

## Market Snaps Hot Streak Amid Consolidation Activity and Tax News

The stock market finished mixed and little changed in a week marked by consolidation activity and heated tax discussions. The S&P 500 (-0.1%), Dow Jones Industrial Average (-0.5%), and Nasdaq Composite (-0.3%) finished slightly lower, while the Russell 2000 (+0.4%) closed slightly higher.



Starting with some perspective, the S&P 500 was up 7.0% over the prior four weeks with roughly 95% of its components trading above their 200-day moving averages. Sentiment had gotten really bullish, too, giving credence to the view that the market was due for normal sideways action or a pullback.

The market took the former route, seemingly allergic to selling interest. There was one day of noticeable selling, though, and that was on Thursday after Bloomberg reported that President Biden was planning on proposing increasing the capital gains tax rate to 39.6% from 20.0% for those earning \$1 million or more.

This rate would be bumped to 43.4% when including the 3.8% tax on investment income that funds the Affordable Care Act -- and that's before state taxes are applied. Based on the facts that The New York Times published a similar report earlier in the day and that this was a part of the president's campaign, the news was viewed a convenient excuse to take profits.

True to recent usual form, though, investors bought the dip on Friday amid optimistic undertones that comprised of speculation that negotiations could reduce the rate, strategies to work around the taxes, and observations about the market's historical ability to weather tax increases.

Despite the comeback effort, the S&P 500 energy (-1.8%), consumer discretionary (-1.2%), and utilities (-1.0%) sectors still closed lower by at least 1.0%. The health care (+1.8%) and real estate (+2.0%) sectors were the clear winners.

In other key developments, earnings reports continued to beat expectations for the most part,

weekly initial claims fell to a new post-pandemic low at 547,000 (Briefing.com consensus 600,000), and new home sales surged to its highest annual rate (1.021 million) since August 2006.

The 10-yr yield was unchanged at 1.57% in a tight-ranged trading week.

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