
Consumer and Investment Management Division

The US Coronavirus Aid, Relief, and Economic Security Act & the Economic and Investment Implications (Seventh in a Series)

March 31, 2020

Investment Strategy Group

Overview of Today's Call

- The US Coronavirus Aid, Relief, and Economic Security (CARES) Act
- Impact of the CARES Act on the US Economic Growth Outlook
- Speakers:
 - **Alec Phillips**, US Political Economist, Goldman Sachs Global Investment Research
 - **Jan Hatzius**, Chief Economist, Goldman Sachs Global Investment Research
 - **William G. Gale**, Arjay and Frances Miller Chair in Federal Economic Policy and senior fellow, Brookings Institution; Co-Director, Urban-Brookings Tax Policy Center

Congress Passed the Third Phase of Its COVID-19 Crisis Relief Response Last Week

Phase 1

Coronavirus Preparedness and Response Supplemental Appropriations Act

- Became law: 6 March 2020
- Estimated cost: \$8.3bn
- Focus: Primarily increased funding for the Department of Health and Human Services to respond to the outbreak

Phase 2

Families First Coronavirus Response Act

- Became law: 18 March 2020
- Estimated cost: \$105bn
- Focus: Paid sick leave, unemployment insurance, free testing

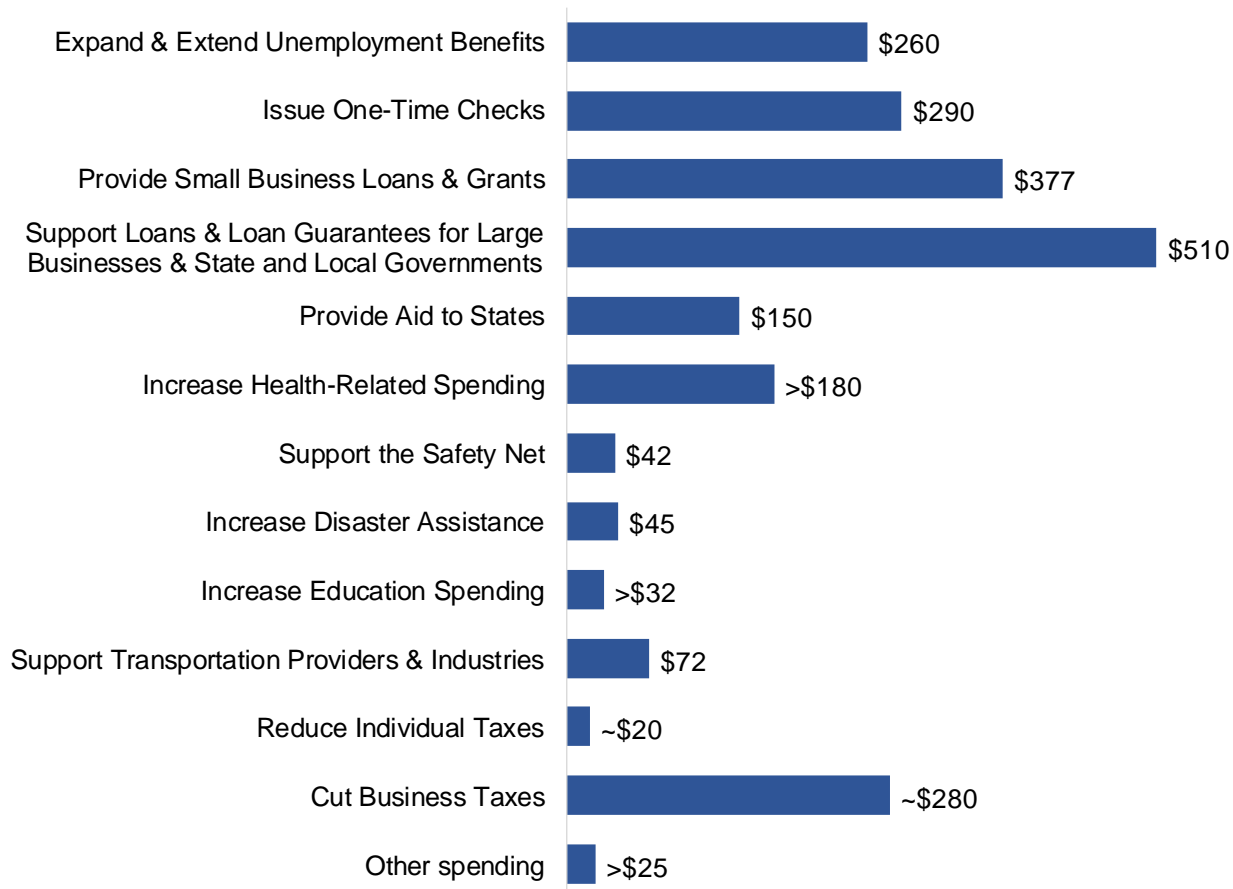
Phase 3

Coronavirus Aid, Relief, and Economic Security Act

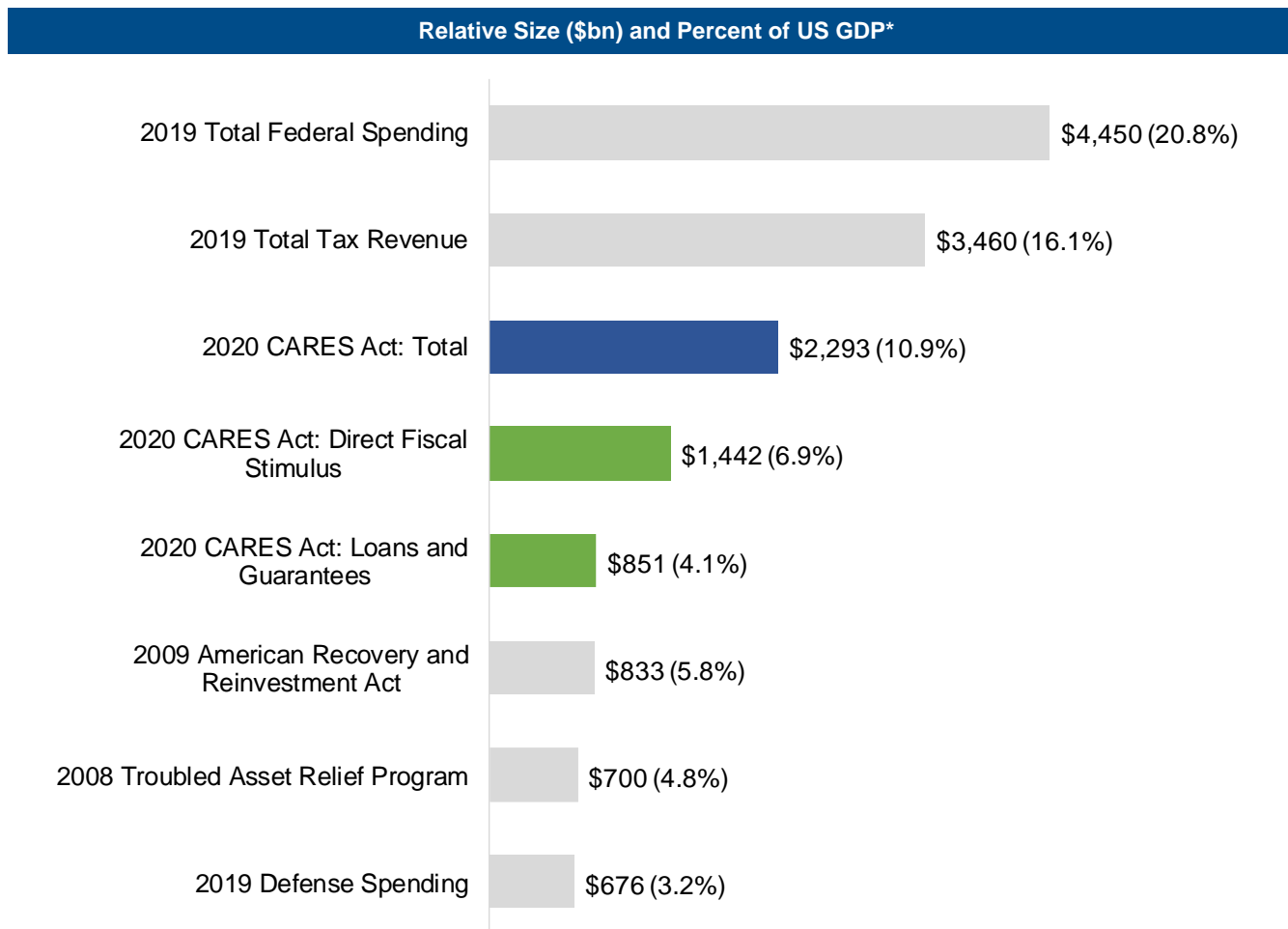
- Became law: 27 March 2020
- Estimated cost: \$2.3tn
- Focus: (Please see next page)

The \$2.3 Trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act

Overview of the Coronavirus Aid, Relief, and Economic Security Act (\$bn)



Context for the Size of the 2020 CARES Act

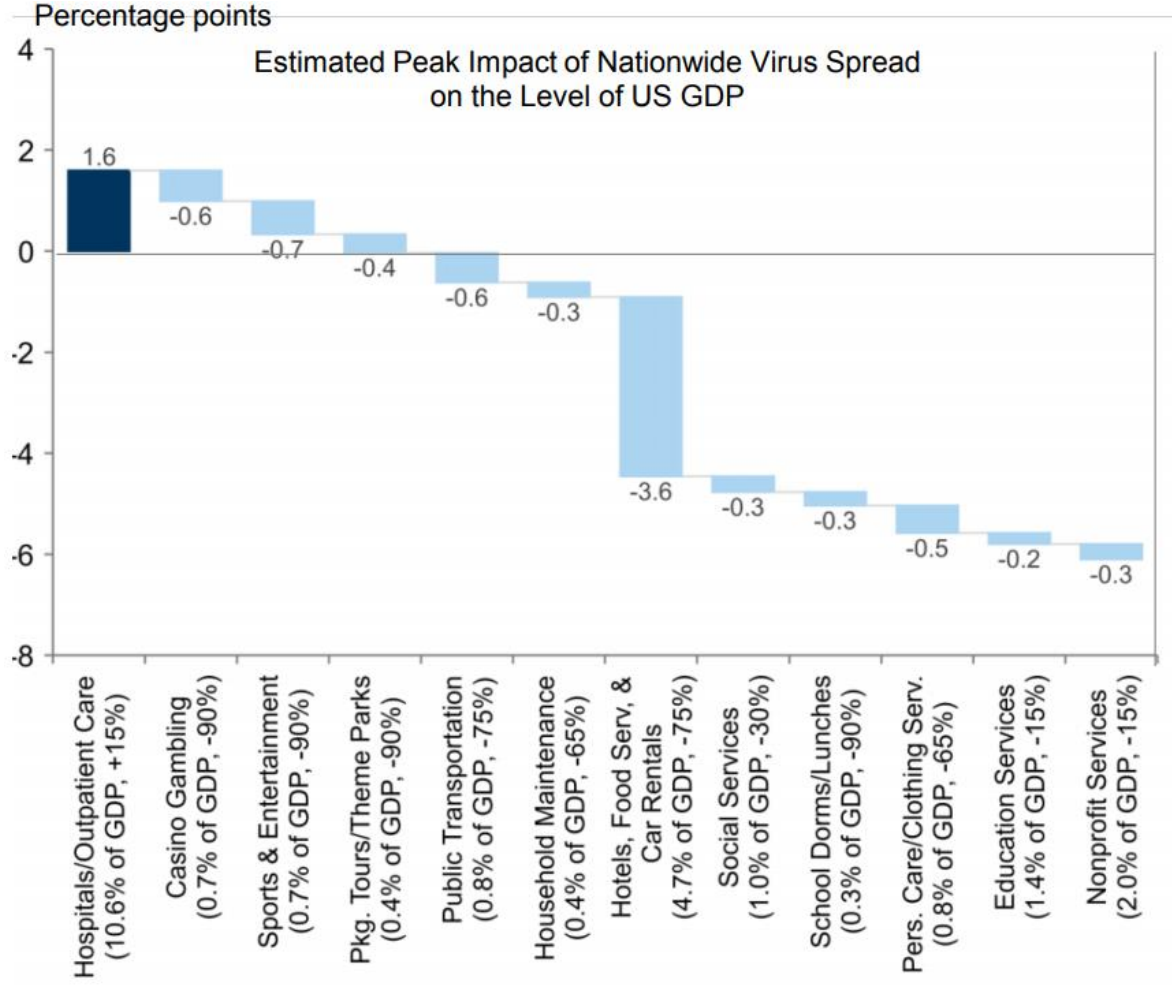


*Nominal GDP: \$20,0945.3bn (2020 estimated), \$21,427.1bn (2019), \$14,448.9bn (2009), \$14,712.8 (2008)

Source: Investment Strategy Group; Committee for a Responsible Federal Budget; CBO, *Washington Post*, IMF, Goldman Sachs Global Investment Research.

Large Declines in Many Categories of US Services Consumption Ahead

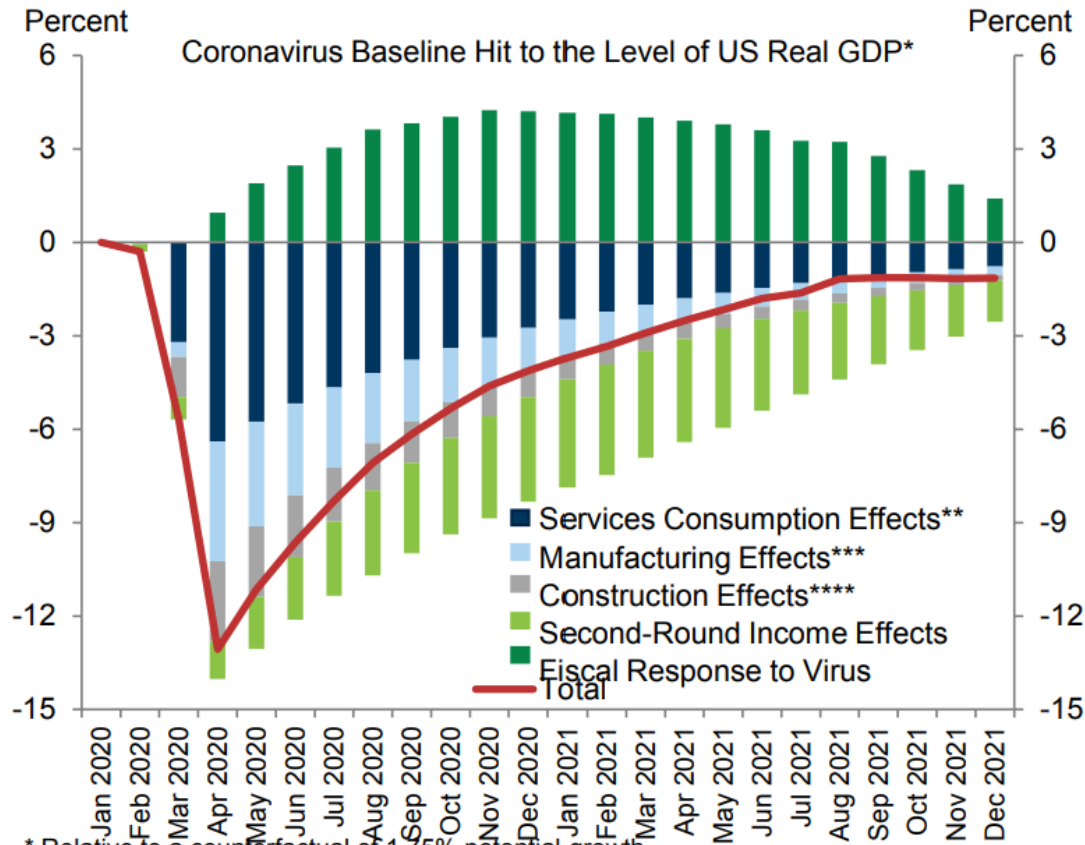
GIR: Estimated Peak Impact of Nationwide Virus Spread on Level of US GDP



Source: US Economics Group, "The Sudden Stop: A Deeper Trough, A Bigger Rebound," Goldman Sachs Global Investment Research, March 31, 2020.

GIR Expects a Roughly 13% Peak Hit to the Level of GDP in April That Fades Gradually

GIR: Baseline Hit to Level of US Real GDP from Coronavirus



* Relative to a counterfactual of 1.75% potential growth.

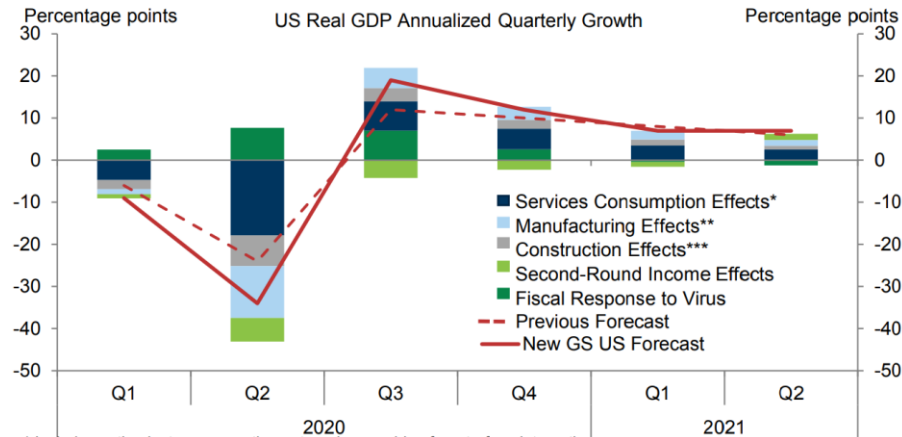
** Includes cutbacks to consumption categories requiring face-to-face interaction. We also include the cutbacks to IPP here as well.

*** Includes reduced domestic and foreign demand for goods, supply chain disruptions, and plant shutdowns.

**** Includes cutbacks to structures investment, homebuilding, and home sales.

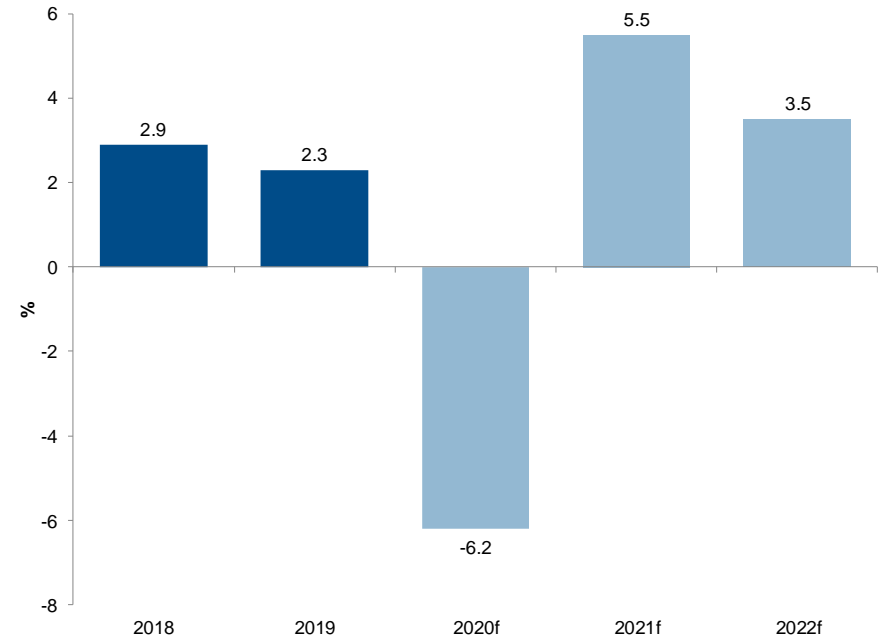
US Will Experience a Big Drop in GDP in Q2

1. GIR: US Real GDP Annualized Quarterly Growth Forecast



* Includes cutbacks to consumption categories requiring face-to-face interaction
 ** Includes reduced domestic and foreign demand for goods, supply chain disruptions, and plant shutdowns.
 *** Includes cutbacks to structures investment, homebuilding, and home sales.

2. GIR: US Real GDP Annual Growth Forecast

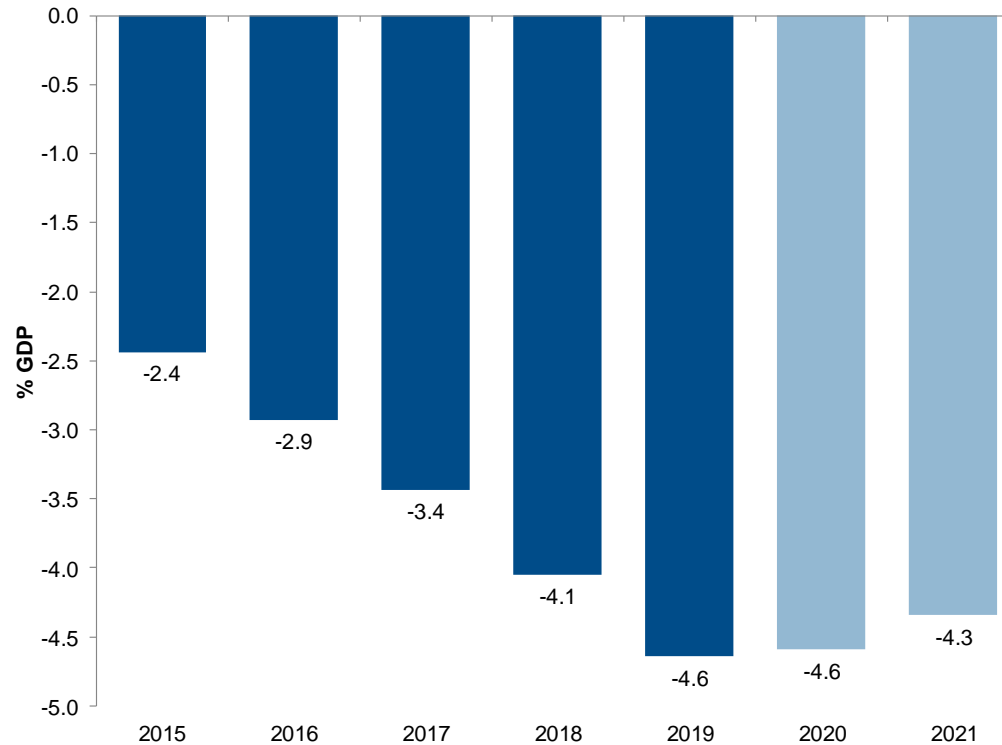


Source: US Economics Group, "The Sudden Stop: A Deeper Trough, A Bigger Rebound," Goldman Sachs Global Investment Research, March 31, 2020.

Note: Forecasts and any numbers shown are for informational purposes only and are estimates. There can be no assurances the forecasts will be achieved and they are subject to change. Please see additional disclosures at the end of this presentation.

The US Budget Deficit Was Already Set to Breach \$1 Trillion This Year

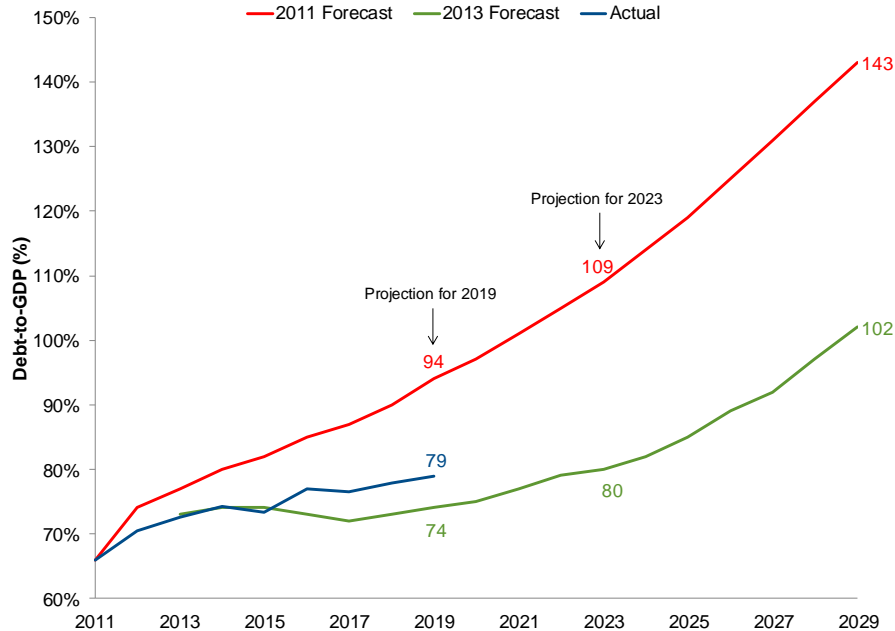
US Budget Deficit as Percent of GDP: Realized + CBO Forecasts Through 2021



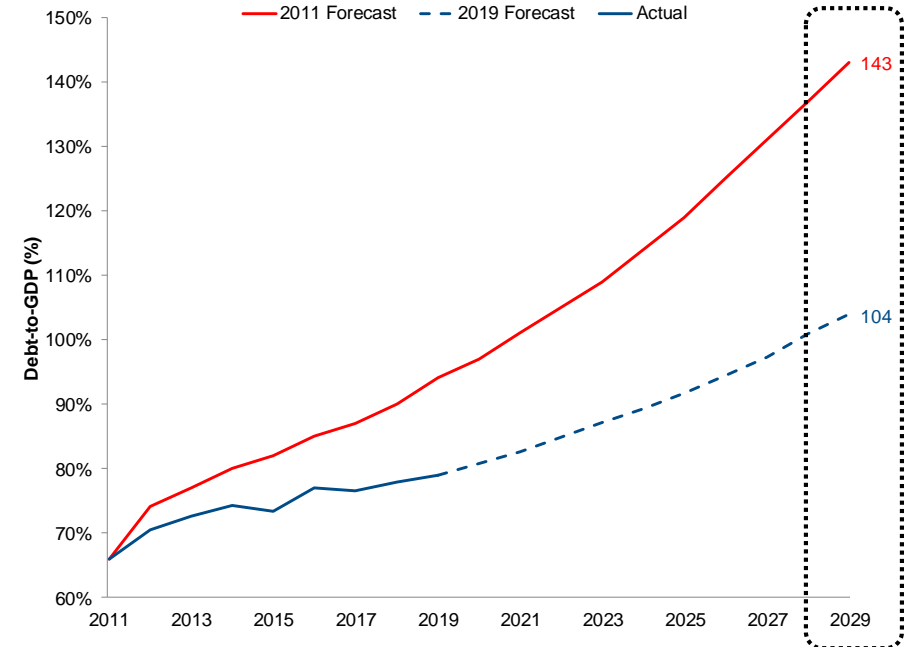
- In its January 2020 budget and economic outlook the Congressional Budget Office forecasted budget deficits of \$1.0 trillion in 2020 and \$1.3 trillion in 2021, representing 4.6% and 4.3% of GDP, respectively.

What Will Be the Long-Term Impact on the US Fiscal Position?

1. US Federal Government Debt-to-GDP Forecasts



2. US Federal Government Debt-to-GDP Forecasts



- The key driver of the downward shift in the debt trajectory earlier in the decade was President Barack Obama's Budget Control Act (BCA) of 2011 and American Taxpayer Relief Act (ATRA) of 2012.
- President Donald Trump's Tax Cuts and Jobs Act (TCJA) of 2017 and the Bipartisan Budget Acts of 2018 and 2019 have added about \$4.7 trillion of debt.
- The current level of debt-to-GDP is not a short- or intermediate-term concern that could create a financial crisis, given the preeminence of the US.
- The US attracts the largest amount of capital flows globally.

Key Takeaways

- The CARES Act is unprecedented in both its size and the speed with which it was passed by Congress.
- Expenditures from the bill will be front-loaded in 2020.
- GIR considers the bill to be “well-targeted” and directed to “affected businesses, workers, municipal governments, and the healthcare sector.”
- According to GIR, although the measures in the bill are unlikely to change the short-term outlook for growth, they should reduce the medium-term impact to affected businesses and the labor market, allowing for a faster recovery once the mitigation measures are eased.
- The logistics of how to efficiently fund the fiscal stimulus will be complicated.
- While this stimulus is very large and will result in significant deficits, ISG does not believe that the CARES Act will jeopardize the safe haven and reserve currency status of US assets.

Consumer and Investment Management Division

Small Business Loans and Payroll Subsidies

GIR: 2020 CARES Act Content Summary

| Small Business Loans & Payroll Subsidies | | |
|--|---|---|
| \$377bn (1.8% of GDP) | | |
| Eligibility | Program | Terms & Process |
| <ul style="list-style-type: none"> - Small businesses < 500 employees (< 500 per physical location for accomm. and food services sector) - Sole proprietors, contractors, self-employed individuals - Businesses operational, with employees on payroll, on Feb. 15 | <ul style="list-style-type: none"> - Small business obtains loan for 2.5x monthly payroll, up to \$10 million - Loan forgiven when used for employee pay, rent or mortgage interest, and utility payments | <ul style="list-style-type: none"> - Business eligible if operational and having employees on Feb 15 (repayment ability not considered) - Amount forgiven prorated to account for layoffs and pay decreases - Government guarantee at 100% rate (vs. 75% for traditional SBA loans) - Banks earn fee up to 5% for originating loan - Payments deferred up to 1 year - Banks hold loans on balance sheet with zero risk rating |

Payments to Individuals and Expanded Unemployment Insurance

GIR: 2020 CARES Act Content Summary

| Payments to Individuals | | |
|---|--|---|
| \$269bn (1.3% of GDP) | | |
| Eligibility | Program | Terms & Process |
| <ul style="list-style-type: none"> - Taxpayers with incomes up to \$99,000 (or \$198,000 joint) based on 2019 tax return (2018 if not available) | <ul style="list-style-type: none"> - Tax rebate of \$1,200 (or \$2,400 for a joint tax return) - Additional \$500 rebate per child | <ul style="list-style-type: none"> - Rebate phases out gradually for incomes greater than \$75,000 (\$150,000 joint) - Rebates sent "as rapidly as possible" targeted for early April |

| Increased Unemployment Insurance | | |
|---|---|--|
| \$250bn (1.2% of GDP) | | |
| Eligibility | Program | Terms & Process |
| <ul style="list-style-type: none"> - Individuals qualifying for standard unemployment compensation - Individuals not previously qualifying for unemployment compensation, such as contractors and the self-employed | <ul style="list-style-type: none"> - Provides standard unemployment compensation (roughly 50%) for 39 weeks, vs standard 26 weeks - Additional \$600 pay per week through July 31 (4 months), even if unemployment compensation exceeds previous wage level | <ul style="list-style-type: none"> - Pay is immediate, vs. standard one-week waiting period |

GIR: 2020 CARES Act Content Summary

| Relief for Specific Distressed Sectors | | |
|--|---|--|
| \$46bn (0.2% of GDP) | | |
| Eligibility | Program | Terms & Process |
| - Airlines, air cargo, and national security/aerospace sectors | <ul style="list-style-type: none"> - Direct lending: airlines (\$25bn), air cargo (\$4bn), and national security/aerospace (\$17bn) - Grants to pay wages, salaries and benefits: airlines (\$25bn), air cargo (\$4bn), airline contractors (\$3bn) | <ul style="list-style-type: none"> - Alternative financing not available - Short loan duration, < 5 years - Stock buybacks and dividend payments prohibited until 1 year after date of loan repayment - Exec comp restrictions - Must retain 90% of employment level as of March 24 - Majority of employees must be based in US |

Tax Policy Changes / ESF & Federal Reserve Corporate and Municipal Credit Facility

| GIR: 2020 CARES Act Content Summary | | |
|--|--|---|
| Tax Deferral and Tax Cuts | | |
| \$668bn (3.2% of GDP) in 2020; \$286bn (1.4% of GDP) over 10 yrs | | |
| Policy | Description | Amount |
| NOL carryback | Carry back losses 5 years to offset profits from prior years | \$89bn (0.4% of GDP) |
| Modify pass-through loss limitation | Eases the limitation on pass-through loss, so they can use excess losses to generate refunds | \$140bn (0.7% of GDP) |
| Employee retention credit | Payroll tax credit equal to 50% of wages paid by employers through Dec. 31, 2020, whose businesses were shut down or revenues declined by 50% vs. the same quarter the prior year. | \$55bn (0.3% of GDP) |
| Payroll tax delay | Delays payment of 2020 payroll taxes, with half due by 12/31/2021 and half due 12/31/2022 | \$350bn (1.7% of GDP) benefit in 2020, repaid in 2021/2022 |
| Interest deductibility | Increase deductibility of interest from 30% to 50% of EBITDA for 2020 | \$13bn (0.06% of GDP) |
| ESF & Federal Reserve Corporate and Municipal Credit Facility | | |
| \$454bn (2.2% of GDP) | | |
| Eligibility | Program | Terms & Process |
| <ul style="list-style-type: none"> - Corporate sector - State / municipal sector | <ul style="list-style-type: none"> - Lend directly or purchase debt from issuer - Purchase debt in the secondary market - Treasury endeavors to implement 13(3) facility targeted at nonprofits and businesses between 500-10k employees. | <ul style="list-style-type: none"> - Requires loan collateralization, taxpayer protection, borrower solvency - Buybacks, dividends, executive compensation restricted for the life of the loan and one year following; - Treasury may waive these requirements if necessary - Congressional oversight |

Federal Spending & Aid to States

GIR: 2020 CARES Act Content Summary

| Federal Spending & Aid to States | | | |
|----------------------------------|---|---------------|----------|
| \$490bn (2.3% of GDP) | | | |
| Expenditure | Description | Amount (\$bn) | % of GDP |
| Aid to States | To offset declining revenues; Allocated by population with minimum \$1.25bn | \$150bn | 0.7 |
| Hospitals & medical | Reimbursement to providers and other health expenses | \$130bn | 0.6 |
| FEMA | For disaster relief fund to aid states and localities and other operations | \$45bn | 0.2 |
| Transportation | Grants to transportation systems and airports | \$35bn | 0.2 |

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Important Information

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| Period | Gross Return | Net Return | Differential |
|----------|--------------|------------|--------------|
| 1 year | 6.17% | 4.61% | 1.56% |
| 2 years | 12.72% | 9.43% | 3.29% |
| 10 years | 81.94% | 56.89% | 25.05% |

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