# Wentz Weekly

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## Biden to Propose Capital Gains Tax Increase

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A new proposal from President Biden would see the tax on capital gains increase to as much as 43.4% at the federal level for high income earners, an effort to offset the bucket of spending planned on infrastructure and social issues. The proposal is expected to be announced next week in a joint address to Congress as part of tax increases to offset some of the spending on social issues under the "American Families Plan." Individuals earning over $1 million would see capital gains taxed at the same rate as ordinary income, where the top bracket would move back up to 39.6% from the current 37% after the Tax Cuts and Jobs Act. Add onto this the 3.8% levy from Obamacare and some individuals could be paying more in capital gains tax than on labor for the first time ever.

Stocks initially moved lower after the report but that may have been due to computer trading reading headlines. The next day stocks recovered those losses and some. Given the moves we do not think the markets see it as that big of a concern. For one, over 75% of equities are owned in accounts not subject to capital gains tax and some investors could sell now before the increase takes effect. In addition, we think for a tax hike to become law there will be some sort of compromise and we see worst case the tax would be halfway between the current levels and Biden's proposal. Opponents of the proposal say the current and lower capital gains tax encourages individuals to save and promotes economic growth.

Republican lawmakers have also called for repurposing previously appropriated funds that are unused from the massive stimulus packages released over the last 12 months to help pay for the infrastructure plan, rather that relying on tax increases. In addition, a group of Senate Republicans released an outline for a $568 billion proposal for infrastructure spending in response to the Biden Administration's $2.3 trillion proposal. The plan calls for spending mostly on transportation including roads and transit systems, but also on broadband – a much more targeted and narrow plan than that of the Biden's proposal which includes transportation as well as many different climate and social issues. For example, the spending on the GOP plan calls for $299 billion on roads and bridges and the Biden plan calls for $115 billion. The Republican plan does not include the corporate tax hike to 28%, but instead supports repurposing unused pandemic-related funds. The White House has since said the proposal marked a starting point in negotiations.

Moving to the corporate news side, we are in the middle of earnings season and results have so far surpassed expectations. This week 36% of S&P 500 companies are scheduled to report results and next week 27% are expected to report. So far, roughly 20% of companies have reported and 86% of those have beat analyst's estimates, one of the best beat rates. Even more surprising is that companies are beating estimates by an average of 24% to the upside, a record number and well above the 15-year average of 4.7%. A large amount of that was due to banks and them releasing funds that were set aside for bad loans, which drove profits much higher. As a result of better than expected earnings so far, full first quarter estimates for earnings growth have increase to 28.3%, up from 21.6% right before companies began reporting. Despite the strong beat, stock performance has been somewhat muted perhaps suggesting a lot of performance was pulled forward and it has turned into a buy the rumor sell the news type event. However, company guidance has also been better than expected suggesting stocks still have room to go and another reason we remain overweight U.S. equities.

Growth estimates for the U.S. economy have moved higher in recent weeks from better than expected economic data, with first quarter GDP estimates now at 8.3% in the Atlanta Fed GDPNow forecast, up from 5.2% just two months ago, and 5.5% in the Blue Chip consensus forecast. The move higher comes after a wave of economic data reports for the month of March showed a much stronger consumer and better manufacturing conditions. The latest report from Friday confirms the housing market remains very strong – over one million new homes were sold on an annualized pace in March, the strongest pace since 2006. The first estimate of first quarter GDP will be released this Friday by the Bureau of Economic Analysis. Economists are estimating the economy grew a 6.5% annualized rate in the quarter

## Company News

- After being offered to be acquired for $275 per share by Canadian Pacific, Canadian National offered to acquire Kansas City Southern for $325/share in a cash and stock deal.
- Tobacco stocks moved significantly lower last week after the Biden Administration was said to be considering requiring tobacco companies to lower the nicotine levels of cigarettes sold in the U.S. to a level where they are no longer classified as addictive. The plan is an attempt to push smokers to quit or switch to lower nicotine products.
- Netflix beat analysts' financial expectations in the first quarter, but new subscribers slowed substantially and the net gain of 3.98 million was well below the expected gain of 6 million. Guidance also came in lighter than expected, with management saying there was a pull forward effect in 2020 due to Covid.

## The Week Ahead

The calendar will be much busier in the week ahead. It will be the busiest week for first quarter earnings season with at least 169 companies in the S&P 500 reporting. The highlights include; Tesla on Monday; AMD, Visa, UPS, BP, GE, Alphabet, Microsoft, and Starbucks on Tuesday; Apple, Boeing, Facebook, Ford, Qualcomm, and Shopify on Wednesday; Amazon, Caterpillar, Mastercard, Nio, Twitter, and McDonald's on Thursday; Charter, Chevron, and AbbVie on Friday. On the economic calendar the week starts with durable goods orders on Monday. On Thursday, the Bureau of Economic Analysis releases the first estimate on first quarter GDP where the consensus sees a 6.5% growth rate in the quarter. The week wraps up with personal income and outlays report and consumer sentiment both on Friday. But the main event for the week will be the Fed's meeting and its policy announcement Wednesday at 2:00. No changes are expected in policy, but markets will pay close attention to the post-meeting press conference and how Chairman Powell will address inflation concerns. On the political front, President Biden is expected to speak in a joint address to Congress on Wednesday and lay out details on his "American Families Plan."