
 - Energy companies: movement toward Green New Deal
 - Large tech breakups: Amazon, Apple, Facebook, Google
 - Financial services: restore Glass-Steagall, roll back deregulation, tax securities transactions

Sources: *Wall Street Is Worried About Elizabeth Warren. It's Right to Take Her Seriously*, Wash Post (Sept 20, 2019). *Market Insider*, 2-21-20

- **Healthcare**

- Goal- Increase affordability, decrease uninsured
- **Medicare eligibility lowered to age 60**
- **End "surprise medical billing"**
- ACA changes
 - **"Medicare like" federal option** in ACA exchange
 - All are eligible to participate
 - Auto enroll ALL uninsured
 - Employees can opt in vs. employer offered coverage
 - Increase premium subsidies
 - Lower family medical premiums to 8.5% of income
 - **Subsidies based on Gold plan vs. Silver**
- Pursue "big medicine" with anti-trust action



- **Prescription Drugs**

- Allow Medicare to negotiate drug prices
- Price increases limited to inflation
- Pricing subject to review of prices paid around the world
- Importation of select drugs
- Accelerate generics
- Addressing Pharma tactics to extend their patents
- Eliminate tax deduction for advertising drugs

- **Social Security**
 - No means testing
 - Unclear about the existing income offsets
 - After 20 years of receiving benefits, monthly payments go up
 - Minimum benefit increased to 125% of the federal poverty level
 - Increase widow benefit by 20%
- **Retirement**
 - Tax credits for start up plans (SECURE Act provides for this)
 - “Automatic 401(k)” for those without an employer plan
 - Caregivers would be eligible for “catch up” provisions
- **Wages- \$15/hour federal minimum wage**

- **Student Debt-** 44MM Americans have over \$1.5T
 - 20% are behind in payments
 - **2 years of Community College- debt free**
 - 75% Federal/ 25% States
 - **State & certain private colleges**
 - Tuition free for families earning <\$125k
 - **Existing student debt forgiveness**
 - Earning <\$25k- \$0 payments & zero interest
 - Earning >\$25k- Payments no more than 5% of discretionary income
 - Loan forgiveness after 20 years of good payment history
 - Public servants can qualify for up to \$50k of forgiveness
 - \$10k for each of 5 years of public service
 - Double Pell Grants
 - **Can be discharged in bankruptcy**



- **Infrastructure**

- \$1.3T investment over 10 years
 - Resilient infrastructure
 - Using US workers/US materials
 - Clean water (lead pipes and contaminated water supply)
 - High speed rail across US/Light rail in urban areas
 - Reinstate CAFÉ standards
 - Broadband for rural/poor areas

- **Green Energy**

- Net zero carbon emissions & 100% clean energy by 2050
- Rejoin Paris Climate Accord
- Leverage US economy to force adherence to carbon targets
- Double down on electric cars, solar, wind energy credits
- Small modular nuclear reactors

- **Individual taxes**
 - Repeal TCJA for the wealthy
 - Highest marginal rate- 39.6%
 - Parity between capital gains & marginal rates for high income
 - Capping itemized deductions
 - Payroll taxes on earnings above \$400K/year
- **Estate taxes**
 - \$3.5MM unified credit
 - Tax %???
 - No stepped-up basis at death
- **Corporate taxes**
 - 28% corporate tax rate
 - 15% minimum book profit tax

General Election

- **Be wary of national polls**

Polling		
April 12, 2008	Obama (+0.4%)	McCain
April 12, 2012	Obama (+4.3%)	Romney
April 12, 2016	Clinton (+10.4%)	Trump

- It's irrelevant how much response Trump gets in CA, MA, NY etc
- Why poll Trump supporters in those states?
- But national polls can **influence perception & perpetuate momentum**

The Washington Post, The general election has started. Here's where things stand. April 13, 2020

“It’s no exaggeration to say that the undecideds could go one way or another.”

President, George H. Bush

	Approve	Disapprove	Undecided
Job Approval	46%	48%	6%
Healthcare	42%	47%	8%
Economy	52%	40%	9%
Coronavirus	45%	47%	8%

The Economist/YouGov April 10-12, 2020

General Election

- **Magic number: 270 Electoral College Votes**
- **Starting point: Dems 232, GOP 204**
- **7 states in toss up: AZ, FL, NE, MI, NC, PA, WI**
 - Turnout? All 7 allow mail in balloting, 3 of 4 “in play” states allow as well
- **Pennsylvania, Michigan, Wisconsin**
 - Republicans flipped these states, but only won by < 1%
 - Realistically, Trump’s path to victory exclusively includes winning FL
 - Biden has more paths, some of which do not include FL, PA is key

The Cook Political Report, April 23, 2020

General Election- Coronavirus effect

- ...handling has been a “tremendous success”
- “One or two people will be infected...”
- Open by Easter

President, Donald J. Trump



4 areas of political concern

- **Capability-** His ability to respond to a national crisis comes into question
- **Credibility-** Reality is more serious than his words suggest
- **Economic-**
 - U.S. Consumer confidence and demand reductions
 - Lingering effects could dampen GDP well after containment & market volatility
- **Governors-** Who gets the blame? Who gets the credit?

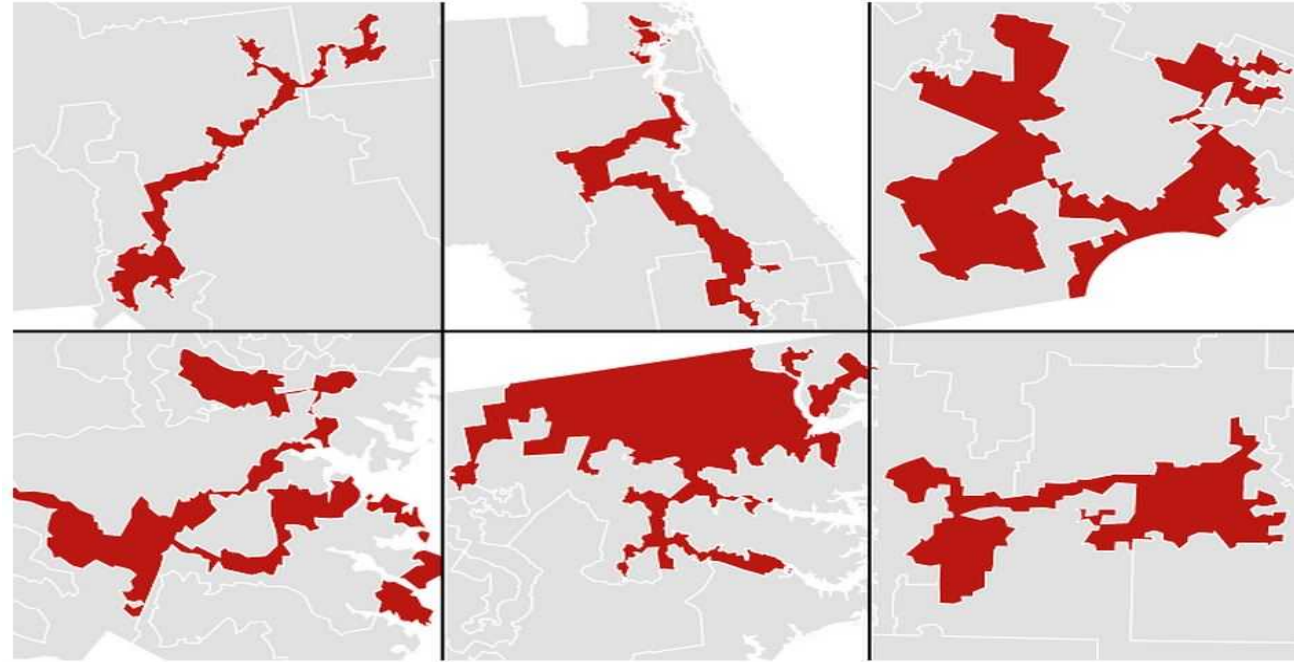
Art.:The Washington Post, March 4, 2020

House of Representatives

- **GOP needs 19 seats to take the majority**

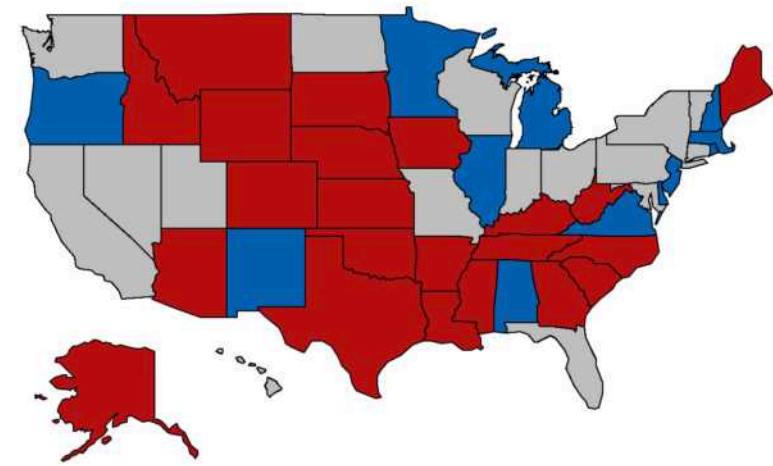
- 31 Dem incumbents in Trump won districts
- 3 GOP incumbents in Clinton won districts
- 15 GOP members retiring
- **23 of 435 districts in play**
 - **Gerrymandering**
 - Dems win 6, they keep control

Close election, but Democrats likely to keep the House



Senate

- **Judges and legislative block**
- Democrats
 - Win a net 3 seats if they win the White House,
 - 4 seats if they don't
- **Each party defending two states won by the opposite party in 2016**
 - GOP: Maine & Colorado
 - Dems: Alabama & Michigan
- **GOP Likely to win Alabama-** changes the math tremendously
- Possible Dem pick-ups: Arizona, Colorado, Maine & Montana



Senate Likely to stay Republican, But Democrats picking up steam

Cook Political Report, April 23, 2020

State Control- Post 2020?

Governorships

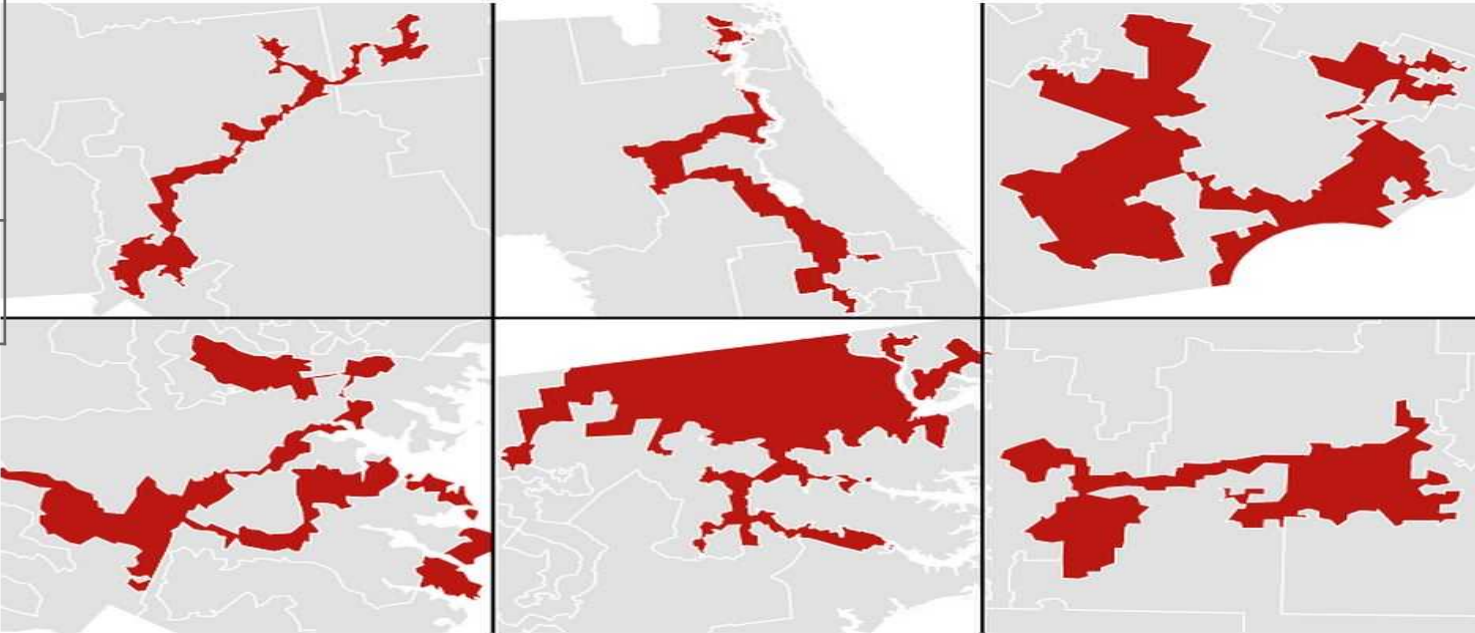
	2016	2018
Republicans	33	27
Democrats	17	23*

Governors & legislatures oversee redrawing of the U.S. House districts in most states

*Democratic gains included PA & WI

Dem Legislature Control

2016	17
2018	23



I'm Actually An Optimist

**“You can always count on Americans to
do the right thing...**

[but only] after they've tried everything else.”

Winston Churchill, Prime Minister, United Kingdom

TO STAY CURRENT



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