

Furstenau Wealth Update April 26, 2021

The Markets

It wasn't just the price of pork chops.

Last week, as investors weighed the news, strong corporate earnings were offset by higher grocery prices and rising numbers of global coronavirus cases.

Solid corporate earnings weighed favorably.

So far, 25 percent of the companies in the Standard & Poor's (S&P) 500 Index have reported first quarter earnings, and 84 percent said profits grew faster than expected, reported John Butters of *FactSet*. The blended earnings growth rate for the S&P 500 (which includes estimated earnings for companies that have not yet reported and actual earnings for companies that have) was 33.8 percent last week. For context, the 5-year average earnings growth rate (actual earnings) for the S&P 500 was 6.9 percent as of last week.

It's important to remember the impact of earnings is often muted as earnings expectations – good or bad – tend to be priced into the market long before they are reported.

Inflation expectations weighed unfavorably.

Investors were concerned about inflation – and so were consumers. While the Federal Reserve and many economists believe we'll see a fleeting uptick in inflation, others think the increase will persist. "...A consistent drumbeat of price hikes from major companies, consumer reports, and market data suggest the world may not be going along with their conclusion," reported Dion Rabouin of *Axios*.

It is likely markets may pay particularly close attention to Federal Reserve statements about inflation and interest rates this week.

Rising numbers of Covid-19 cases around the world tipped the scales.

Concerns about India's coronavirus surge, Japan's state of emergency, and rising numbers of cases around the world caused investors to reassess expectations and some sold shares of companies that were expected to benefit from the re-opening of world economies. Yun Li and Maggie Fitzgerald of *CNBC* reported:

"The sell-off in shares that are tied to a successful reopening came as the World Health Organization warned that global coronavirus infections were edging toward their highest level in the pandemic. In the United States, while the country is maintaining a pace of 3 million reported vaccinations per day, about 67,100 daily new infections are still being recorded."

Despite uncertainties, most (67 percent) professional investors who participated in *Barron's Big Money Poll* said they were bullish on the outlook for stocks in the next 12 months. Just 7 percent were bearish.

Major U.S. stock indices finished the week flat or slightly lower. U.S. Treasuries rallied briefly before finishing the week flat.

(The one-year numbers in the scorecard below remain noteworthy. They reflect the strong recovery of U.S. stocks from last year's coronavirus downturn to the present day.)

Data as of 4/23/21	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.1%	11.3%	49.4%	16.1%	14.9%	12.1%
Dow Jones Global ex-U.S.	-0.3	6.5	47.5	4.9	7.6	2.8
10-year Treasury Note (Yield Only)	1.6	NA	0.6	3.0	1.9	3.4
Gold (per ounce)	0.4	-5.6	2.6	10.4	7.5	1.8
Bloomberg Commodity Index	2.2	13.3	45.4	-0.3	1.3	-6.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance; MarketWatch; djindexes.com; Federal Reserve Bank of St. Louis; London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

A CAPITAL GAINS TAX HIKE HAS BEEN PROPOSED. Another factor that influenced last week's stock market decline was the proposed capital gains tax hike. Investors' response was a bit surprising since the tax increase wasn't really news. Ben Levisohn of *Barron's* reported:

“President Joe Biden made no secret of his plan to raise capital-gains taxes on the very wealthy. It was a campaign pledge, one that got enough attention for Goldman Sachs to release a note looking at the historical impact of previous increases on the stock market. (The answer: not very much.)”

According to Steve Goldstein of *MarketWatch*, the Goldman note reported the wealthiest U.S. households sold 1 percent of their equity assets prior to the 2013 capital gains tax increase. As a result, the S&P 500 Index experienced a short-lived loss six months prior to the tax hike and, six months after the tax hike, the Index was back in positive territory.

While the long-term impact on stock markets may be relatively small, the effect on high income investors could be significant.

The administration proposal, as written, would nearly double the capital gains tax rate for people with adjustable gross income of \$1 million or more. (That's about 0.3 percent of American taxpayers.) The current top long-term capital gains tax rate would increase from 20 percent to 39.6 percent, reported Laura Davison and Allyson Versprille of *Bloomberg*.

The capital gains tax increase is a proposed change. It has not been finalized, and there are indications the final tax may be lower if the bill is passed.

If you're concerned about the potential tax increase and would like to learn more, please get in touch.

Weekly Focus – Think About It

“Share prices fluctuate more than share values.”

--Sir John Templeton, Investor, banker, and asset manager

Best regards,

Ryan D. Furstenuau

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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