

Policy and Politics: Navigating a Divided Washington

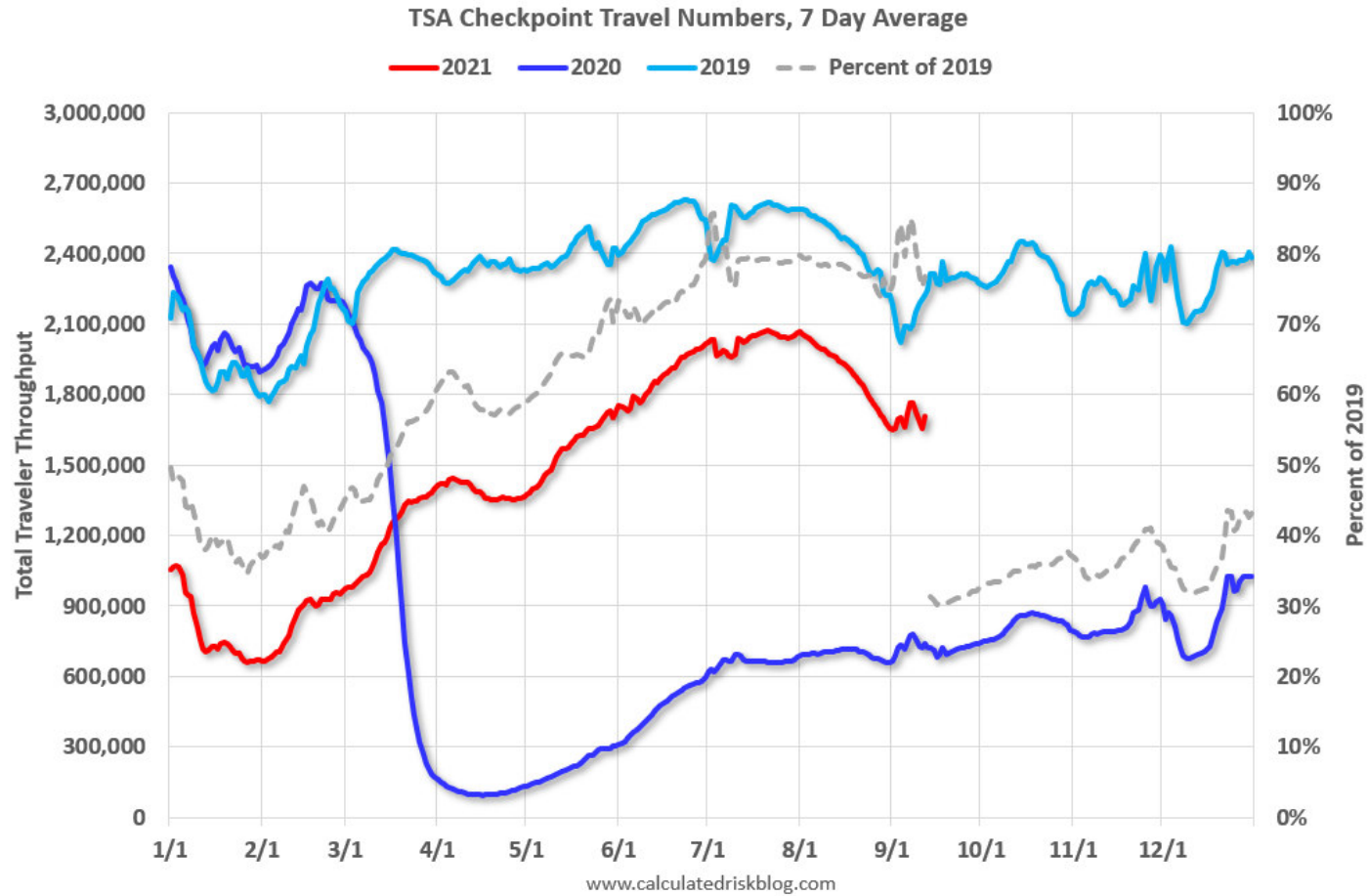
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September 2021

The logo for Charles Schwab, featuring the word "charles" in a lowercase serif font above the word "SCHWAB" in a uppercase sans-serif font, both in white text on a blue square background.

charles
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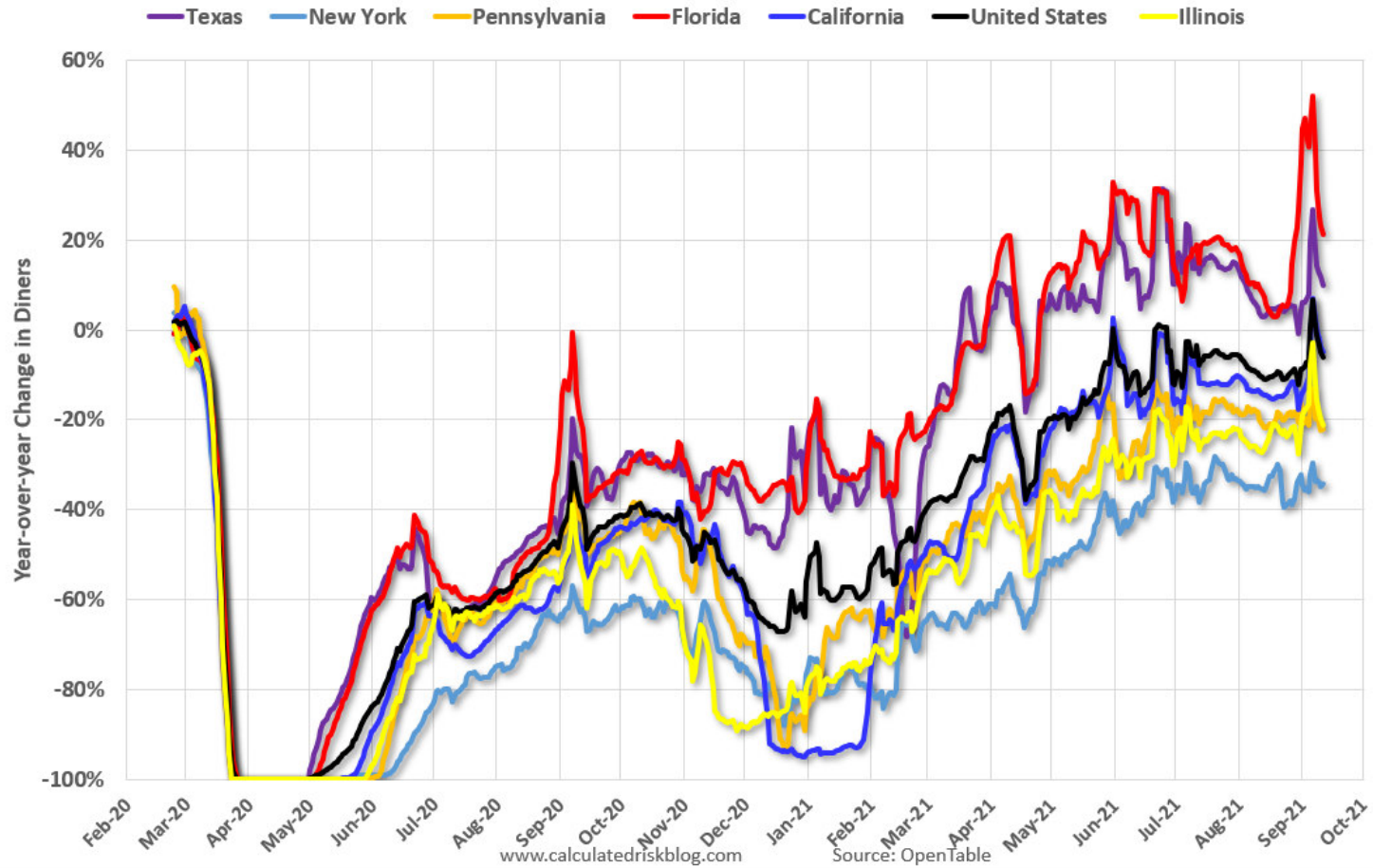
Lay of the Land



Source: TSA; Calculated Risk Finance & Economics. Data as of September 12, 2021.

Lay of the Land

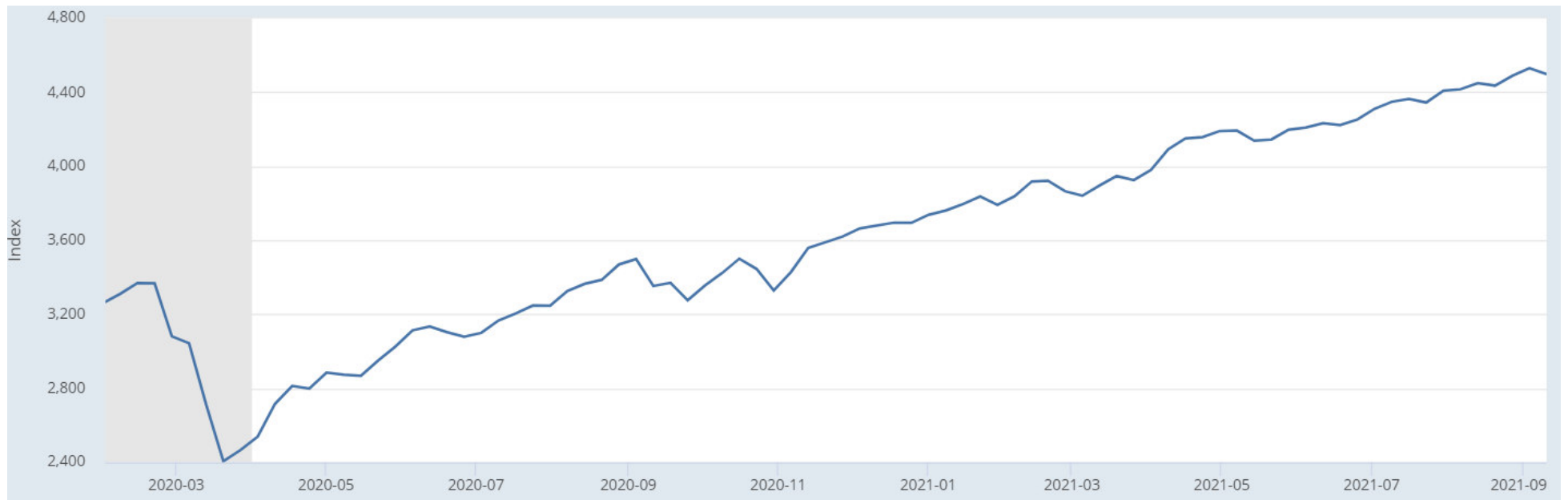
Compared to 2019, Seated Diners from Online, Phone or Walk-in Reservations, 7 Day Average



Source: OpenTable; Calculated Risk Finance & Economics. Data as of September 11, 2021.

Lay of the Land

S&P 500 Performance, 2/1/2020-9/10/2021



Source: S&P Dow Jones Indices LLC, S&P 500 [SP500], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/SP500>, September 10, 2021. Past performance is no guarantee of future results.

Lay of the Land – Congress

- Razor-thin Democratic majorities.
- House: 220 Democrats, 212 Republicans, 3 vacancies
 - Smallest D majority since 1877.
 - Narrow margin means small groups have outsized leverage.
- Senate: 50 Democrats, 50 Republicans.
 - VP Kamala Harris breaks ties, giving Democrats narrowest majority possible.
 - Wide ideological spectrum among Democrats – very tricky to navigate.
 - Eliminating the filibuster rule unlikely at this time.
 - Budget reconciliation process: Special set of rules that allows bill to be approved by simple majority, prohibits filibusters.

2021 Agenda – Economic overhaul

- White House proposals.
 - \$2.25 trillion “American Jobs Plan” focused on infrastructure, climate change.
 - \$1.8 trillion “American Families Plan” focused on social programs.
 - President’s proposals are just that: Proposals.
- Bipartisan infrastructure deal – approved by Senate.
 - \$550 billion in new “roads and bridges” spending.
- Second spending/tax bill: \$3.5 trillion framework.
 - Approved in Senate and House without Republican support.
 - Now the details need to be filled in: target deadline of Sept. 15.
 - What’s in and what’s out will expose ideological divides among Democrats.

2021 Agenda – Taxes

- House Ways & Means Committee proposals:
 - Corporate rate increased to **26.5%** (companies with >\$5 million income).
 - Top individual income tax rate to **39.6%**.
 - 3% surtax on individuals above \$5 million in AGI.
 - Estate tax exemption **lowered to \$5 million** (no change to step-up in basis).
 - Top **capital gains rate to 25% as of September 13, 2021**, for individuals above \$400,000 in income.
 - Crack down on “mega IRAs.”
 - Eliminates “back door” Roth IRA conversions.

2021 Agenda – Taxes

- Most individual tax code changes prospective: take effect 1/1/2022.
- Capital gains changes **retrospective** to September 13, 2021.
- Highly **uncertain** whether these provisions can pass Congress.
 - Not all Democrats on board.
 - Expect significant changes.
 - Some provisions could be dropped as total size of \$3.5 trillion spending bill drops.

Other issues to watch

- Debt ceiling **returned August 1** after being suspended since 2019.
 - Congress must raise/suspend debt ceiling to **avoid default**.
 - Timing remains uncertain – likely mid-October.
 - No clear plan for how or when Congress will get this done.
 - Historically, uncertainty about whether/when Congress will act has **triggered market volatility**.
- Government shutdown looms October 1.
 - Democrats expected to combine temporary measure to fund government operations with debt ceiling suspension AND disaster funds.
- Possible combination of the two?

Retirement issues

- Retirement provisions in House \$3.5 trillion spending bill.
 - **Mandated** automatic IRA for all employers.
 - Make Savers Credit refundable.
- Bipartisan **retirement savings legislation** (“SECURE 2.0”).
 - Slowly increases RMD age to 75.
 - Increases catch-up contribution to \$10,000 (60+ in Senate, 62-64 in House).
 - Strong support in both House and Senate – but where is this on the priority list?

2021 Agenda – SEC issues

- GameStop/Reddit retail trading frenzy **draws scrutiny**.
 - SEC Chairman calls for **review of market structure**.
 - Key areas of focus:
 - Trading apps: **“Gamification” of stock trading** – SEC has requested information.
 - Conflicts in market plumbing/payment for order flow.
 - Exchange trading vs. off-exchange trading.
 - Best execution rules.
 - Settlement time and process.
 - Regulatory process is very slow – **nothing will change anytime soon** – but this has potentially big implications for ordinary investors.

2021 Agenda – SEC issues

- Public company disclosure.
 - Improving [climate risk disclosure](#) is on a fast track at the SEC.
- Cryptocurrency.
 - All Bitcoin ETF applications have been [denied by SEC](#) since 2013.
 - More than a dozen applications currently in the SEC approval queue.
 - SEC has delayed any decisions, asked for public input.

2022 midterms landscape

- Mid-term elections are terrible for the president's party.
 - President's party has **lost seats in the House in 17 of last 19 midterms.**
 - Average loss: 27 seats.
 - President's party has **lost seats in the Senate in 13 of last 19 midterms.**
 - Average loss: 3.5 seats
- Congressional reapportionment favors Republicans.
 - Gaining seats: Texas (2), Colorado, Florida, Montana, North Carolina, Oregon.
 - Losing seats: California, Illinois, Michigan, New York, Ohio, Pennsylvania, West Virginia.

2022 midterms landscape

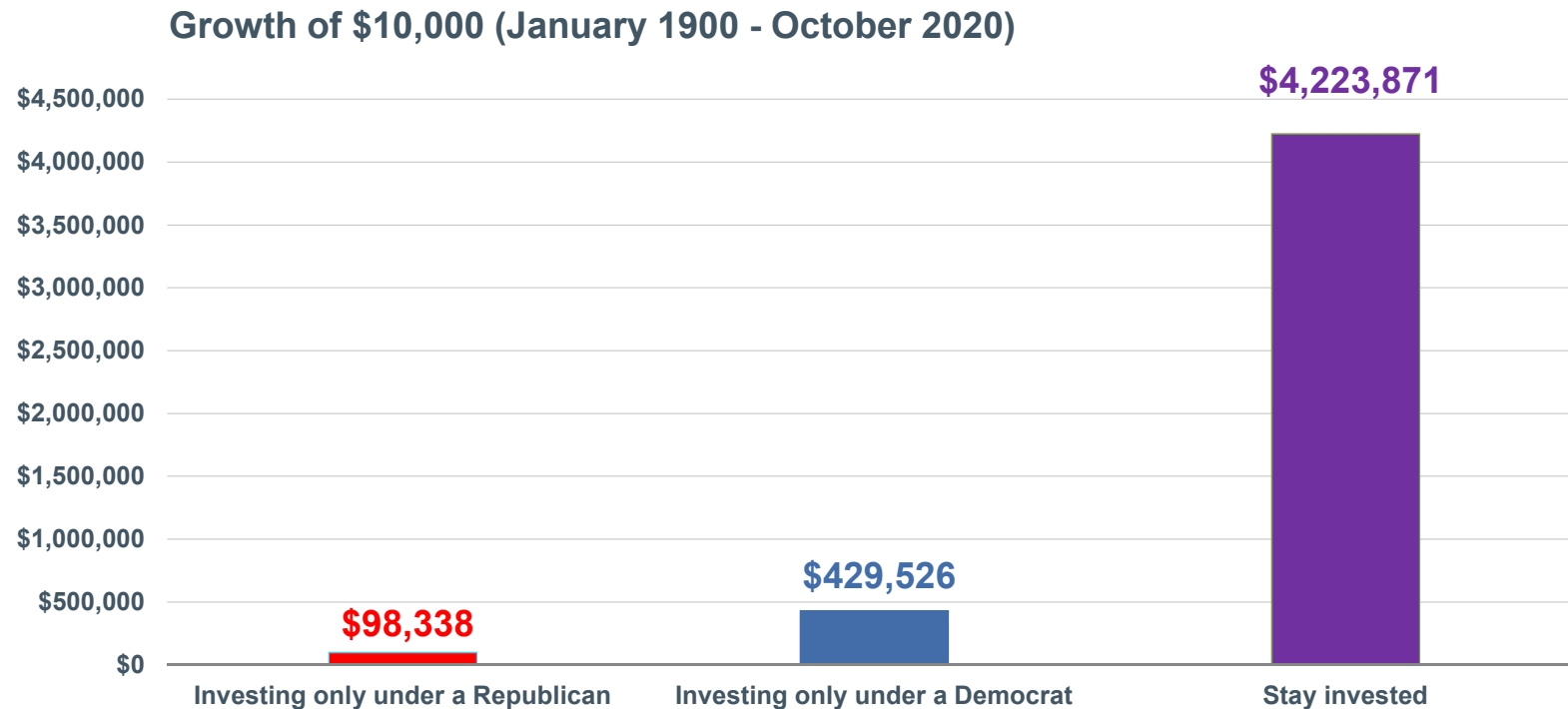
- Senate 2022: 20 Republican seats, 14 Democrat seats.
 - 5 Republicans [already retiring](#).
 - The six states with the closest presidential race in 2020 all have Senate seats on the ballot: AZ, GA, NV, NC, PA and WI.

Markets and Presidents

Dow Jones Industrial Average Performance (3/4/1901-11/4/2020)		
When US government has:	Annualized Gain	% of time
Democratic President, Republican Congress	9.1%	10.1%
Democratic President, Split Congress	10.4%	3.3%
Democratic President, Democratic Congress	7.2%	33.4%
Republican President, Republican Congress	7.3%	23.4%
Republican President, Split Congress	-2.8%	11.6%
Republican President, Democratic Congress	2.4%	18.4%

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Markets and Presidents



Source: Charles Schwab, Bloomberg, as of 10/9/2020. For illustrative purposes only. The above chart shows what a hypothetical portfolio value would be if a hypothetical investor invested \$10,000 in a portfolio that tracks the Dow Jones Industrial Average on 1/1/1900 under three different scenarios: a Republican presidential administration; a Democratic presidential administration; or staying invested in the market throughout the entire period noted. Chart does not reflect effects of fees, expenses or taxes. Past performance is no guarantee of future results. Indexes are unmanaged, do not incur management fees, costs and expenses, and cannot be invested in directly.

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Q&A

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