Monthly Market Commentary – September 2021

The end of summer is upon us, and there seems to be no break from the usual tradition of volatility rearing its head in September - historically the worst performing month of the year. US Equity markets have seen 3 weeks of declines, albeit very moderate, with all three major averages off less than 5% from their highs. Interest rates have risen moderately.

In this month's market commentary, we look at two major areas investors are examining as we head into year-end.

SPENDING & TAXES

A $3.5 trillion reconciliation bill has been proposed in Congress. Here is some of what it includes, according to Tax Foundation, the nation's leading independent tax policy nonprofit:

- $700+ billion for national health, labor, education, and pensions committee programs
- $100+ billion for assistance in the lawful permanent status of qualified immigrants
- $100+ billion for agriculture to address forest fires and reducing carbon emissions
- $300+ billion for investments in public housing subsidies and affordable housing programs
- $200+ billion for clean energy initiatives
- Additional provisions for expansion of infrastructure, supply chain, job training, and nursing home assistance

To fund the bill, and something that is a larger concern for many investors, there are a number of proposed tax changes, some listed below, which could result in the largest tax increase in American history:

- An increase of the top tax rate from 37% to 39.6%
- An increase of the corporate tax rate to 21% to 26.5%
- An increase in capital gains taxes from 20% to 25% for the top income tax bracket
- A reduction of the estate cap from $11,700,000 to $6,020,000
- An increase in taxation on multinational firms, through various provisions and accounting rule changes
- Limitations on advantageous tax strategies, including mandatory RMDs for large IRAs, restrictions on strategies used by high income earners, and the prohibition of certain investments in IRA accounts

We believe the end result will be a slimmer version of the current spending proposal and tax increases. The brute force of the tax increase will likely be focused on those making more than $400,000 annually as well as Corporate America. We believe the top tax rate on income, as well as the capital gains increases will hold as proposed. We also believe the corporate tax rate will be raised to 25%, as opposed to 26.5%. We are closely monitoring the discussions around IRA investments and strategies, as these could have larger impacts on your individual investments and long-term planning strategies.

EVERGRANDE

Volatility is also on the rise due to the Evergrande situation coming out of China. The company is China's second largest property developer, although it is involved in many other businesses, most of which are tied to the Chinese consumer. The company has stopped making payments on its outstanding debt, risking default, and a potential contagion effect on other businesses within China, and possibly worldwide. Evergrande currently holds over $300 billion in outstanding obligations. Some are comparing the situation to the Lehman Brothers fiasco of the late 2000s. We don't believe this situation will have anywhere near the same effect on global markets. While this situation is nothing to be looked over, as the strength of the Chinese consumer demand has been on the decline – something Evergrande cannot afford, there are not the same structural and functional flaws that led to the unraveling and distress of several global industries almost 15 years ago. We believe the current volatility that is affecting global markets will be short lived. This presents an opportunity for investment into several names on our watch list whose valuations have been too rich over the last year. Volatility breeds opportunity, and we plan to take full advantage of it over the coming weeks while continuing to monitor the situation.

If you have any questions, please reach out to your financial advisor.

Be Well,

The Seventy2 Capital Team

buy any security or instrument or to participate in any trading strategy. Additional information is available upon request. Past performance is not a guarantee of future results. Stocks offer long-term growth potential but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security, including the possible loss of principal. CAR-0921-02452