How Will New Infrastructure Spending Affect the Markets?

On November 15, President Biden signed the bipartisan, roughly $1 trillion infrastructure bill into law. This level of infrastructure spending marks the largest federal investment in infrastructure in over 10 years, and largely focuses on traditional forms of infrastructure: roads, bridges, power grids, etc.

Plenty of politics came into play for getting this law passed – I will not cover them here. But now that the bill has become law, investors can set aside political implications and focus on pure policy, specifically how the new spending might affect the economy and markets.[1]

First, let's dig into what's in the infrastructure bill, which ultimately amounts to an additional $550 billion above projected federal spending on roads, bridges, expanded broadband access, and more. Here's a roundup of the new spending:

- $110 billion for roads, bridges, and major projects
- $73 billion to update and expand the power grid
- $66 billion for rail maintenance, modernization, and expansion – most of this money will go to Amtrak
- $65 billion to broadband infrastructure and development
- $55 billion to clean drinking water
- $50 billion to bolster the U.S.'s infrastructure against climate change and cyberattacks
- $42 billion for ports and airports
- $39 billion to modernize public transport and make it more accessible (seniors, disabled)
- $21 billion for removing pollution from soil and groundwater
- $11 billion for highway safety and pedestrian programs
- $7.5 billion for a network of electric charging stations
- $7.5 billion on zero-emission or low-emission buses and ferries

In terms of economic impact, $1 trillion is approximately 5% of GDP – not a significant boost, but also not negligible. The key for measuring economic impact is understanding

when the money will be spent and *how* it will be paid for.

Regarding the 'when,' this new spending will not happen all at once. States should see a major boost in core highway funding relatively soon, but money for most of the other projects could take months or perhaps even years, arguably minimizing the short-term economic impact.

Spending on modernization of public transit, for instance, will have to wait for Congress to pass a spending bill, which will likely come later in the year. $120 billion of the new funding comes in the form of competitive grants, which means the government will need to roll out grant programs and companies will need to bid for the jobs, like bridge replacements or new rail lines. The grant program and approval process could also take about a year. Incrementally higher spending over long periods will likely not create a material boost to GDP.

Regarding the 'how' the money will be raised, it will come from an assortment of revenue streams, but none of them include higher taxes – a plus for the economy. Some of the money has already been appropriated, including $200 billion in repurposed funds meant for Covid-19 relief. $50 billion will come from delaying a rule regarding Medicare rebates, and $50 billion more will come from states that did not use unemployment insurance supplemental funds. In short, no new taxes and no major near-term increases to the deficit should also mean relatively minimal economic impact.

As far as markets are concerned, a relatively muted economic impact likely translates to modest market impact, which I would argue is already priced into stocks. It has been widely known for some time now that the infrastructure bill would almost certainly pass, which means markets have already discounted its impact on earnings and growth, in my view. Investors should not expect some brisk tailwind now that the bill has been signed into law.

Bottom Line for Investors

In my view, the passage of the infrastructure bill is not a zero-impact event, but it is also not a major market mover that should drive the next leg of the bull market. I think it is perhaps best framed as a 'modest tailwind' for the economy and markets, with some sectors (Industrials, Materials, perhaps Utilities) faring better than others.

The real key takeaway for investors, in my view, centers around an idea I write about a lot in this space: *how did reality compare to expectations?* In the case of infrastructure, the bill started as a $2.3 trillion spending package that included tax increases to pay for it. Higher taxes and higher deficits could arguably be an issue for stocks, but the reality of the infrastructure law is that it is less than 50% of its original size with no tax increases and fairly modest new deficit spending – a reality better-than-expectations, in my view, which I see as a positive for markets.

ABOUT MITCH ZACKS

Mitch is the CEO & Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

[1] Wall Street Journal. November 15, 2021. https://www.wsj.com/articles/infrastructure-bill-2021-what-11627515002?mod=article_inline

Weekly Market Update

Important Market News We Think Worth Considering

IN FOCUS THIS WEEK

- **U.S. consumer spending**
- **U.S. industrial production posts rebound**
- **Growth in the U.S. job market**

Despite Supply Chain and Inflation Worries, U.S. Consumers Spend Big

Anyone who has read or seen the news in the past couple of weeks has no doubt encountered stories about the supply chain crises and inflationary pressures. The coverage has been virtually end-to-end. While issues very much exist, it seems there may be a gap between the perception of the problem and the reality of it. The October retail sales report showed U.S. consumers spending in droves, with sales at retail stores, online sellers, and restaurants rising by 1.7% month-over-month in October, according to the Commerce Department. Sales in most categories are back above pre-pandemic levels. Some of the biggest U.S. retailers, including Walmart, Target, and Home Depot all reported better-than-expected Q3 earnings and also reported that shelves are stocked in anticipation of the holiday shopping season. While there are certainly shortages and tight inventories in some parts of the economy, there is a reasonable counter-argument that a perceived lack of goods and services may be slightly overblown. If the worries and concerns over the supply of goods are greater than the actual scope of the problem, that's potentially bullish for stocks, in our view.[1]

U.S. Industrial Production Posts Rebound

Activity in factories, mines, and utilities in the U.S. rose at a solid 1.6% month-over-month clip in October, which followed a slowdown in September tied to the rise of the Delta variant. The October reading shows companies working to bring production back up to full capacity, in particular manufacturing jobs. With wages on the rise, the impact of Hurricane Ida on oil and gas production now faded, and Delta cases still trending lower, factories have been able to push production higher. Manufacturing, which is the biggest component of industrial production, rose by 1.2%.[2]

Underestimating U.S. Job Growth

In a final sign the U.S. economy may be performing a bit better than advertised, the Bureau of Labor Statistics has reported undercounting new job growth in each of the last four months. When June through September revisions were tallied, it totaled 626,000 undercounted jobs – the biggest underestimate in a comparable period dating back to 1979. There has also been a lot made of the "Great Resignation," which refers to Americans quitting jobs at record rates over the summer. Indeed, workers resigned from 4.4 million jobs in September, according to the Labor Department. But digging a bit deeper into the data reveals some upshots: for one, many of the quits came from low-paid workers who left for higher-paying jobs, and hiring over the same period was much higher than the quits. All in all, the U.S. is actually adding a lot of workers every month (6.5 million hires compared to the 4.4 million quits).[3]

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[1] Wall Street Journal. November 16, 2021. https://www.wsj.com/articles/us-economy-october-2021-retail-sales-11637009365?mod=djemRTE_h

[2] Federal Reserve. November 16, 2021. https://www.federalreserve.gov/releases/g17/current/default.htm

[3] The Washington Post. November 16, 2021. https://www.washingtonpost.com/business/2021/11/16/government-underestimated-job-growth/?mod=djemRTE_h

DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

*This information is supplemental to GIPS and is based off the composite
**The standard deviation shown here is calculated since inception

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