Perspectives

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Trump Bypasses Congress with Coronavirus Relief Executive Actions

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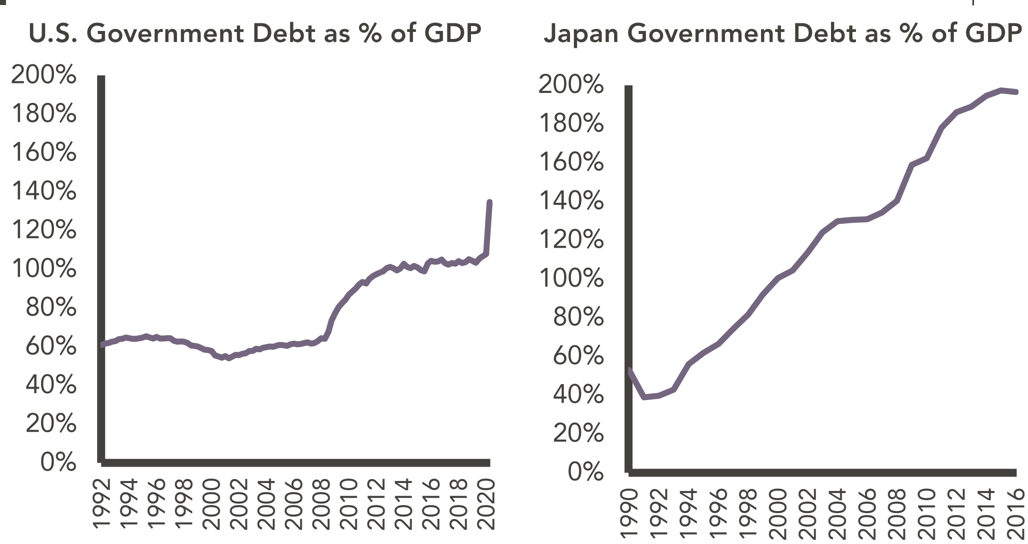
This past Saturday, August 8th, President Trump issued several executive actions that serve as an emergency COVID-19 aid package. The package includes three memoranda that provide assistance for the jobless, a payroll tax deferral, and an extension of the student loan payment moratorium, and an executive order that provides rental and mortgage assistance to mitigate evictions and foreclosures. The executive actions came about because of a stalled Congress as negotiations over the last two weeks fell apart last Friday, August 7th, between the Senate Republicans with their $1 trillion proposal and the House Democrats with their $3.5 trillion proposal.

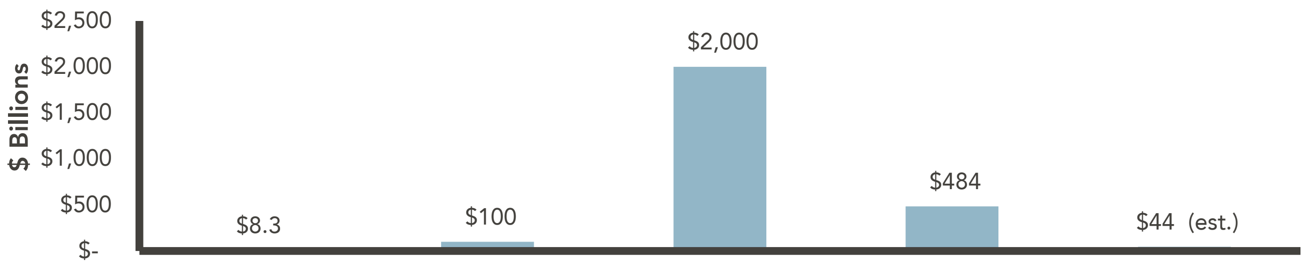
Exhibit 1: Government Debt – Still More Room for the U.S. Relative to Japan



Note: 2Q20 estimated by accounting for actual 2Q20 GDP and projecting 1Q20 federal debt for 2Q20 assuming the nearly $3 trillion fiscal measures put forth to date, including Trump's August 8th, 2020 executive orders.
Sources: For U.S., Federal Reserve, actual 1Q20 federal debt, estimated for 2Q20, and actual 2Q20 GDP. For Japan, World Bank, as of 2016, latest available as of July 31, 2020.

The federal government will provide this stimulus the same way it has provided previous stimulus relief packages, by issuing debt. Based on Exhibit 1, when compared to other developed countries (using Japan as an example), it appears the U.S. still has capacity to take on more government debt to provide these relief packages. With the November presidential election fast approaching, this executive action serves a strategic re-election move for the Trump administration. This aid package is effectively Phase V of federal stimulus, following the CARES Act as Phase III that was signed on March 27th and Phase IV that was signed on April 24th. Below we assess the economic and financial impact of this latest phase.

Exhibit 2: The Five Phases of Federal Stimulus to Date



Phase I	Phase II	Phase III (CARES Act)	Phase IV	Phase V (Executive Actions)
▪ Reimburse state and local governments ▪ Accelerate vaccine research ▪ Stockpile medical supplies ▪ Prepare and fight virus	▪ Food assistance for children and seniors ▪ Funding for COVID-19 testing ▪ Paid sick leave for employees ▪ Tax credits for emergency leave for small and medium businesses	▪ Checks to households ▪ Unemployment insurance expansion ▪ Federal Reserve backstop facilities ▪ Support for small businesses and airlines ▪ Funding for state/ local govts. and hospitals ▪ Tax relief	▪ Loans and grants to small businesses ▪ Aid for health care providers ▪ Ramp up of tests	▪ Assistance for the jobless ▪ Payroll tax deferral ▪ Rental and mortgage assistance ▪ Extension of student loan moratorium

Source: Marquette Associates Research.

ASSISTANCE FOR THE JOBLESS

Under previous Congressional relief packages, the federal government provided supplemental payments of $600 a week that expired on July 31st. With the deadlocked talks in Congress, President Trump determined that the jobless benefits will continue at $400 per week. 75% of that, or $300 per week, will be funded by the federal government via the primary source of emergency relief — the Disaster Relief Fund — and 25% of that, or $100 per week, will be funded by states. Trump noted the reduction from $600 to $400 by saying that he wants to give jobless individuals "an incentive to go back to work."

These reinstated weekly jobless benefits will continue until roughly one month after the November 3rd election — December 6th — or if and when the Disaster Relief Fund's balance falls under $25 billion. The Disaster Relief Fund currently holds a balance of $70 billion, and $44 billion from this will be set aside to pay these jobless benefits. Trump requested that states tap into funds made available to them from previous Congressional aid packages to provide the remaining 25% balance. It is uncertain whether states can meet that 25% request, as many are facing tax revenue shortfalls due to the pandemic's fallout and have had to ask Congress for financial aid to avoid essential services cuts and to keep their first responders employed.

PAYROLL TAX DEFERRAL

In order to further boost take-home pay, Trump also asked the Treasury Department to postpone the Social Security wage tax of 6.2% for individuals earning an annual income under $104,000. These taxes would in theory no longer be withheld by employers between September 1st and December 31st, which will ultimately boost disposable income for U.S. consumers. These deferred Social Security taxes will eventually need to be repaid in 2021, but Trump has emphasized that he plans to request that this postponement be converted into a full-on tax cut by Congress.

The Secretary of the Treasury is provided authority to postpone the filing and collection of certain taxes due to disasters declared by the president. However, there is a high amount of uncertainty whether most employers will in fact halt the withholding of these payroll taxes knowing that they will lead to an eventual liability in 2021.

EXTENSION OF STUDENT LOAN PAYMENT MORATORIUM

Trump's executive memorandum also extends the CARES Act's six-month student loan payment moratorium, which was to expire on September 30th, and at zero interest. The new extended expiration date will be December 31st. This moratorium applies only to federal government loans, however, which corresponds to approximately 35 million student loan borrowers.

While Trump's administration does not technically have the legal authority to extend this provision from the CARES Act, no objections are expected and the order will be implemented, as Trump's administration is currently searching for an approach to at least halt payments for most student loan borrowers under existing laws. However, it is still inconclusive whether Trump has the ability to temporarily interrupt the interest payments.

This moratorium does not apply to student loans held by private lenders that include a government guarantee; the total number is approximately eight million student loan borrowers. Trump does not have the authority to assist borrowers with loans owned by private lenders, whether with or without a government guarantee. Only Congress could authorize such assistance because it would necessitate the federal government to disburse funds to these private lenders in order to reimburse them.

RENTAL AND MORTGAGE ASSISTANCE TO MITIGATE EVICTIONS AND FORECLOSURES

The CARES Act authorized an eviction moratorium, which was of great benefit to renters struggling with the crisis, but that moratorium expired on July 24th. Trump's executive order did not reauthorize the eviction moratorium, but it does direct the Department of Housing and Urban Development and the Treasury to earmark funds to temporarily assist both renters and homeowners. These funds will help renters and homeowners for the duration of the pandemic to make their monthly rent and mortgage payments. On August 7th, the National Low Income Housing Coalition estimated that 30–40 million of the 110 million renters in America are at risk of eviction.

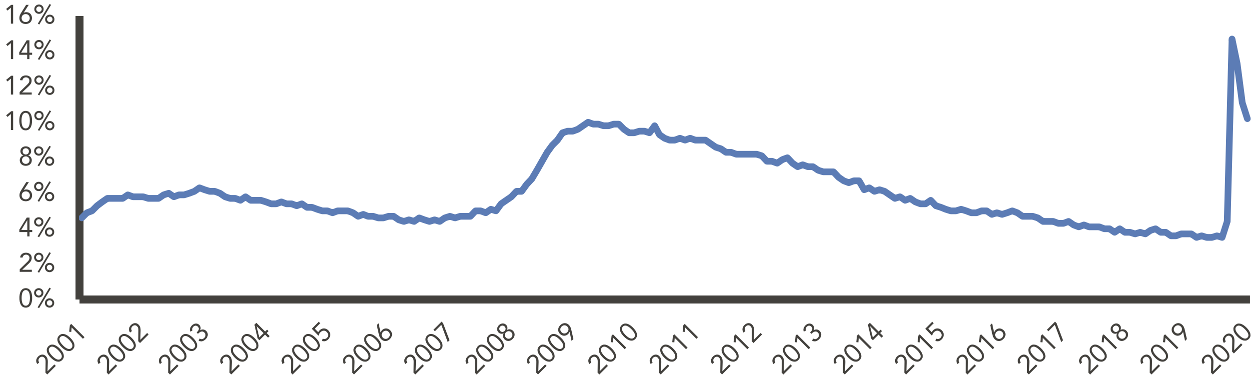
The CARES Act's moratorium is estimated to cover just one-third of renters as it applied only to government-backed mortgages and their underlying properties. The preferred approach to avoid a flux of evictions and the resulting domino effect of landlords' mortgage defaults and foreclosures would be a broad-based countrywide moratorium on evictions along with rental assistance funding, according to housing experts.

Freddie Mac and Fannie Mae, the government-sponsored mortgage corporations that back pools of mortgages, are overseen by the independent Federal Housing Finance Agency, so they do not fall under the purview of Trump's executive orders, but Congress may eventually direct Freddie Mac and Fannie Mae to provide forbearances to those landlords whose tenants are unable to make rent payments.

ECONOMIC AND FINANCIAL ANALYSIS

These pandemic relief executive actions come at a time when the economy is levelling off from its recovery. Unemployment[1] went from a low of 3.5% in February, peaked at 14.7% in April, and retreated to 10.2% during July.

Exhibit 3: U.S. Unemployment Rate – Better but Still Worse than the Housing Crisis

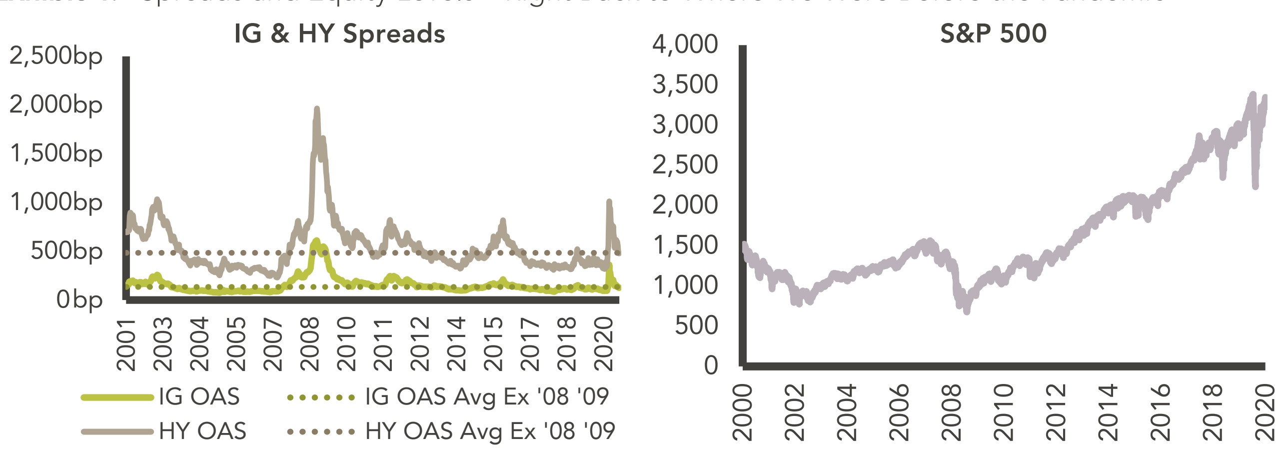


Source: Bureau of Labor Statistics, U-3 unemployment rate, as of July 31, 2020.

Job growth for small businesses, credit card spending, and restaurant spending are all decelerating from an initial surge in May and June. However, housing and motor vehicle sales are still strong. Given that the economy is still a long way off from its pre-pandemic state, the Federal Reserve is committed to keeping rates at zero and providing capital market backstops. We expect Congress and the Trump administration to debate and pursue further methods of fiscal stimulus to complement the Fed's monetary stimulus. Not included in Trump's executive orders are much-needed assistance to schools, states, counties, cities, farmers, and airlines, all of which are still being debated on Capitol Hill.

How much stimulus runway do we have? Our government debt is now 140% of GDP as shown in Exhibit 1. Although that is as high as it has ever been, it is still lower than Japan's roughly 200% debt-to-GDP. 140% is approximately the level Japan reached in 2009 as it came out of the Global Financial Crisis. We expect that the U.S. government can issue more debt because (**1**) rates are so low any incremental debt would not amount to much more additional interest expense and (**2**) the world will continue to depend on Treasury bonds as safe havens and demand should remain high. Therefore, the federal government should have further capacity to provide further large-scale fiscal and monetary stimulus measures.

Exhibit 4: Spreads and Equity Levels – Right Back to Where We Were Before the Pandemic



Source: Bloomberg as of August 7, 2020.

CONCLUSION

Trump's executive order, while helpful, may still not be enough to support our economy's recovery and we expect Congress to continue its debate on yet another relief package that will provide even greater assistance. The jobless benefits, payroll tax deferral, renter and homeowner financial aid, and student loan payment moratorium will serve to soften the blow for a number of Americans over the next several months. However, much-needed aid is still missing for schools, states, counties, cities, farmers, and airlines — as well as U.S. consumers.

With further aid expected from both the Federal Reserve and the federal government — whether it be Congress or the executive branch — one thing is for sure and that is that additional aid through the issuance of Treasury bonds could be supported by both the U.S. government's balance sheet and the markets. We can be assured of a long runway. And it is because of this long runway along with vaccine progress and optimism around its development that both the fixed income and equity markets have already been pricing in a recovery — several months ahead of the event.

Marquette will continue to monitor these economic and financial concerns, staying vigilant of signs of a second/third wave globally as well as any potential delays/problems with vaccine development and distribution. We will continue to issue our assessments and guidance through the balance of this coronavirus pandemic, recession, eventual recovery, and beyond.

NOTE

[1] The U-3 unemployment rate, which is the most commonly used employment rate that reports the number of individuals actively searching for employment.

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