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Good Morning,

September has started on a down note for stock investors. Has the rally fizzled or is this just a pause? As always, there are concerns that could result in an extended market selloff. These include the continuing spread of the Delta variant of COVID-19, rising inflation and proposed higher tax rates for corporations and individuals.

While there are some signs that the rate of spread of the Delta variant is slowing, just think about these numbers; in August of 2020, 1.51 million Americans became infected with the COVID-19 virus. Last month 4.35 million Americans became infected with the COVID-19 virus. The vast majority of serious cases requiring hospitalization involve unvaccinated people. Until community spread is eliminated, COVID remains a threat to daily routines and the strength of the economy.

Rising inflation could mean the Fed Reserve has to take away the punch bowls of low interest rates and monthly bond purchases before the stock party is over. We have seen a spike in inflation, but the August CPI number was tamer than expected. We also have to remember that when the economy was essentially shut down last spring, prices dropped quickly for most items (other than toilet paper). So, a year later, measuring inflation from a low point is bound to exaggerate the number somewhat. We shall see if inflation is a real concern, or more “transitory” as the Fed believes.

The Democrat controlled Congress is proposing higher income tax rates for corporations and wealthy individuals in an attempt to close a massive Federal budget gap. Higher income taxes, including those on capital gains, always present concerns to stock investors. This will be an ugly political battle, for sure. Higher income taxes would be less of a concern if they were accompanied by thoughtful spending cuts. But it’s difficult to use “Congress” and “thoughtful” in the same sentence.

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As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Have a fantastic week!

Wade

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