



Market Commentary April 26, 2021

Dear Investors:

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

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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.

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Weekly Focus – Think About It

“Share prices fluctuate more than share values.”

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

Best regards,

SYMPHONY FINANCIAL SERVICES, INC.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* 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.

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* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk.

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- * Asset allocation does not ensure a profit or protect against a loss.
- * Consult your financial professional before making any investment decision.

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