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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **September 22, 2021**

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Last Week's S&P 500 Index: -0.6%

A fluid situation?

Key takeaways

- Recent intraparty Democratic debate has shown there are disagreements over the size of the proposed infrastructure package and how to pay for it.
- However, in the end, we expect the president will sign bills representing significant spending over a 10-year period.

Will Congress be able to push through two bills that call for spending a total of approximately $4 trillion over a 10-year stretch that includes much more than just "traditional" infrastructure like roads, bridges, and ports? Our call for quite some time has been "yes." Of course, recent weeks have brought to the forefront a number of intraparty disagreements between Democrats involving everything from what is included in the proposed legislation to its price tag and how to pay for it.

We have purposefully avoided getting too far "into the weeds" of how the legislation is being hashed out between lawmakers and instead focused on the end game that we believe will ultimately result in a sizable chunk of funds that will be somewhat offset by tax increases on businesses and individuals.

We want to reiterate our guidance published in previous reports. But first let us state that we think the debt-ceiling debate will be pushed out into the later part of the year through passage of a short-term government funding continuing resolution so Congress can focus on the proposed spending package first. It is unlikely legislators will want to debate both issues at the same time.

Of concern to many investors are the potential tax changes that lie ahead. We believe the market is convinced, and we agree, that tax rates will rise. For individuals, we look for the highest tax rate to move back to the pre-2017 level of 39.6% from the current 37%. For corporations, we see the tax rate moving from the current 21% up to 25% or 26%, which will still be below the pre-2017 level of 35% and below the administration's 28% proposed rate. Our earnings estimates for the S&P 500 Index of $210 this year and $230 in 2022 assume a 25% corporate tax rate. We look for capital gains tax rates to land in the upper 20% area, rising from the current 20% when all is said and done. Tax rates higher than the above-mentioned levels would likely have a negative effect on the equity market.

In terms of sectors that would likely benefit from the proposed legislation, infrastructure spending would further enhance our favorable view of the Industrials sector. The social spending in the proposed $3.5 trillion package toward the childcare tax credit would help reopening beneficiaries like retailers and restaurants and overall consumer spending. The Health Care sector would benefit from spending on eldercare and expanded Medicare coverage of certain types of services.

Our view continues to be that all 50 Democratic senators will support both bills and the House will also approve. Our timeline calls for a final vote on the legislation sometime in November. While current negotiations represent a fluid situation, and the final spending and tax numbers remain to be determined, we expect both bills to be signed by the president and represent significant spending and new taxes over a 10-year period.

Risks Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance.

Definitions

An index is unmanaged and not available for direct investment.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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