Dear Client:

To help your decisionmaking in 2021...
Here are 10 forecasts on major issues.

1) The Trump era will soon come to an end. The question is, how soon? When we went to press, there were calls to strip Trump of his duties over his role in the violent invasion of Capitol Hill. Regardless of whether these calls ultimately succeed... Donald Trump's grip on the GOP will persist for years to come. While many Republican lawmakers are eager to be rid of Trump, the president's sway with the party's rank and file remains significant. Expect Trump to use that influence for all it's worth, even if he won't or can't run for office again in 2024.

2) Democrats are poised to push key priorities after victories in both Ga. runoff Senate elections, giving them 50 seats in the 100-seat chamber. (Vice President-elect Kamala Harris can break any ties.) President-elect Joe Biden can pick the administration that he wants, with a clear path to secure nominations for cabinet positions, judges and other executive posts. Some smaller Dem efforts will succeed, though any major legislation still requires 60 votes because of the filibuster. Another pandemic relief bill is likely, including more stimulus checks. Voting rights measures that make it easier for citizens to vote will get an early look. Clean energy and climate change initiatives are also likely...but no Green New Deal. However, don't expect a tax hike on the rich in 2021. Biden’s campaign plan to hike taxes on individuals making over $400,000 will take a backseat to other issues.

3) Republican fiscal hawks are back. After staying quiet or being sidelined as spending soared, fiscal conservatives will make a loud return. The national debt has ballooned by one-third during the past four years, soaring to $27 trillion. Calls to lower Uncle Sam's debt will play a central role in GOP messaging. The current pushback from GOP leaders to $2,000 stimulus checks for COVID relief is an early example. Leading the charge: Senate Majority Leader Mitch McConnell (KY) and House Minority Leader Kevin McCarthy (CA). Calls for drastic spending reductions are on tap from Republicans, though such cuts will have little chance of becoming law.

4) Trade tensions with China will remain on roughly the same path. Scrutiny of China by Washington has become a bipartisan affair, and Biden is likely to continue with a “tough on China” policy. Top concerns include intellectual property theft, illegal government subsidies to corporations and forced technology transfers. The Biden administration will call on close allies to help pressure Beijing. U.S. tariffs on Chinese imports will stick around to keep the heat on, but note that the White House will be analyzing how duties hinder economic growth.

Washington, Jan. 8, 2021

Economic Forecasts

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<th>Economic Forecasts</th>
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<tbody>
<tr>
<td>GDP growth</td>
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<td>5.3% for entire year of ’21, from -3.5% in ’20; Q4 ’20: 4%</td>
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<td>Interest rates</td>
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<td>10-year T-note rates rising to 2% by end ’21; mortgage rates to 3.5%</td>
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<td>Inflation</td>
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<td>2.2% higher at end ’21, from 1.2% higher at end ’20</td>
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<td>Unemployment</td>
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<td>5.3% at end ’21, from 6.7% at end ’20</td>
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<td>Crude oil</td>
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<td>Trading near $50 per barrel this winter</td>
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<td>Corporate earnings</td>
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<td>Large firms, change from previous quarter: Q1 ’21 2%, Q2 7%, Q3 9%</td>
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Complete economic outlook at kiplinger.com/outlooks
5) **The cryptocurrency frenzy will keep going strong.** The price of a bitcoin saw a spectacular 300% rise in 2020, and recently hit an all-time high of $41,000. Expect the crypto momentum to continue, partially driven by institutional investors, with many seeking to capitalize on gains as ultralow interest rates continue.

Keep an eye on PayPal’s plan to let users tap cryptocurrency for payments, starting early this year. PayPal users can buy, sell and hold certain cryptocurrencies, and use their balances to pay the 26 million merchants using the payment processor. As more businesses and people use cryptocurrency, its utility and value will increase.

6) **Expect 2021 to be a big year for autonomous trucks.** On the short list of potential breakthroughs: Start-up TuSimple, in partnership with Navistar, plans to begin operating trucks with no human in the cab next year, with the goal of creating a nationwide autonomous freight network by 2023. Retail giant Walmart, meanwhile, is partnering with several self-driving companies and will make deliveries in Ark. with fully autonomous box trucks starting in 2021. Eventually, full autonomy could save the industry over $100 billion in the U.S. in overall operating costs. But note that job losses (roughly 3.5 million folks work as truck drivers in the U.S.), accidents and technical glitches could invite popular backlash and stall progress.

7) **Social media platforms will face even stronger scrutiny from Congress.** Many lawmakers are increasingly angry at how misinformation spreads on platforms. Expect investigations into how popular sites played a role in the Capitol Hill riot. While Democrats and Republicans fundamentally disagree on social media regs, the swell of opposition to Big Tech’s power is making bipartisan regs more likely.

Meanwhile, Facebook’s antitrust battles will invigorate its competition. The legal pressure on Facebook...with lawsuits that could play out for years...will give breathing room to other social media firms to experiment and gain ground.

8) **A shake-up in the smartphone market is coming.** Geopolitical battles with China are revving up, causing Huawei to hunker down, as U.S. export controls threaten its phone business. Other vendors figure to gain global market share, including some thought to be past their heydays, such as Motorola, LG and Sony. Note, too, that geopolitical battles are sure to come to a head over the development of important 5G technical standards. China’s input has heavily shaped standards up to this point, but with Chinese telecom bans in many nations, expect more tension.

Sub-$200 5G models will hit the market, helping spread 5G cellular tech to far more users. Faster speeds will boost cellular providers and mobile app creators.

9) **GDP growth should top 5% in 2021,** as Democratic control of the Senate will likely lead to another fiscal stimulus package this year, including help for states. The deficit will continue to rise, which is likely to boost long-term interest rates more. Look for 10-year Treasury yields to end the year close to 2%. Mortgage rates will pick up to 3.5%, from 2.7% currently. An upward drift in mortgage rates could incite some panic buying, pushing up home prices more. Consumer loan rates and home equity line-of-credit rates will stay low and little changed, since they are influenced by the short-term federal funds rate, which the Federal Reserve will continue to set at close to zero. Rates on longer-term auto loans will likely tick up.

10) **The jobless rate may get stuck at times, but the overall trend is down.** There are still 5.5 million former workers who are counted as having dropped out of the labor force since Feb. As the pandemic subsides, many of those folks will likely be looking for work. If they do, it could cause the unemployment rate to drop more slowly, since they’ll then be counted as officially unemployed. But more people looking for work shows optimism for finding a gig, a good thing. By the end of 2021, figure on the unemployment rate falling to 5.3%.

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The bad news: Dec.’s jobs report showed the renewed impact of the pandemic. Employment declined by 140,000 because many workers in food service, hospitality and other industries were temporarily laid off as COVID cases surged.

The good news: The number of jobs increased in many economic sectors, including retail, health care, business services, construction and manufacturing. Plus, there were fewer permanent job losses, helping to offset temporary layoffs.

Expect the recovery in the manufacturing sector to continue in 2021. But the outlook varies considerably by industry and company size. On the one hand, 56% of medical device manufacturers plan to add capacity in 2021, the most of any industry. By contrast, only 36% in the aerospace industry will do so. Large manufacturers, meanwhile, are more likely to expand operations than small ones. Overall, only 43% of manufacturers will add new capacity this year, down from 60% in 2020 and the lowest overall percentage since 2017.

U.S. assembly plants will spend $4.7 billion on new equipment this year. Likely beneficiaries include makers of industrial robots and 3D printers. They are anticipating strong demand as some manufacturers modernize their operations. For example, 37% of U.S. assembly plants plan to invest in 3D printers, a record high.

States expect their general-fund spending to decline 1.1% this fiscal year, the first decrease since the Great Recession. Revenue will likely drop 4.4%, after a reduction of 1.6% last year, as states collect less in sales and income taxes. Education stands to suffer the most, given that it’s the largest budget item. For all state and local governments, there are 1 million fewer education jobs than in Feb. 2020, whereas all other state and local employment is down by 332,000. Expect aid to state and local governments to be a hotly debated issue in the new Congress, especially now that Democrats will control the Senate.

Among the provisions in Congress’s recent $1.4 trillion spending package: Tens of billions of dollars for energy innovation, including $35 billion over five years for research and development on solar, wind, nuclear, geothermal, marine energy, energy storage and efficiency, grid modernization and carbon capture. The bill also extends federal tax credits for solar and wind projects, while allowing for developers to convert tax credits into direct payments from the federal government.

And a solution to surprise medical billing for patients who receive health care from providers outside their insurance network, forcing them to pay the balance between what a provider charges and what an insurer is willing to cover. Around 18% of ER visits and 16% of inpatient hospital admissions result in a surprise bill. Patients will no longer be charged more for out-of-network emergency care than they would at an in-network provider. For medical bills that are $750 or less, the legislation sets a benchmark price based on in-network charges in the region. For bills above that amount, third-party arbitration will help determine the rate at which doctors and hospitals are reimbursed...a win for health care providers.

Who will be the most influential lawmakers on Capitol Hill this year? One will be Sen. Joe Manchin (D-WV), the most conservative Democrat in the Senate. Given his party’s slim margin of control in the chamber, Manchin will play a key role in shaping the Democrats’ agenda. Expect him to block many proposals favored by more progressive Democrats, such as legislation that expands the Supreme Court or grants statehood to Washington, D.C.

Another: Sen. Chris Coons (D-DE), a key ally of President-elect Joe Biden and one of the few bipartisan dealmakers left in Washington. Expect Biden to rely on Coons to broker tough legislative compromises with Republicans, when necessary.
Expect 2021 to be another strong year for new drug approvals by the FDA... Food and Drug Admin. The agency is set to review at least 50 drug candidates in the first six months of 2021 alone. For perspective, the FDA OK’d 53 new drugs in 2020, only a few shy of 2018’s record-setting number of drug approvals, 59. Beyond COVID-19, key areas of focus include oncology, or cancer treatments, also a big driver of pharmaceutical industry profits. Six of the 10 largest generators of new sales in 2021 will be cancer drugs, as will four of the 10 best-selling drugs.

But the pandemic will still present obstacles to the regulatory process, such as delaying on-site inspections of manufacturing facilities and other key steps. Plus, the agency may pass on some blockbuster drug candidates...namely, aducanumab, Biogen’s controversial Alzheimer’s treatment. The FDA must decide by March 7 whether to approve the drug, which is highly anticipated due to the dearth of treatments for Alzheimer’s. But aducanumab took a drubbing from a panel of FDA science advisers late last year, making its prospects for approval uncertain.

The Paycheck Protection Program is about to return, with a few tweaks. The year-end stimulus bill included nearly $300 billion in forgivable loans via the PPP, which extends loans to businesses that use the money to retain workers. The latest round of loans, which convert to cash grants if the recipients use the money to meet certain employee retention benchmarks, will be available through March 31. Certain borrowers who received money during the first round of PPP are still eligible, if they have fewer than 300 workers and can show a 25% or greater drop in receipts in any quarter of 2020, compared with the same quarter of 2019. Loan amounts vary, depending on the borrower’s payroll costs and industry, but can’t exceed $2 million. First-time borrowers will be subject to the original program’s eligibility requirements.

The damage from the recent SolarWinds hack will reverberate for years. Malicious software has been planted widely in web-connected databases at government agencies and Fortune 500 companies. Among the big problems: For years down the road, future hacks could stem from the malware recently inserted. Up to 18,000 organizations and government agencies are suspected to be affected after hackers breached SolarWinds, which provides networking tools to companies and federal agencies. The hackers potentially had access to everything for months. There’s no evidence yet that government top-secret databases were infiltrated. But there’s still enormous damage that can be done without top-secret info.

The staff of the Letter has seen many tumultuous events over the decades in which we and our predecessors have covered events in Washington, D.C... World War I veterans’ march on Washington in 1932, which was put down by the Army. Civil rights marches and speeches in the 1960s. Riots after Martin Luther King’s killing. Terror attacks, both domestic and foreign. The attempt on President Reagan’s life. But the chaos at the Capitol this week was a shocking new experience for us. Our congressional reporter was on the scene when protestors broke into the building to interrupt Congress as it was in the process of certifying the Electoral College votes. It was as ugly as it looked on television...windows smashed, clouds of tear gas, shots fired, a rioter and a police officer killed, Capitol Hill police totally outnumbered. The vice president, presiding over the Senate vote, whisked away by security personnel. Here’s hoping we never see its like again. This cannot become the new normal.

Yours very truly,

[Signature]

Jan. 8, 2021

THE KIPLINGER WASHINGTON EDITORS