

2021 OUTLOOK

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GOODBYE, 2020!

If someone had told me a year ago in January that the United States would experience a 100-year plague; politicians would shut down the entire U.S. economy; the stock market would crash to Great Depression levels; unemployment rates would skyrocket; we would have a trade war with Canada, Mexico, Europe and China; Gross Domestic Product (GDP) would plummet; rioters would ransack and take over the U.S. Capitol at the encouragement of a U.S. President **and, after all that, the U.S. stock market would end up climbing to all-time-historic-highs --**

I would have thought that person was insane!

Twenty years from now, how will historians write about 2020?

The Coronavirus Pandemic will dominate the way we look back on this past year. Not just as a 100-year plague that sickened the world and caused millions of deaths, but as an event that completely changed the trajectory of political, economic and cultural trends for years to come.

Covid may not have created trends, but it did accelerate already existing trends.

Political Trends: Without Covid, the presidential election outcome would probably have been different.

Economic Trends: To fight Covid, for the first time in U.S. history, American politicians shut down the entire U.S. economy, forcing a brief major recession. While the stock market and most of the underlying economy bounced back quickly, Covid hammered people at the lower end of the economic income scale. It may take years for them to recover.

Cultural Trends: Covid also laid bare many of our U.S. cultural divisions that have been festering for years. Americans found ourselves living in an era of poisonous political division on par with the 1790s, 1850s, late 1960s, and early 1970s when neither side was willing to acknowledge the other's way of looking at the world was legitimate, and they considered the opposing views a fundamental threat to what each side held dear. These political divisions reached a crescendo with the rioting and deaths at the attack on the U.S. Capitol.

Healthcare Trends: Covid will be remembered as having nearly destroyed our hospitals and national healthcare infrastructure. It has laid bare the shortcomings and institutional paralysis of our federal and state public health infrastructure like the CDC, NIH, FDA, and Health and Human Services Department.

Long-Term Trends That Will Continue After Covid-19

- Working remotely with our Zoom communications culture will have changed the long-term investment calculus for commercial real estate, business travel and hotels.
- Today many people, white-collar workers in particular, can work at home. This has caused us to rethink office space requirements and the amount of time people need to spend commuting to and from their offices. Office real estate will be challenged for a long time, and this may be a permanent change.
- Business travel is another trend that will be in decline for an extended period. It took the airline industry over five years to recover from the terrorist attack on 9/11.
- However, leisure travel will come back ultimately. Theme parks will come back, cruises will come back, and restaurants and bars will come back, although not the same ones.
- Advances in telehealth, remote work, and virtual gatherings will outlast Covid.
- Covid has also changed the investment calculus for both digital and brick-and-mortar retail stores. In the future, brick-and-mortar stores will primarily sell uniquely local goods in boutique settings. Most everything else will be bought through digital online stores and delivered to your home overnight or within a few hours for groceries and perishables.
- Movie theaters will eventually go the way of payphone booths as we stream new movies at home on ever-larger widescreen TVs and surround-sound stereo systems. Movie theaters were already dying before Covid, except for showing big Hollywood blockbusters.
- The trend of people moving out of cities will slow. There are positives and negatives to living in cities. If people don't have to commute, then it makes some sense to live outside of cities. But the arts, museums, live theaters and Broadway will come back. Live performances cannot be as effectively rebroadcast through television as movies.
- Second homes will become more popular. More people will have a home in or near the city and another in places where they enjoy being – the mountains, shore, rivers or lakes. In the construction industry, new home building will continue as a long-term trend because of second homes.
- While remote education was put together in a slapdash manner during the lockdown, it became much better and more effective as the year went on. Make no mistake about it; remote digital learning will change all educational instruction forever.
- The good news is restaurants and bars will eventually come back after the pandemic is over later this year. The need to socialize and connect with others is so basic and primal to our nature as human beings that we will welcome back our local restaurants and watering holes with a renewed appreciation.

THE PRESIDENTIAL ELECTIONS—WHAT WAS AMERICA TRYING TO TELL US?

In the end, President-Elect Biden won the election over President Trump by over 7 million popular votes and with 306 electoral votes. That is the same number of electoral votes that President Trump won against Hillary Clinton. Trump then described those 306 electoral votes as a "landslide victory!"

Biden received over 81 million votes in the election, almost 16 million more than the 65.8 million received by Clinton. This was the highest vote count for any candidate in American history.

But this election was hardly a complete repudiation for President Trump. He received over 10 million more votes than he received in the 2016 election. At 74.2 million votes, he received the second-highest vote count for any candidate in American history.

Like everyone else, I have been trying to make some sense of what the American people were trying to say in this past election.

It is so clear that there are two Americas, and they are fundamentally, deeply divided.

But this election gave me some hope. If you look at the returns carefully in the battleground states, which by definition are the most divided because the results were so close, you will see that there are still a few moderates left in America.

In many of the battleground states, a significant, if small, percentage of voters chose Joe Biden for President and then voted for a Republican for the Senate, House and other down-ballot elections.

Republicans picked up a surprising number of House seats that no pollsters predicted and also gained statehouses and state legislative seats.

I think the vast number of average, middle-class Americans were trying to send a message to Washington DC.

The exit poll data seems to indicate a large percentage of voters liked many of Trump's policies on taxes, regulatory reform and judicial nominees. Still, in open-ended questions, even die-hard Trump supporters admitted that they were fed up and embarrassed by his tweets, lies, and often lewd, crude and erratic behavior. The exit polling shows this was a clear referendum on the person and personality of President Trump! **This was not a policy election.**

Most voters of both parties seemed to believe Joe Biden was a decent man, and they also said he more represented how we like to see ourselves as a nation—and as Americans in the world.

According to the exit polls, voters of both parties were just exhausted by Trump and embarrassed at how the rest of the world viewed us.

But in terms of policy, the exit polls clearly showed that this election was a repudiation of the progressive left policies.

- The vast majority of voters stated they opposed socialism and emphatically did not want to become a socialist nation. Most Americans still strongly support capitalism, free markets and free trade.
- Voters also said they believe in a competent and effective federal government, but a "limited government that doesn't go too far."
- Most voters said they were against raising taxes and believed that tax increases could knee-cap this current economic recovery and destroy jobs.
- Voters also seemed to reject any suggestion of "defunding the police."
- In general, voters believe in climate change and favor cleaner fuels like solar and wind power. However, they are unwilling to sacrifice fossil fuels and the jobs they create for a more expensive or tax-subsidized plan like the "Green New Deal."
- It was also clear that voters did not want socialized medicine. Most said they supported and believed Congress could come up with a free-market solution to provide health care to the uninsured and make sure pre-existing conditions were covered for everyone.

What To Expect From A Biden Administration in 2021

Biden and his transition staff have said that the new administration will be solely focused on the following goals in their first year:

1. To create a national plan to fight the Coronavirus pandemic and drive down new infections.
2. To create a national plan to distribute and vaccinate every American.
3. To provide a significant stimulus package for small businesses, hospitals, the unemployed, state and local governments, and anyone else who was hurt by this pandemic through no fault of their own, until the nation can get back to normal. The second part of his economic plan is to pass a \$2-\$3 trillion infrastructure project to get the almost 10 million people back to work who were employed in February and are now still unemployed. An infrastructure project is expected to employ 7 to 10 million people all over the United States.
4. **Healthcare:** Biden will expand ObamaCare, including the possible addition of a public option. This will probably be introduced in 2022, before the mid-term elections.
5. **Economic/Racial Justice:** Biden will back police and criminal justice reform; economic support for minority-owned small businesses; and, access to housing.

6. **Immigration Reform:** Biden will reverse the Trump family separation policies and push for comprehensive immigration reform with a path to citizenship for undocumented residents. This will also be introduced in 2022 before the mid-term elections.

How Will Democratic Policies Affect The Economy & The Stock Market?

It will still be challenging to get anything controversial through a 50/50 Senate with Vice President Kamala Harris as the tiebreaker.

Remember that there are still four or five conservative Democrats, like Senator Joe Manchin of West Virginia and Senator Kyrsten Sinema of Arizona, who occasionally vote with the Republicans.

Even with Senator Schumer as Majority leader, the center of power will shift to several individual conservative Democratic senators and moderate Republicans, like Romney of Utah, Sasse of Nebraska, Collins of Maine, and Murkowski of Alaska. Both parties' moderate senators will hold as much power as McConnell or Schumer on every piece of legislation.

It will only take one or two of these senators to swing a vote one way or another. Every individual senator always has more power in a narrowly divided Senate.

Here Is What Biden Can't Do

Everything investors were worried about in a Biden Administration will not happen with a closely divided 50/50 Senate. It would take a 60-vote majority to pass any of these initiatives:

- No higher taxes that would slow down the economic recovery. In most cases, it would take 60 votes in the Senate to raise most taxes that were not part of a budget reconciliation.
- No Medicare for All.
- No court-packing. This would require all Democrats to agree to abolish the 60-vote Filibuster Rule. Biden is against doing this, and four Democratic senators, including Senator Manchin, have stated they would vote against this rule change.
- No Green New Deal.
- No anti-Second Amendment gun legislation.
- No defunding the police. Most Democrats, including Biden, are opposed to this legislation.
- No getting rid of coal, oil, natural gas, or fracking. The Senate Energy Committee will be chaired by Senator Joe 'King Coal' Manchin. Enough said.
- No move to make Washington D.C. and Puerto Rico states. It would amend the U.S. Constitution, where it would then have to be approved by two-thirds of the states. A majority of states have at least one legislative chamber controlled by Republicans. This is never going to happen.

Why Raise Taxes When The Fed Can Just Print The Money?

Another reason Joe Biden is unlikely to raise taxes is that the Republicans have shown the Democrats they can raise all the money they want for stimulus and infrastructure legislation and suffer no political consequences by just asking the Fed to print money by selling 30-year Treasury Bonds at almost no interest cost to the U.S. Government.

Why upset your constituents by raising their taxes when you can pay for all your legislation by printing money?

If you can show politicians how they can spend money and not have to take any politically controversial votes like raising taxes—they will always take the easiest path. With politicians these days, we see few profiles in courage.

By funding everything with new 30-year bonds, most economists say, "we have 30 years to figure out how to repay all of this borrowing."

I feel sorry for most millennials because the joke is on them. No one has told them yet that they get to pay the bill for all of it.

For those of us who are babyboomers, we will all be dead by the time this debt has to be paid off.

THAT'S THE GOOD NEWS!

2021: THE U.S. ECONOMY AND STOCK MARKET

It is hard to look forward to 2021 without a glance backward at 2020.

The major economic story of 2020 was that the pandemic, political and economic events exposed a deep fissure between Main Street America and Wall Street.

Few big companies suffered much financial damage due to the lockdowns and virus, and Big Tech has allowed most of the economy to operate virtually. Still, damage to small service industry businesses has been very dramatic. Many of those Main Street businesses will take years to recover.

In 2020, we found out what worked and we realized our inherent weaknesses in doing business and organizing ourselves as a society.

We can now see damaged areas of our economy that will take years to recover. We also see the innate creativity and entrepreneurial spirit that led many companies to adapt and reinvent themselves.

With the elections now over, Americans can turn their full attention to fighting the virus and implementing an effective national vaccination program in the first three to six months of 2021, and then focusing on the economic recovery through the rest of the year.

After the first quarter, we should start to see solid performance and strong corporate earnings pave the way for continued gains and an eventual return to normal.

Even though U.S. stocks ended the year at all-time highs, many analysts see the S&P 500 Index rising further in 2021, driven by a more robust economy, healthy profit growth, interest rates remaining near zero, and massive Federal Reserve and government stimulus programs. They also expect the stock market's leadership to broaden beyond the largest tech stocks to include financials, industrials, and other economically sensitive shares left behind by 2020's rally.

If We Can Just Get Through The First Quarter 2021

According to CDC epidemiologists, the nation's healthcare infrastructure and hospitals are on the verge of being overwhelmed. We are now seeing lockdowns in California, New York and other states. Ambulances wait in lines for up to 18-hours to drop off patients and find them beds. As hospitals around the country are imploding, we will see more lockdowns in the next few months.

We experienced a nationwide *third spike* of hospitalizations due to Halloween and a *fourth spike* due to Thanksgiving travel. The CDC says we are now entering into the Christmas/Hanukkah/New Year's *fifth spike* of hospitalizations and deaths that will continue until late March.

Epidemiologists believe that we may not see a full nationwide lockdown. Still, we will see more lockdowns in larger cities. Just as the March 2020 lockdown slammed the stock market, the stock market in 2021 may also react negatively to any new large-scale lockdowns in January and February.

The Stock Market Is Historically Overvalued

Investors need to understand that a stock market correction or pullback will be an entirely normal and healthy correction because the stock market is overvalued. At times the markets get ahead of themselves, and they need to adjust.

This is likely to happen as the pandemic hits its peak in the first quarter of 2021.

While the fundamentals of the underlying U.S. economy are still solid and growing, the pace of expansion has slowed.

According to Factset, the forward 12-month Price Earnings Ratio (P/E) for the S&P 500 Index is 22. That P/E ratio is above the 5-year average of 17.4 and above the 10-year average of 15.6.

Investors should not be surprised to see a 10% or more pullback or correction from current prices over the next three months. This would be a **normal, healthy reversion to the stock market's long-term trend of between a 15 and 17 P/E ratio.**

What could set off this correction? Almost any negative press could start the correction or pullback. It doesn't take much for investors to take profits in an overextended stock market.

What To Expect From The Stock Market AFTER The First Quarter

This is not a time to panic or get out of the stock market. In the long term, the market will thrive in 2021 due to the expected +4.4% GDP growth in 2021. The new Covid-19 vaccines are expected to return the nation to some semblance of normal by the early fall.

The CDC believes the strain on the healthcare infrastructure will start to abate in late March.

The new Biden stimulus legislation, combined with the \$2-\$3 trillion infrastructure bill that is expected to be passed in late February or early March, **should make 2021 an excellent year for the stock market after the end of the first quarter.**

Stock Market Volatility: Noise or Economic Fundamentals

When investors see the stock market go through volatile periods, I always ask them to distinguish whether the stock market volatility is caused by **(1) political or foreign policy issues or just fear over what we don't know or can't predict or don't understand about the Covid-19 pandemic—or (2) more severe underlying economic issues.**

Investors always need to ask whether today's "breaking news" changes the overall economy's outlook or corporate profits. Does living through the possible short-term lockdowns of the economy because of Covid hospitalizations and deaths change the overall economy's long-term perspective or corporate profits? If not, don't panic; the stock market will recover quickly.

Economics 101

One of the first things economists learn in "Economics 101" is that the U.S. stock market always follows the directional trend of the underlying U.S. economy over the long-term. If the U.S. economy is growing and expanding, in the long-term, the U.S. stock market will go up. If the U.S. economy is plateauing or going sideways, the U.S. stock market, in the long-term, will go sideways. And, if the U.S. economy is contracting and declining, the stock market, in the long-term, will decline with it.

Right now, the underlying U.S. economy is continuing to grow and expand. I believe this will continue through 2021 and 2022, and growth will accelerate shortly after the end of the first quarter.

How Should An Investor React?

STAY INVESTED IN THE STOCK MARKET! If you looked at the historical stock market performance charts when there were similar fears over the SARS virus and the MERS virus, they were all short-lived, and investors were rewarded for staying in the stock market.

Even if we have a short stock correction or pullback in the first quarter, the U.S. economy is still growing and expanding. Once the stock market pulls back to a more reasonable valuation, it can resume its growth in a more sustainable valuation.

2021 PREDICTIONS

Most Wall Street analysts believe that after a challenging first quarter in 2021, both the U.S. and the world economy will bounce back as vaccines return our lives to normal, and the fiscal stimulus and infrastructure spending drive the stock market up in both 2021 and 2022.

Earnings

According to FactSet, analysts project a consensus earnings growth of 21.7% and a revenue growth of 7.7% in 2021 for the S&P 500 Index. By my calculations, when the books close at the end of the year, I believe earnings growth will be over 27%.

Gross Domestic Product (GDP)

The consensus U.S. GDP growth for 2021 is 5%, which would be its fastest GDP growth rate since 1984. I believe we will see a continuation of the V-shaped economic recovery. Growth will start to moderate in 2022 and subsequent years. Economic cycles usually last for five or six years. This is the start of what could be a powerful long-term economic cycle. Unfortunately, lost GDP from 2020 is not expected to be recovered.

S&P 500 Index

I believe the S&P 500 Index for the entire year of 2021 will rally between 10% and 12%. Such a gain would make the third straight year of double-digit percentage growth. The S&P 500 Index climbed 18.4% in 2020, after growing 31.5% in 2019.

Because of the expected massive stimulus and infrastructure spending, bond prices will be higher and yields lower for the foreseeable future, making stocks a much more attractive alternative to investors.

Bonds and Interest Rates

The Federal Reserve has clearly stated that even if inflation starts to go up a small amount, it will keep rates at near-zero levels through the end of 2022. Most investors will need to move beyond traditional fixed-income assets. They need to consider a more diversified portfolio that might include holding dividend-paying stocks, convertible bonds, high yield bonds, emerging markets debt and gold. This diversified, bond alternative strategy is often referred to as the **Permanent Portfolio**.

An investor can now make more in current income from dividend-paying stocks than from high-quality fixed-income securities while participating in any future stock price appreciation. Stock prices can always go down, but over the long-term, they have generally appreciated.

U.S. Dollar

I believe the U.S. dollar is in a major structural downtrend that may potentially continue for years to come. The U.S. dollar was quite strong during the first quarter of 2020. It benefited from the flight to safety during the crash, rallying to a nearly 10% gain at the stock market's low point on March 23.

However, as equity markets recovered and the U.S. struggled to fight the Coronavirus pandemic, the dollar has given up nearly all of those gains. I think this trend will continue and, if so, it will have significant implications for a range of asset classes.

The commodity rally has historically been a reason to believe the market may be looking toward a weaker dollar. Commodities are typically viewed as having an inverse relationship with the dollar. Gold prices were up 24.6% in 2020, copper recently traded at its highest level in more than two years, and silver prices appreciated 40% last year.

The Wall Street Journal recently reported that "a weaker U.S. dollar may be a slight negative for U.S. consumers' buying power, but for investors' portfolios, the implications are overwhelmingly positive. Commodities are rallying, U.S. multinational companies benefit from foreign buyers being able to afford more of our U.S. goods, and international stocks do well as their underlying currencies appreciate."

I think the U.S. government secretly likes the weak U.S. dollar because of its positive impact on the stock market and manufacturing. Also, China's and most Asian countries' currencies are pegged to the U.S. dollar, so nearly everything consumers buy from Asia doesn't cost consumers more.

Gold

As someone who has managed a gold mutual fund for several years, I think gold is an awful long-term investment, but I believe it has a place in an investor's asset allocation as an insurance policy. It does have a role in an investment portfolio as a good diversifier.

Over the years, I have watched gold go up 50% and then down 50%. Most investors don't like or want that kind of volatility in their retirement portfolios. Also, gold can stay at low prices for decades.

But when something terrible happens in the world, gold usually does its job and goes up. As an insurance allocation in your portfolio, it will most often cushion losses from significant downturns in the stock market.

I believe there is still a great deal of health, political, and economic risk in both the United States and the rest of the world. That alone is a good reason to believe gold should go up in 2021.

Gold has always worked as an investment during periods of crisis. It skyrocketed amid the stagflation of the 1970s, rising more than seven times over that decade to peak at \$850 in early

1980. It surged again after the global financial crisis of 2008, peaking at \$1,900 in 2011, but then it slid back over much of the next decade. In 2019, after the Federal Reserve signaled that it was suspending plans to push interest rates higher, gold went up again.

The rise in gold prices is also driven by a belief that the easy money pouring out of the Federal Reserve and other central banks and government stimulus programs could eventually trigger inflation. However, with technology and global trade and manufacturing as deflationary pressures, many analysts foresee low inflation and low-interest rates continuing for the foreseeable future.

Gold and the stock market often move in opposite directions. Usually, when stocks go up, gold goes down and vice versa. But because of the current investor anxiety and instability caused by the Coronavirus health pandemic and many political and economic crises, I expect to see gold and the stock market continue to rise in tandem through 2021.

The Global Economy

Like the United States, the global economy has the potential to make a full recovery in 2021, rebounding from the 4.4% decline in global GDP in 2020 to an expected growth of 5.2% in 2021, according to current estimates from the International Monetary Fund.

China, Australia, South Korea, Taiwan, Singapore and New Zealand have all but defeated the Covid-19 pandemic, and their respective economies are firmly on the path back to sustained recovery.

Despite its competition with the United States, China has become a leader in many critical global technologies. Both countries seek self-sufficiency in the future's essential tech industries, like artificial intelligence, quantum computing, semiconductors and 5G.

As the U.S. and China fight it out for tech domination, investors would be wise to look both ways and invest in both countries.

I am generally pessimistic about the investing prospects for Europe, Africa, the Middle East and Latin America. I expect flat growth in most of these regions.

I would focus on Asia (including India) and the United States.

Global Trade

The Biden Administration will re-join the *Trans-Pacific Trade Partnership* with 11 other Pacific Rim nations negotiated during the Obama Administration.

Biden's overall trade policy will promote a more collaborative approach to trade with allies, who have been battered by Trump's sanctions and erratic trade policies. He will also rethink tariffs in a more organized way and work with other nations to create a united front to confront China.

Like Trump, Biden views the rise of China's tech companies as a grave threat to U.S. tech companies and national security because they are vehicles for Chinese espionage.

Key Economic Sectors

Over the past three weeks, I have been pouring through analysts reports, Wall Street forecasts, trade association and industry group reports on what sectors and industries will do best and which will do worst in (1) a new Biden Administration and (2) as the U.S. returns to normal after the Coronavirus pandemic has ended.

Here is a look at how these sectors will perform and how the Biden administration might shape critical industries and issues over the next two years.

Energy

The Biden administration has promised significant changes for energy companies and on climate change. However, because several Democratic senators are from fossil fuel-producing states, and Senator Joe Manchin, from coal-producing West Virginia, will become chairman of the Energy Committee, Biden will be primarily limited to only being able to use his executive powers and administrative agencies to overturn Trump's environmental executive orders and institute those of his own.

This is what Biden can do:

- Biden will order the U.S. back into the Paris climate pact.
- Biden will start negotiations for new climate rules on cars and trucks.
- Biden will slow or halt oil leasing on federal lands.
- Biden will halt future leasing and well drilling permits on federal lands/offshore areas.
- Biden will require more rigorous environmental impact studies before permitting and drilling activity.
- Biden will appoint new members to federal agencies who could significantly tighten/extend regulations in the area of clean air and clean water.

This is what Biden will not be able to do:

- No Green New Deal.
- No ban on fracking.
- No \$2 trillion spending to reduce the nation's greenhouse-gas emissions.
- No government financial incentives on renewable energy.
- No specific goals for eliminating greenhouse gas emissions by 2050.

Tech & Information Technology

This is what Biden can do:

- Social Media companies like Twitter, Facebook, and Google may face greater regulatory scrutiny.
- Democrats' concerns about tech are about anti-competitive practices, privacy, and the treatment of gig workers.
- Biden will stress the need for China to play by international rules in its race for tech supremacy. Biden will carry through on national security concerns about the popular Chinese-owned social media app TikTok.
- Biden will be more tech friendly in allowing significantly more H-1B visas for foreign professional tech talent.
- Increased R&D funding for emerging technologies like artificial intelligence, 5G and quantum computing.
- Biden's infrastructure legislation will include money for an expanded 5G nationwide rollout in rural areas.
- Biden will take aggressive enforcement actions against China for cyber espionage and intellectual property theft. He may end up tougher than Trump on these national security issues.
- Biden will offer tax incentives to bring supply chains and the manufacturing of critical technologies back to the U.S.

As an investor, I like companies on the cutting edge of growth areas, including artificial intelligence, robotics, the Internet of Things, 5G, machine learning and quantum computing.

Manufacturing

This is what Biden can do:

- Biden will boost federal spending on programs to develop domestic manufacturing.
- Biden will not reduce trade restrictions and tariffs created by the Trump Administration.
- Biden will be reluctant to negotiate free-trade agreements that could jeopardize blue-collar jobs in Midwestern states.
- Biden will push for Buy American requirements on federally funded projects and other incentives for manufacturers to invest in domestic production.
- Biden believes he can get enough Republican votes for a \$2-\$3 trillion infrastructure spending bill as part of a stimulus program.

Autos

This is what Biden can do:

- We will see a replay of Obama-era policies on electric vehicles.
- Stricter auto-emission limits.
- Biden's infrastructure bill could include his plans for installing a half-million charging stations nationwide. This could be a boost for Tesla (TSLA), General Motors (G.M.),

Hyundai (HYMTF), and other car companies planning to sell more battery-powered vehicles.

- Biden will propose stricter fuel economy regulations for the auto industry.
- Biden will also work with California and other states on aligning requirements for emissions. This could bring more certainty for car executives trying to plan future models.

Agriculture

This is what Biden can do:

- Biden's less erratic trade policies could ease the market swings that have hurt farmers over the past three years.
- It is unclear whether Biden will continue Trump's record-high government payments to farmers. Biden has pointed out that this aid comes at a cost to taxpayers.
- Farmers are expecting more aggressive Obama-era regulations. Water regulations and federal regulations on drainage ditches and rain-formed ponds will be first on the Biden regulatory agenda.
- Biden's Agriculture Department wants farmers to adopt more environmentally friendly practices, such as capturing carbon in soil by keeping fields covered with vegetation during non-growing seasons.

Banking and Financial Services

This is what Biden can do:

- The financial industry is expecting heightened regulations from the Biden administration.
- The Consumer Financial Protection Bureau (CFPB) expects the Biden administration to ramp up all watchdog enforcement activities, especially around payday lenders and debt collectors.
- The CFPB is an area where Mr. Biden can and will make changes immediately because the Supreme Court ruled this year that presidents can fire the CFPB director at will.
- Many bank borrowers have been allowed to skip payments on credit cards and personal loans during Covid-19. The CFPB will have new regulations to protect these borrowers.
- Banks expect all of their customer fees to be more regulated.
- A new Consumer Financial Protection Bureau chair could increase supervision and enforcement actions against debt collectors, installment lenders, student lenders/servicers, and credit card companies.

This is what Biden will not be able to do:

- Biden won't be able to replace Federal Reserve Chairman Jerome Powell until his term expires in February 2022.
- Biden won't be able to replace Federal Deposit Insurance Corp. Chairman Jelena McWilliams until her term ends in June 2023.

Pharmaceutical Industry

This is what Biden can do:

- Biden will try to lower the costs of prescription drugs, including giving the federal government more control over what it pays for medicines, which could hurt industry sales.
- Biden has said he would set up an independent government board to determine prices paid by most government purchasing programs, like Medicare.
- Biden is not expected to authorize the importing of drugs from abroad or to peg prices Medicare pays for unspecified drugs to the rates other countries pay.
- Biden's expected expansion of health insurance coverage would mean more government purchases of prescription drugs and higher sales.

This is what Biden will not be able to do:

- Biden has also proposed the government directly negotiate with drugmakers for discounts on medications. Medicare can't do this under current law, and it would take 60 votes in the Senate to change this law.

Health Insurers and Hospitals

This is what Biden can do:

- Biden is expected to expand the federal government's role in responding to the pandemic, which could create problems for insurers who have made significant profits this year with a drop-off in many typical medical procedures.
- Biden is expected to ask insurers to pick up the cost for expanded testing or eliminate out-of-pocket costs for Covid-19 treatment.
- Under Biden, hospitals could see a welcome increase in patients covered by health insurance.

This is what Biden will not be able to do:

- Biden has supported a Medicare-like public option for the uninsured. Insurers have opposed this. This would probably need Senate approval with 60 votes, which is unlikely.
- The Affordable Care Act has overall benefited the health care industry by expanding its rolls and revenue. Biden is unlikely to pass any significant changes that expand coverage because that change would require 60 votes in the Senate. Still, his administration could make regulatory changes that could bolster enrollment in existing programs.

Retail

This is what Biden can do:

- Labor issues are expected to be high on the Biden agenda, forcing higher costs on retailers.
- Trade policies and tariffs with China have disrupted many retailer supply chains during Trump's term in office. Retailers do not expect tariffs to disappear under Biden.
- Biden's policy on raising the minimum wage to \$15 an hour would hurt many smaller retailers.
- Biden will also push for more protections for unionized workers, including prohibiting employers from discriminating against those who participate in strikes.

Industrials

This is what Biden can do:

- Biden is expected to reduce defense spending.
- Biden will help the HVAC industry by requiring improved building air quality and sustainable home construction.
- Biden will require farmers to use precision agriculture equipment to improve the climate.

Utilities

This is what Biden can do:

- Biden will push Utilities toward clean energy issues in capital expenditures.
- Biden will require utilities emissions to be net-zero by 2035.
- Biden's emissions regulations will lead to increased capital expenditure opportunities for the utilities in clean energy infrastructure.

A FINAL THOUGHT

Investors were challenged like never before in 2020 as the Coronavirus took the market from the record highs that marked the start of the year to the brink of depression by the end of March and then back again to record highs.

As I said at the beginning of this *2021 Outlook*, if anyone last year had told me all the unimaginable things that would happen in 2020, I would have called them insane!

Almost every day, as I was speaking to investors, I could hear the concern and anxiety in their voices. They just couldn't figure out how the stock market would react to the virus, the market crash in March, the impeachment, the election, or the riots at the U.S. Capitol. In many cases, there was no historical precedent for what was happening.

The Benefits Of A Trusted Financial Advisor

This is why it is vitally important that an investor partner with a trusted financial advisor in times like these. 2021 will not be different.

Even with all the risks we have discussed, here is what we can look forward to in 2021. The virus will be brought under control and the economic recovery will continue and approach something like the pre-pandemic normal. After the inauguration, political concerns will not disrupt the economy in a significant way.

What we have gone through is not what we expected at the start of last year. But it is so much better than it might have been.

And that will be the story of 2021.

NOTE: This report is authorized for distribution to clients

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