BROKERAGESELECT NEWSLETTER

Taxes

There's a lot of speculation regarding the proposed changes to income, capital gains, and estate taxes. Negotiations in the Congress remain to be done. Investors should not make drastic moves until there is clarity.

Dividends

For investors that count on dividends, it helps to know when stocks pay their dividends. You can create a portfolio with stocks that pay in different months so income is steady through the year.

Travel

As vaccinations expand and places re-open, travel will resume. Already bookings to popular destinations like Las Vegas are increasing. While airline tickets and hotels may be available, there are constraints with respect to rental cars and destinations still have limited capacity. Rental car companies had to sell their fleets to survive so supply is very low.

Perspectives

Markets saw increased volatility following first a disappointing jobs report and then a higher than expected level of inflation in the CPI release. During the week of May 10-14, the S&P500 at first fell 4% only to rally back 3%, from the week's low. It was a fast roller-coaster but it left the week little changed. In the fixed income markets, the yield on the 10-year US Treasury Note also moved. First rates rose from a low of 1.616% to 1.695% before falling back to 1.637% at week's end. In both markets investors seemingly shrugged off the negatives and instead focused on the continuing economic recovery and belief that the recent rise in inflation will prove to be, as the Federal Reserve contends, "transitory". Even without significant news, investors have seen "air pockets" where stocks experience a sharp drop and a subsequent fast rebound. In my opinion, this phenomenon is the result of a combination of algorithmic trading models that focus on momentum and a market structure (no uptick rule and no specialists required to commit to an orderly market) where liquidity can evaporate quickly. In addition, both the stock and bond markets are not cheap and expensive markets are vulnerable to "sell first, ask questions later" reactions. According to FactSet, with 88% of the S&P500 reporting, the market is selling at 21.6 times next year's earnings estimates. That is well above the 5-year average of 17.9 times. The market is imputing not only a strong rebound to pre-COVID profits but also higher growth propelled by proposed infrastructure and other spending legislation. There is a lot that can make the path for both equities and fixed income bumpy. The markets are a discounting mechanism and now, Mr. Market is saying there is a higher probability that things break to the positive than to the negative. Expectations change quickly. From a technical point of view, investors will be paying attention to the 4,232.60 May 7 high for the S&P500. If the market can get above that, the upward path is still in-tact. If stocks fail or struggle at this level, it may mean the downward volatility is not over.

"It's nice but will it be a hedge against inflation?"

Something Else

While commentary about political elections seems never-ending, important elections for investors happen every year yet very little attention is paid. I'm referring to corporate annual meetings where investors get to vote to elect board directors and whether to approve important items like executive compensation or proposals brought forth by fellow investors. Voting is the only way to let management really know how investors feel. After all, investors are the company owners.

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Out Of The Box

It's important for investors to look at the global economy. First to give some idea as to the environment for exporters and also to see which countries represent relative bargains. *The Economist* magazine publishes a weekly table of various metrics and their estimates for different countries. I'd like to explore some of the numbers that popped out in this week's data. For the first quarter, the US, China, Taiwan and Turkey had very positive annualized growth from the previous quarter. The Eurozone still posted negative growth by almost 2%, with France being the exception, growing 1.5%. Britain's 1st quarter was very poor with GDP declining 6.1%. Mexico's GDP declined 3.8%. Looking further across the numbers, inflation did indeed lift its head. In the US, the CPI (Consumer Price Index) on an annualized basis increased 4.2%, much above the Fed's target of 2%. Like GDP growth figures, the CPI numbers were widely dispersed across countries. China's inflation was up 0.9% annualized. The Eurozone saw an increase of 1.6%. Inflation in Mexico rose 6.1%. April Inflation was up in all counties on the list, except for Greece. Note that I have not discussed Japan because *The Economist* does not show April figures for GDP or CPI. The Economic Intelligence Unit of The Economist has higher 2021 GDP forecasts for the full year for just about every country. In the case of the US, they are predicting 5.5% growth. For China 8.5%. Even the Eurozone is expected to have unusually good numbers, growing 4.2% for the full-year. With respect to CPI, the forecast is for inflation generally to moderate over the course of 2021. *The Economist* seems to believe that much of the present inflation is cause by bottlenecks that will be resolved. For Example, they are predicting that US inflation will drop from the 4.2% reading to 2.1% on a full-year basis. The Eurozone is estimated to have 2021 inflation at 1.3%. China's CPI is expected to rise only 1.6%. So what can we perhaps infer? Just using this one source, the US seems to be make sense. Higher growth with higher inflation. Europe, lagging in the recovery, may be more interesting with higher growth and much more tepid inflation. Mexico, which should be closely tied to the US, has not yet turned to positive growth but the forecast says it will. That might be interesting, as well.
