

April 26, 2021

Weekly Viewpoint

The Economic Recovery Continues

Performance for Week Ending 4.23.2021

The Dow Jones Industrial Average (Dow) finished off 0.46%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) lost 0.03%, the Standard & Poor's 500 Index (S&P 500) dipped 0.13% and the Nasdaq Composite Index (NASDAQ) shed 0.25%. Sector breadth was positive with 7 of the 11 S&P sector groups closing lower. The Energy sector (-1.77%) led the way lower followed by Consumer Discretionary (-1.23%) and Utilities (-0.95%).

Index*	Closing Price 4/23/2021	Percentage Change for Week Ending 4/23/2021	Year-to-Date Percentage Change Through 4/23/2021
Dow	34043.49	-0.46%	+11.23%
Wilshire 5000	43875.28	-0.03%	+11.20%
S&P 500	4180.17	-0.13%	+11.29%
Nasdaq	14016.81	-0.25%	+8.76%

Market Observations: 4/19/21–4/23/21

The major market indices finished the week little changed as the threat of higher capital gains taxes offset a strong start to first quarter earnings season and data showing the economic recovery remains solid. Also weighing on the markets was the global uptick in Covid cases, which in turn, reignited fears of new lockdowns.

Late Thursday, the Biden administration floated a proposal to almost double the capital gains tax rate for wealthy individuals. The plan would boost the capital gains rate to 39.6% for those earning \$1 million or more, an increase from the current base rate of 20%. A 3.8% tax on investment income that funds Obamacare would be kept in place, pushing the tax rate on returns on financial assets higher than the top rate on wage and salary income. Biden is expected to release the proposal this week as part of the tax increases necessary to fund social spending in the forthcoming "American Families Plan." For \$1 million earners in high-tax states, rates on capital gains could be above 50%.

The negative market reaction was somewhat surprising as this was one of Biden's campaign promises. Markets rebounded on Friday as investors did some homework that showed there has been little correlation between stock market performance and changes in the cap-gains rate. In addition, the proposal seemed to be an effort to open the door to further conversation. In other words, this is likely a starting point and not a line in the sand as the rate will likely be moderated during the legislative process.

Q1 Earnings Off to a Strong Start: Earnings season is in full swing and, so far, results are trending at a much better than expected pace. Through Friday, 121 members of the S&P 500 have released results with 76 percent surprising to the upside. While it is still too early to draw any firm conclusions, aggregate earnings growth is up by over 45%, solidly ahead of the 22% gain that analysts were forecasting at the end of March. Sector wise, the biggest upside in aggregate earnings growth has come from Materials, Financials, Health Care, and Communication Services.

Economic Roundup: After some weather-related weakness during February, economic data has snapped back smartly during March and April with increased vaccinations and better weather. The Conference Board's Leading Economic Index (LEI) jumped 1.3% in March, the most in seven months. All ten LEI components made positive contributions, led by fewer initial jobless claims and strong ISM new orders. The current reading is consistent with above-trend economic growth and an improving outlook. Meanwhile, the Labor Department reported that initial jobless claims in the week ended April 17 fell 39K to 547K, the lowest level since mid-March 2020, and well below the consensus forecast of 608K. The four-week average of claims slid to 651K, also the lowest level in nearly a year, as layoffs continued to trend lower. Lastly, the Commerce Department reported that new home sales in March increased by 20.7% to an annualized pace of 1.02 million, the highest level since 2006. The housing sector continues to benefit from historically low borrowing costs and the ongoing demand for more space as many people continue to work from home as the pandemic drags on.

Bullish Narrative Intact: We maintain our favorable view on the equity markets and believe the bullish narrative remains intact. Our upbeat outlook is based on the supportive macro environment which we feel provides a sturdy backbone for additional upside as we look forward. While a near-term period of consolidation cannot be ruled out, we would view pullbacks as corrective in nature and not the start of a broader move lower. Hence, periods of weakness would be viewed as a buying opportunity as we continue to believe the return profile over the next 12-plus months favors additional upside.

The Week Ahead: The focal point of the coming week will be the two-day FOMC meeting on Tuesday and Wednesday and Fed Chair Powell's subsequent press conference. Powell will likely continue his subtle shift in tone in a more optimistic direction. Nevertheless, given the remaining gaps in the labor market and the focus on seeing actual rather than forecasted progress, it is likely too soon for the Fed to hint at tapering their bond buying activity. First quarter earnings season will remain front and center with over 170 members of the S&P 500 scheduled to release results. On the data front, reports of interest include; March Durable Goods Orders, April Consumer Confidence, the initial estimate of Q1 GDP, Jobless Claims, and March Personal

Spending and Personal Income. On the political front, President Biden will give his first speech to a joint session of Congress on Wednesday with the focus likely on the American Families Plan and the American Jobs Plan.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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