

May 19, 2021

Good Morning,

Stocks continue to be under pressure as investors try to anticipate the impacts of reopening the US economy. Inflation and proposed tax hikes are two of the concerns on the front burner. All indications from the Fed are that they believe current inflation is transitory in nature and will subside later in the year. There is a good chance that the Fed is right, and that inflation will recede once the inventory/production bottlenecks clear. There is also a chance that inflation will be difficult to control if it proves to be longer-lasting and gains a foothold as the Fed sits on its hands. That's uncertainty investors dislike at present.

There is a battle brewing on Capitol Hill regarding the Biden Administration's proposed income tax hikes. The tax pendulum always swings too far in one direction or the other and changes are usually bitterly partisan in nature. The current targets are corporations and wealthy individuals. Do the rich pay their fair share? The top 1% of US taxpayers (for tax year 2019) reported at least \$550,000 of adjusted gross income (AGI), received 21% of all AGI nationwide, and paid 40% of all the federal income taxes that were collected for that tax year (source: Internal Revenue Service). Enforcement of existing tax rules may be more palatable than higher tax rates and would likely generate more tax revenue.

It feels like life is returning to normal, but does the US really have COVID under control? As of last Friday, 119 million Americans are fully vaccinated, or 36% of our 332 million population (source: Centers for Disease Control and Prevention). The number of new cases of infection have dropped proportionately to the number of vaccines administered. Mask requirements are being lifted and social distances are shrinking. We are told that we need 75-80% of the population vaccinated to achieve herd immunity. What about the large number of people who simply refuse to be vaccinated? And as COVID-19 does not respect international boundaries, we will need global herd immunity. Until 75% of the global population is immunized, we will face some form of ongoing restrictions.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

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.

Enjoy this beautiful run of weather and have a great week!

Wade

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