iShares
by BlackRock

THE 'BUILD BACK BETTER' PORTFOLIO

Proposed spending plan implications may include infrastructure, clean energy and semiconductors

Key takeaways

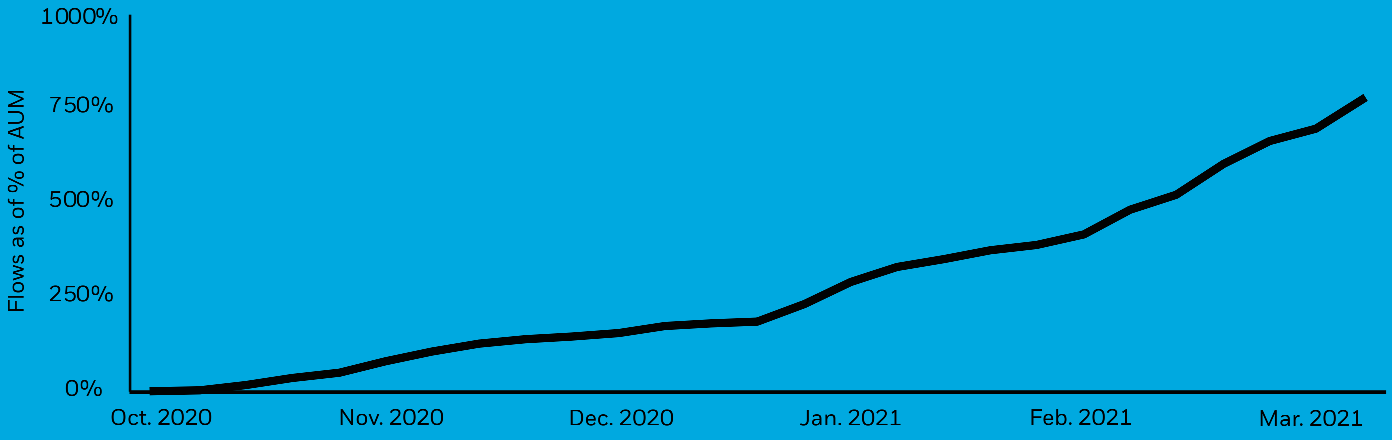
Key elements of President Joe Biden's roughly $2 trillion "**Build Back Better**" (BBB) plan, announced last month, focus on upgrading traditional infrastructure and repairing highways, bridges, and public transit. The plan also promotes green initiatives including support for U.S. electric vehicle (EV) production and charging, energy efficiency in buildings, expansion of electrical grids, and new funds for clean energy and water.

If passed, funds would be spent over the rest of the decade, but we believe the bill could have important ramifications for stock and bond investment portfolios in the medium term. Here are some potential implications for ETF investors:

Taking stock(s)

Investors have demonstrated strong demand for U.S. infrastructure ETFs since the run-up to last year's U.S. presidential election, with U.S.-listed ETFs, including the iShares U.S. Infrastructure ETF (IFRA), seeing net inflows of $2.1 billion over the past six months. For perspective, U.S. infrastructure-themed ETFs have seen assets under management grow more than eightfold over that time frame as a result of positive flows.[1] We think this trend could continue should infrastructure spending move from rhetoric to reality, and the potential implications of such a scenario could create a relatively long runway for industries poised to benefit from spending on roads, highways, and related projects.

Building momentum
U.S.-listed infrastructure ETFs AUM has grown more than eightfold since October 2020



BlackRock, Markit (as March 31, 2021)

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The focus on clean energy initiatives in the bill, combined with this administration's broader climate agenda, could also prove beneficial to clean energy companies, shares of which have been strong performers over the past year. For example, the S&P Global Clean Energy Index, comprised of around 30 stocks, outperformed the broader S&P Global 1200 Energy Sector Index by 102% over 12 months ended March 2021. While the S&P Global Clean Energy Index has trailed year to date by 35% as more traditional energy stocks have staged a rebound,[2] looking farther into the future, we believe demand for clean energy investment could continue as more companies and governments commit to net zero emissions plans.

Additionally, the approximately $200 billion carveout that the BBB has for electric vehicle (EV) investment via consumer rebates, charging stations and replacing diesel transit vehicles could be beneficial to the continued growth and interest in the EV industry going forward. Look for more insights on electric vehicles later this month.

Perhaps less intuitively, we also think the semiconductor industry could benefit from the increased infrastructure spending. Take the PHLX Semiconductor Sector Index, a benchmark of U.S. listed semiconductor stocks, which has been a recent outperformer within the broader technology sector due to a confluence of global semiconductor supply chain disruptions, demand for consumer electronics, and the continued rollout of 5G technology. We believe the allocation of additional capital to high-tech innovation and advancement within the BBB plan could continue to boost the performance of this sector given that semiconductors are an important input to many of the planned initiatives — from building bridges to autonomous driving.

Don't forget bonds

In our view, the backdrop of stronger economic growth as a result of increased fiscal spending in the U.S. should be beneficial to the high yield asset class in general, since a brighter economy generally bodes well for the credit of bond issuers. The emphasis of the BBB plan on environmental issues could make corporate bonds with the most favorable environmental, social and governance (ESG) attributes particularly appealing.

Lastly, while the tax story is evolving and perhaps the end result will look nothing like the current plan, tax-aware investors may look to municipal bonds because of their potential tax benefits, especially amid a backdrop of continued support for state and local credit from the COVID-19 relief package (**American Rescue Plan**) signed into law last month. Already, demand for municipal bond ETFs has accelerated. In the first quarter of 2021, municipal bond ETFs ranked third in terms of flows[3] across all U.S.-listed fixed income ETFs, taking in $4.7 billion.[4] As tax becomes an ever more important consideration in investor portfolios, municipal bond ETFs could continue to see increased flows.

Author

Gargi Pal Chaudhuri

Head of iShares Investment Strategy Americas at BlackRock

Featured funds

Stocks

IFRA	**iShares U.S. Infrastructure ETF**
ICLN	**iShares Global Clean Energy ETF**
IDRV	**iShares Self-Driving EV and Tech ETF**
SOXX	**iShares PHLX Semiconductor ETF**

Bonds

MUB	**iShares National Muni Bond ETF**
HYMU	**BlackRock High Yield Muni Income Bond ETF**
HYXF	**iShares ESG Advanced High Yield Corporate Bond ETF**

1 BlackRock, Markit. 6-month period from 9/30/20-3/31/21.

2 S&P Global Clean Energy Index total price return through March 31, 2021: -14.18% YTD; 152% 1Y; 168% 3Y; 187% 5Y; 51.76% 10Y. S&P Global 1200 Energy Sector Index performance through March 31, 2021: 20.66% YTD; 50% 1Y; -17% 3Y; 0.96% 5Y; 22.99% 10Y.

3 BlackRock, Markit (as of April 2, 2021). U.S. domiciled municipal bond ETFs ranked third in terms of flows behind inflation-linked and broad market ETPs based on the broad fixed income category. ETP groupings and categories determined by BlackRock. Fixed Income ETF categories are: Broad Market, Corporate Credit, U.S. Government, Inflation-linked, Municipal, and EM Debt.

4 BlackRock, Markit (as of March 31, 2021).

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