

Market Update

October 15, 2020

Election and Taxes

- Fiscal policy (or lack thereof) drove much of the news cycle last week. On the same day the Federal Reserve Chair made the case for more fiscal support, President Trump tweeted that negotiations were being cut off.
- Trump changed his mind later in the week, and talks appear to have restarted. Still a deal will require the support of Senate Republicans, and with just over three weeks until the election, time is running out.
- The Biden/Harris Tax Plan has many looking at wealth transfer strategies now, in order to take advantage of the current rules, set to change under a Biden/Harris administration
- Eli Lilly saw its COVID treatment trials paused as did Johnson and Johnson with its vaccine trials.
- Financial market sentiment has been on a wild ride over 2020. After market fear spiked earlier in the year, sentiment has improved dramatically from April to August, on the back of significant monetary and fiscal stimulus. Since then, the resurgence of COVID-19 infections around the world have put new pressure on risk assets.
- Equity markets have been a closely watched barometer for financial market stress. Though some markets have recovered from the pandemic impact, many international equity markets have struggled to regain their pre-crisis levels.
- At the peak of the crisis, short-term funding markets brought back memories of 2008, with interbank and commercial paper spreads spiking higher. The Federal Reserve and Bank of Canada have eased this stress through a range of liquidity injections.
- Corporate credit markets have improved with the new measures by the Federal Reserve, where it will buy corporate bonds and ETFs that hold corporate issues. This market had been under stress, with elevated spreads on both investment and speculative grade debt. Fed actions have improved liquidity and allowed for new issuance.

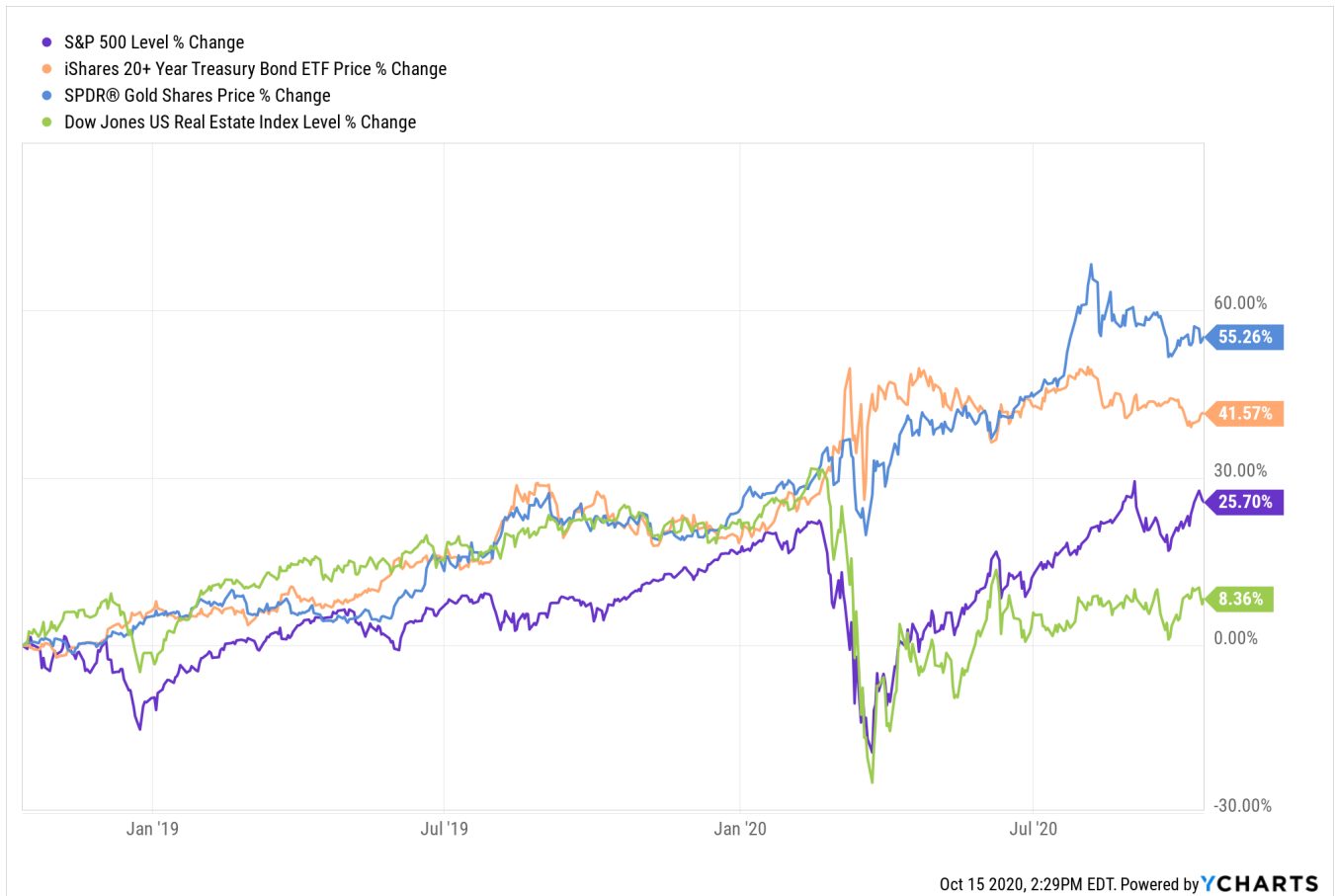
The S&P 500 is still off of its high for the year. Markets have seen some volatility in recent weeks as negotiations for a stimulus package have stalled, been cancelled, and put back on. It is no secret that there needs to be a new package approved by congress and the president, in order to get the nation through the winter and to approved COVID 19 therapies and vaccines. Gold has also come off of its highs, as the precious metal has lost some upward momentum, however it remains at elevated price levels. Long term interest rates have ticked up slightly since last month, as prices for bonds have come down. Interest rates still remain very low for qualified borrowers, which is fueling a strong national real estate market for home buying.

The VIX index, which measures market volatility, often referred to as the “fear” index, has been between 25 and 30 since late August. Although not near historical highs, the VIX is still elevated indicating that the election, COVID 19 pandemic and economic issues still are weighing on market sentiment. We have been seeing starts and stops to the equity rotation from Growth to Value. We anticipate that potentially there will be a more robust rotation after the election, and as COVID 19 treatments become available, and case numbers become less of the daily focus.



Market Update

October 15, 2020

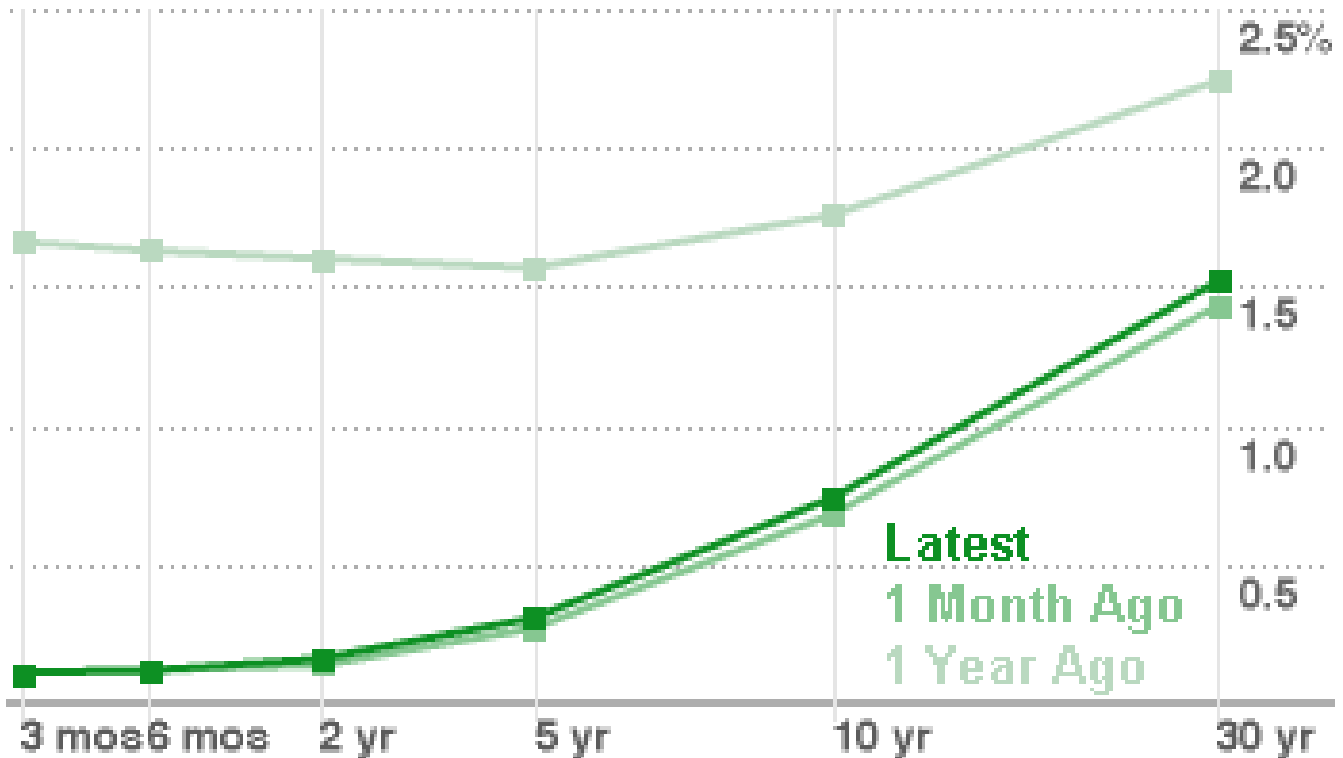


Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness. Date Range start 10/14/2018.

Long term treasury yields ticked up slightly since last month although the interest rate environment still remains low. The shape of the yield curve remains positively sloped, which is a good indication that the Federal Reserve's policies are working and helping financial markets. Inflation remains low while the employment picture is strong in some areas and seeing continued weakness in others, such as hospitality and leisure. Successful re-opening of state economies is at the fore front and there are some concerns about the winter and flu seasons impact on growing case numbers.

Market Update

October 15, 2020



Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness. Information provided by TD Ameritrade Institutional.

Social Security Administration recently announced a 1.3% Cost of Living Adjustment (COLA) for 2021. One of the major reasons for a low COLA is the continued low price of oil and low inflation numbers, in general.

Several Items in the Biden/Harris tax plan are creating potential opportunities in Financial Planning and Estate Planning strategies should they win the election. We know he will look at raising federal income tax rates on those making \$400,000 and more, to the pre-Tax Cuts and Jobs Act (TCJA) rate, 39.6%. It is unclear if that is for individuals or joint filers. Another feature of the plan appears to be a flat retirement contribution credit, as determined by a specific percentage (currently anticipated to be 26%) of the contribution amount, to replace deductions, for those retirement account contributions. There will be some enhancements to the Child Tax Credit, Child and Dependent Care Credit, First-Time Home buyer Credit and a new proposed Caregiver Credit. They are proposing to eliminate the Qualified Business Income (QBI) tax deduction for pass-through business owners, and 1031 exchanges for tax payers with annual income over \$400,000, as well as an elimination of the step-up in basis rules that currently apply to inherited assets. Lastly and a key feature of the plan would be a reduction of the exclusion amount for estate and gift taxes from the \$11.58 million. This may be back to the pre-TCJA amount of \$5.79 million. If Biden does get elected there could be a small window of time for wealthy

Market Update

October 15, 2020

families to take advantage of the higher exclusion amounts and the use of GRATs, (Grantor Retained Annuity Trusts), IDGTs (Intentionally Defective Grantor Trusts) and CLATs (Charitable Lead Annuity Trusts).

We are hopeful to see some broadening in the market toward value stocks, as the year goes on, but the Coronavirus news will continue to have an impact. The 2020 Presidential race will certainly provide influence on traders and investors outlooks.

Having a disciplined investment and risk management process, regardless of market action, is the foundational elements to our portfolio designs. It is this portion of the approach to portfolio management, that helps consistently reduce the long run risk taken in a portfolio of investments. Speculating about near term directions in the markets can be and often is a difficult and risky proposition. We can control the risk and process we take in our portfolio construction, but we cannot control market performance.

Overall, we prefer domestic equities over international equities. We prefer more value-oriented stocks vs. growth stocks for longer term growth, as we see growth stocks as more fully valued. However, high quality growth stocks are likely to continue to outperform the market in the short term. We are currently neutral to bearish on fixed-income and interest rates. It is important to maintain discipline regarding long-term strategic asset allocation. However, as market conditions dictate, we are looking at tactical opportunities to reduce risk in portfolios, if necessary.

If you have questions or would like to discuss this further regarding your personal portfolio, please contact me at 310-469-7254.



James M. Liotta, CFP®, CPWA®, AIF®, NSSA®, MBA
President

Prominence Capital GP, LLC.

jliotta@prominencecapital.com

www.prominencecapital.com

