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Macro Report

U.S Defence, Arms Sales and Infrastructure Development

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U.S Defence, Arms Sales and Infrastructure Development

The impact the Biden Administration may have on the U.S defence budget, sales of arms and the modernization of national infrastructure.

Trump championed record national defence spending during his term in office; however, president-elect, Joe Biden, was critical of his lack of fiscal discipline in this department. Congress repealed sequestration for the defence budget in 2019 for two years, but large increases in spending on the DoD are unsustainable and will likely be halted under Biden, as will the vast sale of U.S arms to Middle-East. Biden also plans to revolutionize and decarbonize American infrastructure with huge fiscal stimulus packages, boosting the construction sector.

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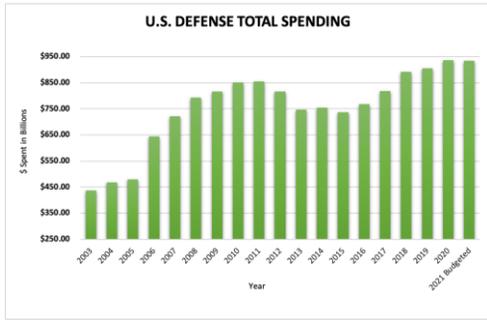
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Defence Spending

The Pentagon's five-year defence plan indicates it will request to – and is expected to - remain flat after 2021. Temporary repeal of sequestration allowed for year-on-year expansions of the DoD's budget, with \$935.8 billion allocated in 2020. While Biden does not envisage major defence cuts, he may face overwhelming pressure to do so by the left if the Democrats win Georgia's undecided Senate seats, giving them the power to make significant policy changes. However, without this Senate majority, it will prove very difficult to make massive changes to this budget.



Data Source: The Balance

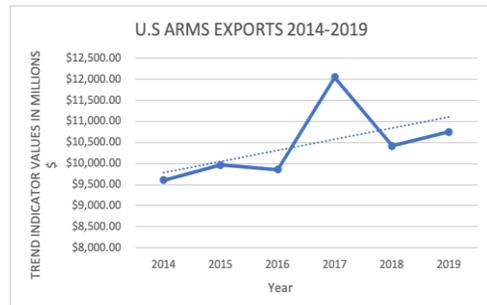
U.S military spending is greater than the next ten largest government expenditures combined. In 2018, it was three times more than China's budget (\$250B) and ten times bigger than Russia's (\$61.4B). Therefore, U.S. spending is crucial to defence, aerospace, arms and advanced technologies contractors globally. 85% of Lockheed Martin's revenues, the world's largest weapons manufacturer, came from U.S government contracts. Since 2001, \$2 trillion has been spent for America's 'War on Terror' in Afghanistan and Iraq and now for defeating ISIS, which has seen large allocations towards the Overseas Contingency Operations component of the budget. However, spending on personnel and maintenance expected to rise drastically by 2024 due to retirement and medical costs, and investment in weaponry and space projects may see cuts that will not be welcomed by aerospace and defence contractors.



Data Source: Macrotrends

Sale of Arms Internationally

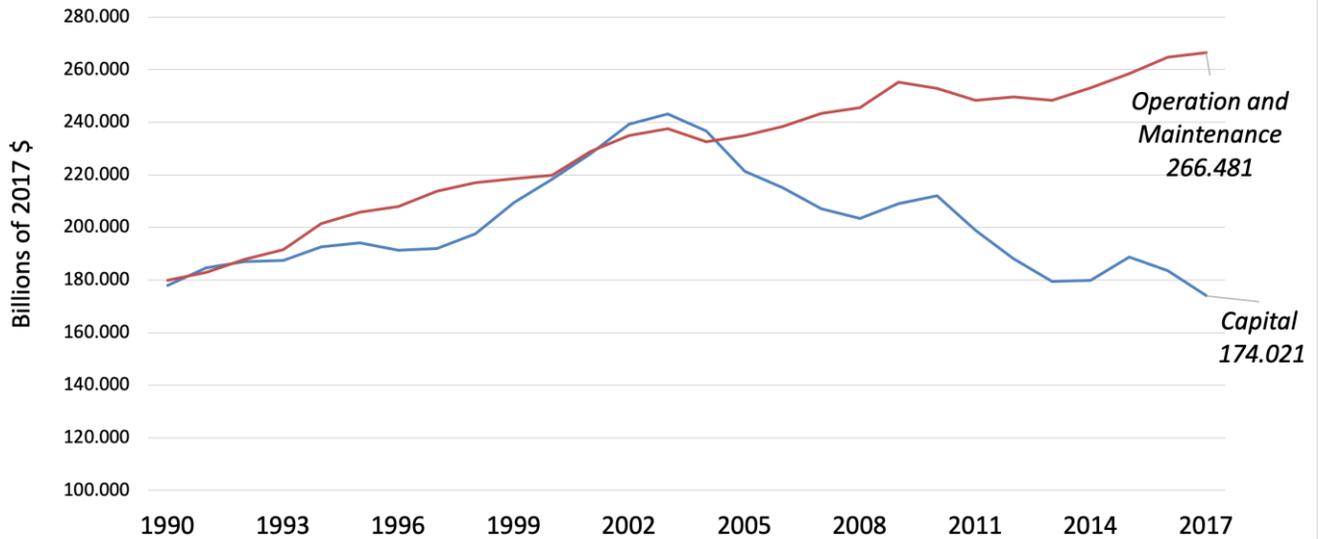
The Trump administration constantly sought to expand arms sales around the world, and this proved effective as sales dramatically rose during his term in office with exports growing over 23% from the periods 2010-14 to 2015-19. Although his foreign policy, and prioritization of arms sales, may have benefitted U.S defence contractors, it has also exacerbated conflicts such as the war in Yemen. Saudi Arabia was the top customer of these weapons, who were widely documented for bombing civilians. Despite a bipartisan bill that sought to end America's support for the Saudi-led coalition fighting in Yemen, Trump refused to cut ties with Riyadh and vetoed the bill. Military orders worth over \$110 billion are directly linked to mass civilian casualties as a result of Trump bypassing Congress after their efforts to block the deal. The U.S is the top exporter of arms in the world, and in the last five years, half of these have gone to the Middle East.



Data Source: Sipri

Under Biden's administration, it is very likely he will end U.S military support for the Saudi-led war in Yemen, while also terminating weapon sales to Riyadh. This would shut out a significant customer of U.S defence contractors and consequently end major revenue sources. Trump had made it easier to export firearms, while also speeding up the review process for major arms sales, directing U.S. diplomats to advocate for American weapons purchases and easing the criteria for selling armed drones. This work may well be undone by his successor, leaving significant implications for arms manufacturers domestically.

U.S Public Spending on Transportation and Water Infrastructure



Data Source: Congressional Budget Office

Advancement of U.S Infrastructure

Trump's decision to cut the corporate tax rate from 35% to 21% was a substantial boost companies' profits and the equities market alike. If the Democrats secure a Senate majority, it will allow Biden to drastically alter tax policy and increase corporate tax up to 28%. It is hoped that this leakage in the economy will be offset by injecting \$2 trillion in fiscal stimulus to develop America's infrastructure. Biden has extensive plans to modernize and construct major roads, bridges, water systems and create zero-emission public transit networks. Further goals to decarbonize industry, transition from oil and improve environmental performance involve electrifying the rail system and the rest of the transportation sector which will see long-term benefits for freight companies such as CSX and Norfolk Southern.

This enormous boost in capital spending on infrastructure would involve huge contract deals for construction companies and generate massive revenues for the wider sector. According to JP Morgan, U.S firms such as Caterpillar, Martin Marietta Materials and Jacobs Engineering would gain from these new large-scale projects. As American based companies, these firms would also avoid Biden's 'offshoring tax penalties'; and avail of his 'Made in America' tax credits.

With near-zero Federal Reserve interest rates, it is a perfect opportunity to take advantage cheap borrowing and available labour to rebuild and renew the nations physical assets and accelerate transformational investments that will improve both America's competitiveness and environmental performance.