



Insights on Taxes, Inflation & the Market:

June 9, 2021: Addressing your questions and the opportunities

Presented by: Doug Couden, CFA | King Lip, CFA, CMT | Gerry O'Connell, EA | Moderated by: Jerry Luff

Baker Avenue
WEALTH MANAGEMENT

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Welcome and Introductions:

Doug Couden, CFA
Chief Investment Officer

Manages the investment team, the firm's research process, and the overall performance of the strategies.

King Lip, CFA, CMT
Chief Strategist

Develops and communicates investment strategies and thought leadership, both internally and externally.

Gerry O'Connell, EA
Director, Tax Planning

An Enrolled Agent (EA) the premier tax accreditation recognized by the IRS.

Moderated by:

Jerry Luff, Chief Operating Officer

Oversees the strategic direction of the firm including wealth management and communications.



TODAY'S
DISCUSSION

Purpose, Passion & Performance

1

Inflation

- Historical Context
- Inflationary vs. Deflationary Environment
- Current Inflation Update
- Secular Effects - Technology, Renewables
- Inflation & Market Implications

2

Taxes Updates

- Individual & Investment
- Gift & Estate
- Corporate Tax
- Taxes & Market Implications

3

Closing Comments

- Our Outlook
- Q & A

INFLATION

Our Grow and Protect Investment Philosophy

We utilize in-depth fundamental, technical and macro analysis for long-term capital appreciation and risk control

Macro Analysis

- Monetary Policy
- Fiscal Policy
- Interest-Rate Analysis
- Currency Moves
- Geopolitical Issues
- Business Cycle Analysis
- Inflation Direction
- Credit Cycle Analysis

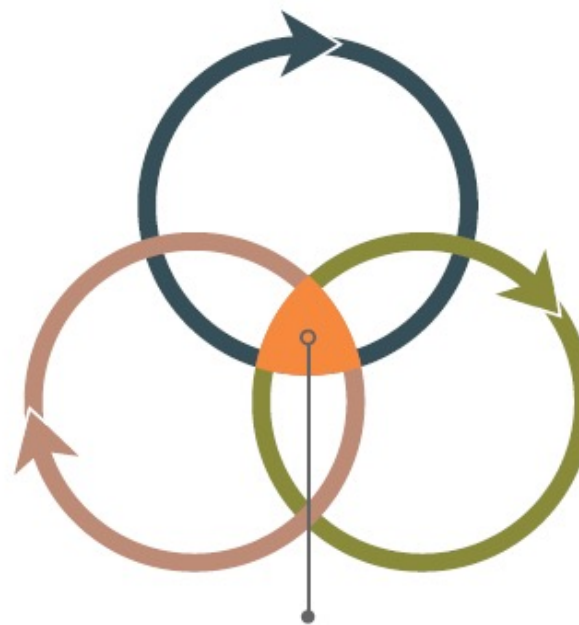
Inflation & Taxes

Technical Analysis

- Relative Strength
- Intermarket Analysis
- Market Trends
- Moving Averages
- Support & Resistance Levels
- Seasonal Patterns

Fundamental Analysis

- Revenue & Cost Drivers
- Competitive Positioning
- Identifiable Catalysts
- Forecasts vs. Expectations
- Free Cash Flow
- Valuation



BakerAvenue Investment Committee

- Risk Exposure
- Portfolio Characteristics Review
- Thesis Challenges
- New Securities Selection

Types of Inflation:

"Too much money chasing too few goods"

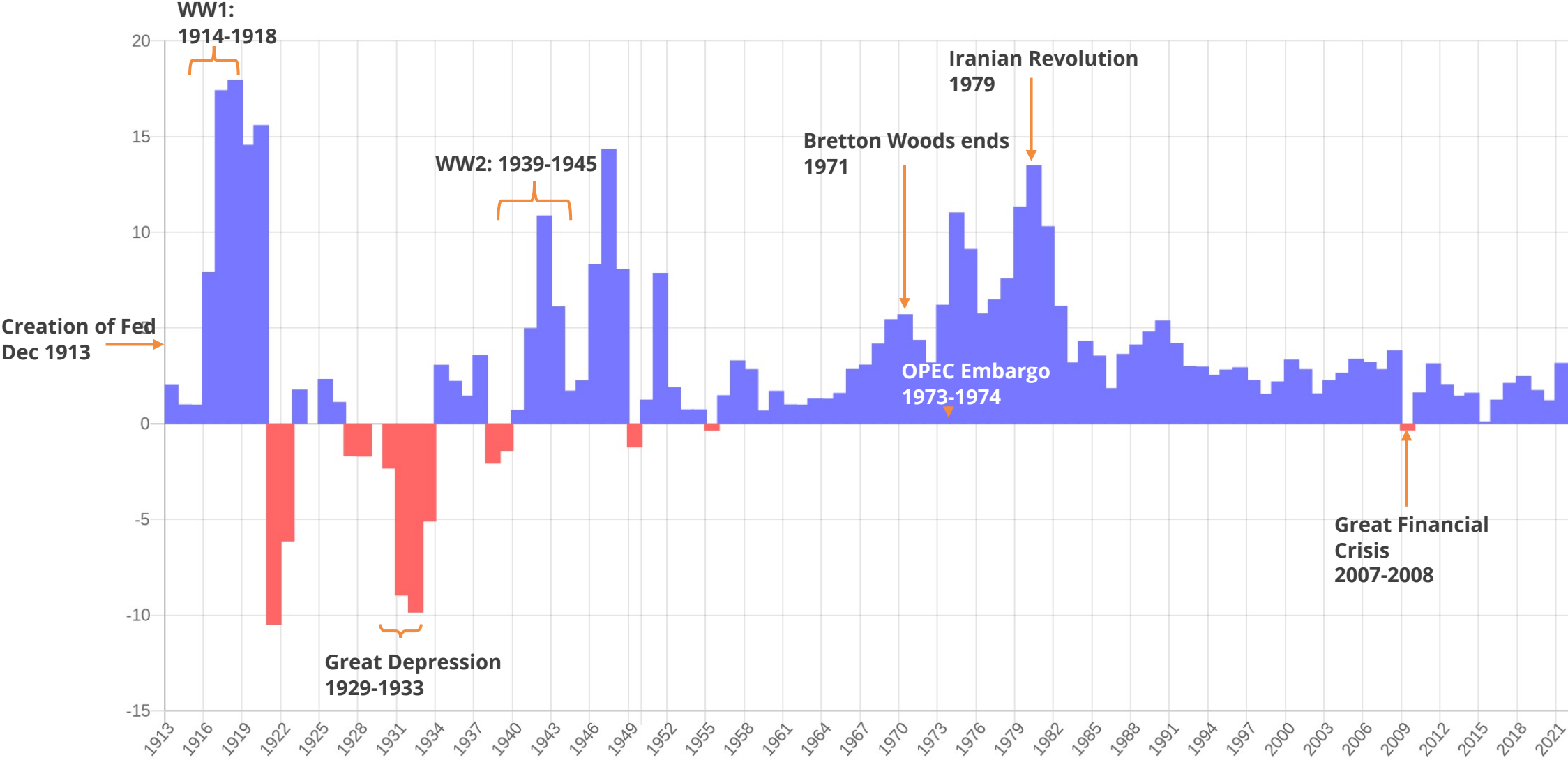
Inflation

Demand-Pull

Cost-Push

Inflation initiated by increases in wages or other resource prices is labeled: cost-push inflation.

Inflation: US Historical Inflation Rates



Source: "Value of 1950 dollars today | Inflation Calculator." Official Inflation Data, Alioth Finance, 25 May, 2021.

Inflation vs. Deflation

Periods of Price Instability	Type	Caused By	S&P 500 Performance
8/1929 – 3/1933	Deflation	Great Depression	-80%
12/2007-12/2008	Deflation	Great Financial Crisis	-37%
7/1914-11/1918	Inflation	WW 1	+15%
9/1939 – 9/1945	Inflation	WW 2	+97%
6/1972-12/1974	Stagflation	“Nixonomics” / OPEC oil Embargo / Bretton Woods	-30%
12/1976-3/1980	Inflation	Fed Chair Burns Monetary policy	13%
12/1986-10/1990	Inflation	Strong economic growth	43%
7/2009 – 9/2011	Inflation	Quantitative easing	20%

Inflation periods greater than 4.5% year-over-year CPI

Current US Annual Inflation Rates: 2011-2021



iPhone Cost in 1991



New

Buy iPhone 12

Get up to \$230 off with Apple Trade In*
[See how trade-in works](#)

Choose your model.

[Which model is right for you?](#)

iPhone 12 mini
5.4-inch display¹

~~From \$699
or \$29.12/mo.
before trade-in*~~

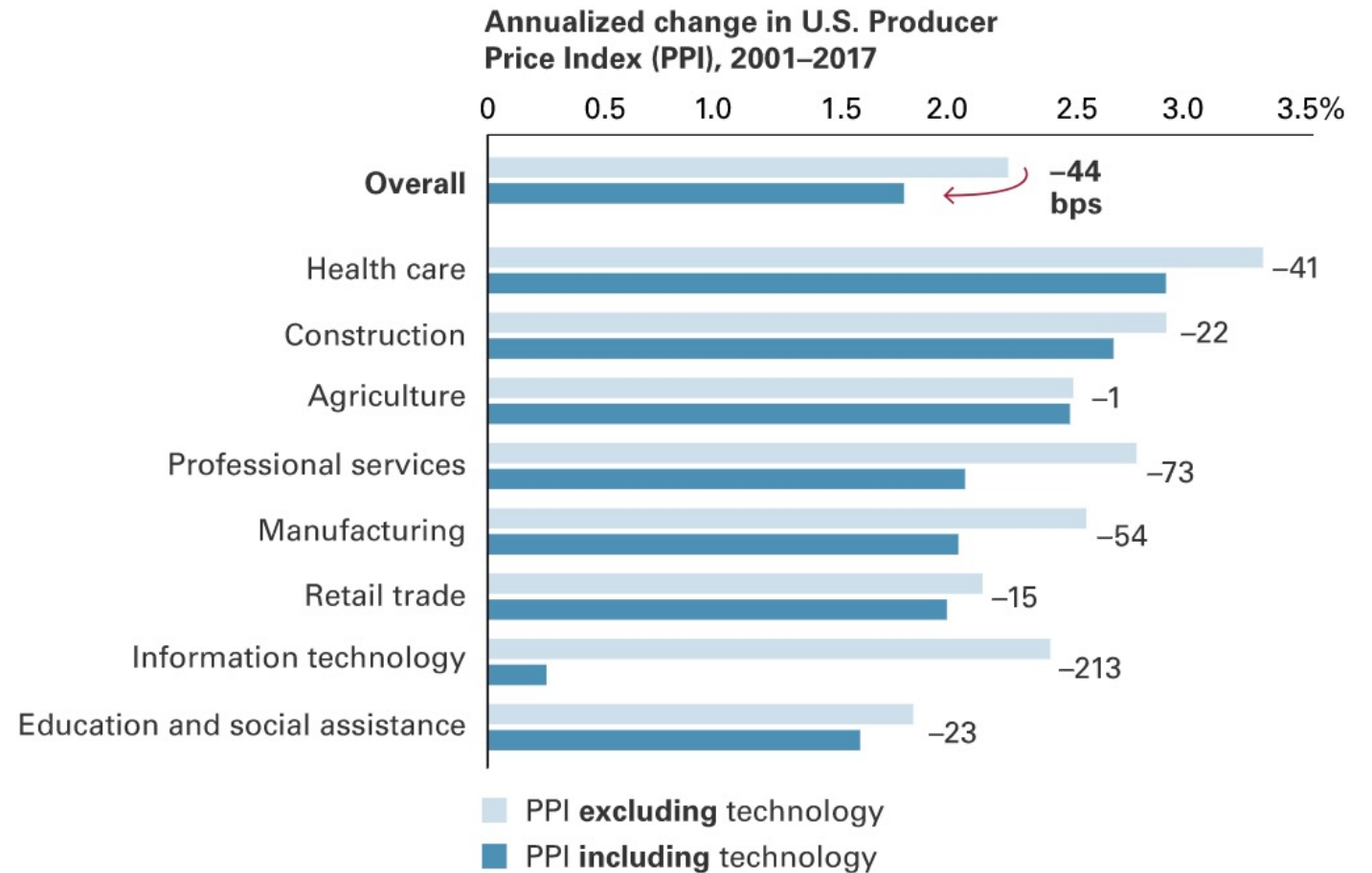
iPhone 12
6.1-inch display¹

~~From \$799
or \$33.29/mo.
before trade-in*~~

\$1.5 Million

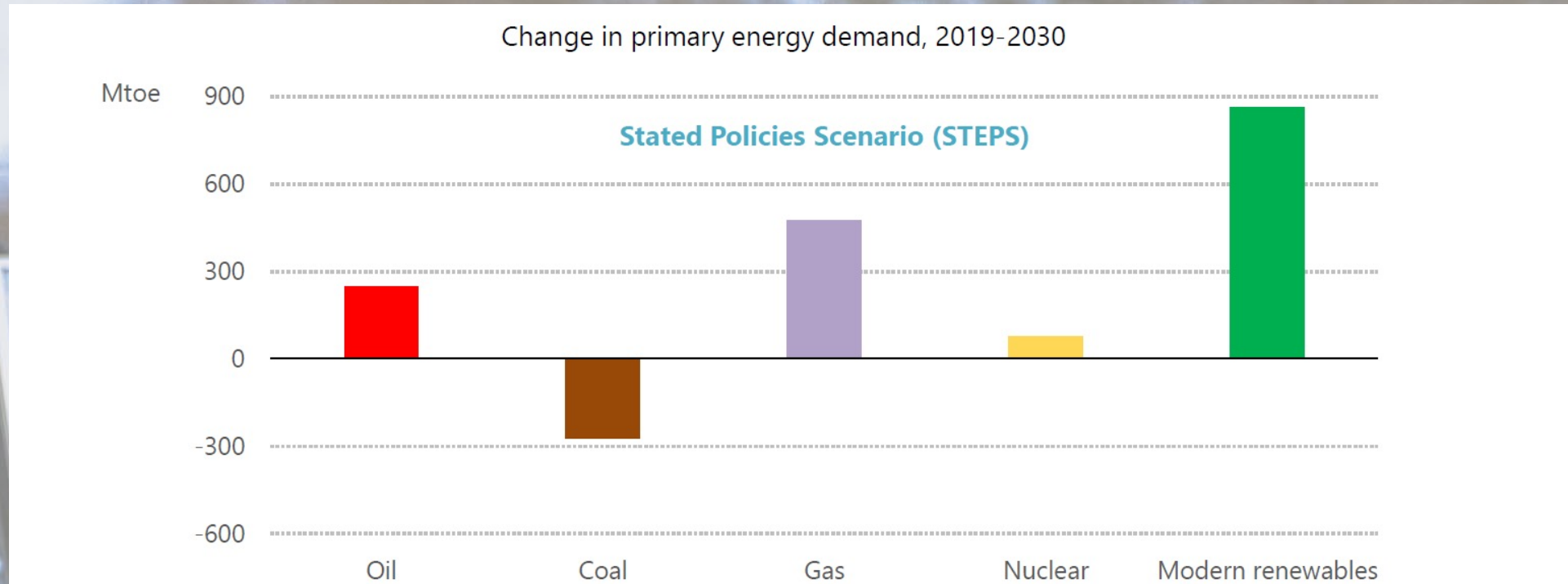


Technology's Effects on Prices, by Industry



Notes: Data cover January 2001 through December 2017. A basis point (bps) is one-hundredth of a percentage point.
Sources: Vanguard calculations, based on U.S. Bureau of Economic Analysis input-output tables and Thomson Reuters Datastream.

Impacts Vary Widely by Fuel & Technology



After a 5% drop in energy demand in 2020, renewables lead the rebound while coal never gets back to pre-crisis levels

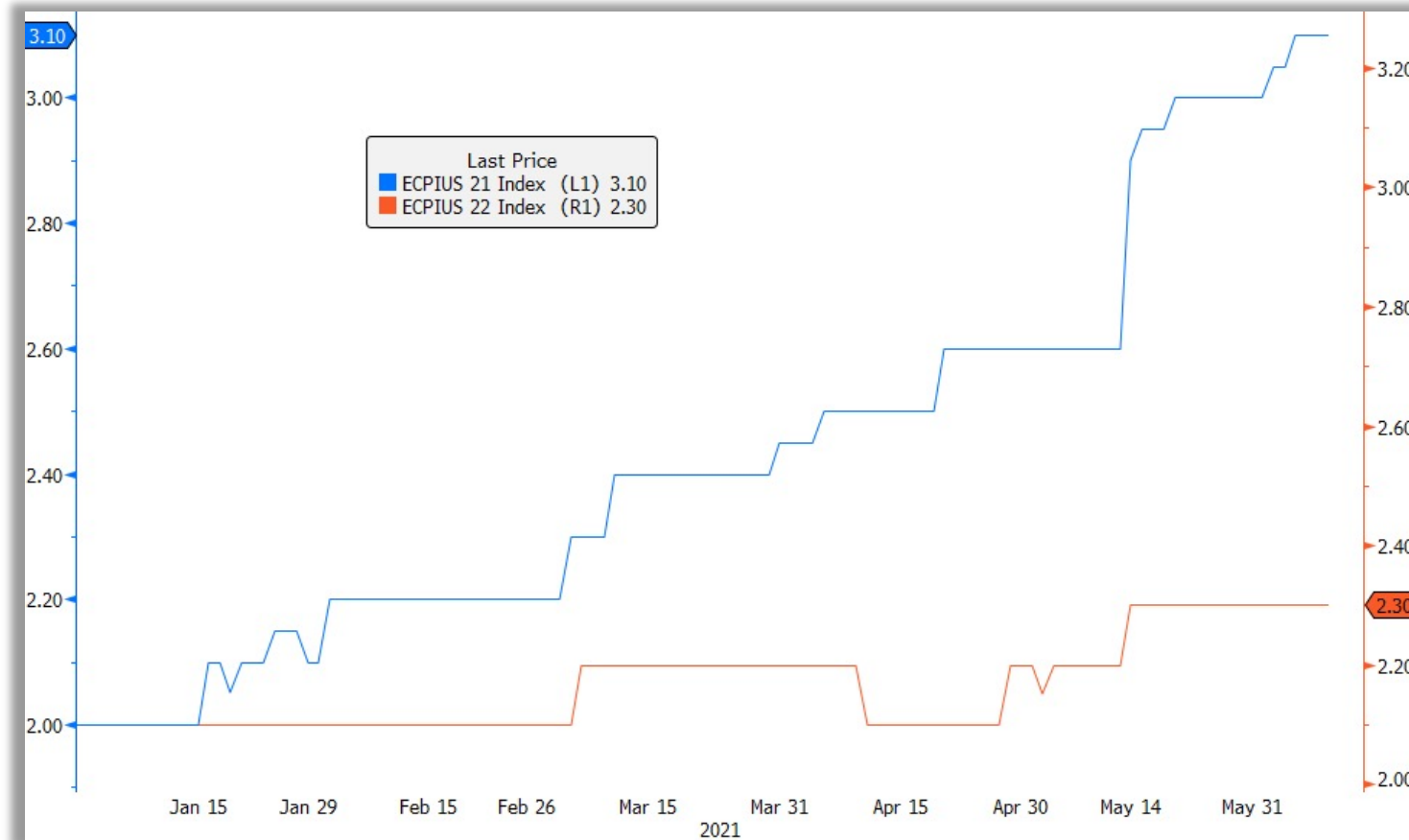
Inflation & Market Implications

The three main factors to consider are:

1. Level of inflation (what is currently priced in)
2. Speed of any change to inflation
3. Drivers of the change in inflation

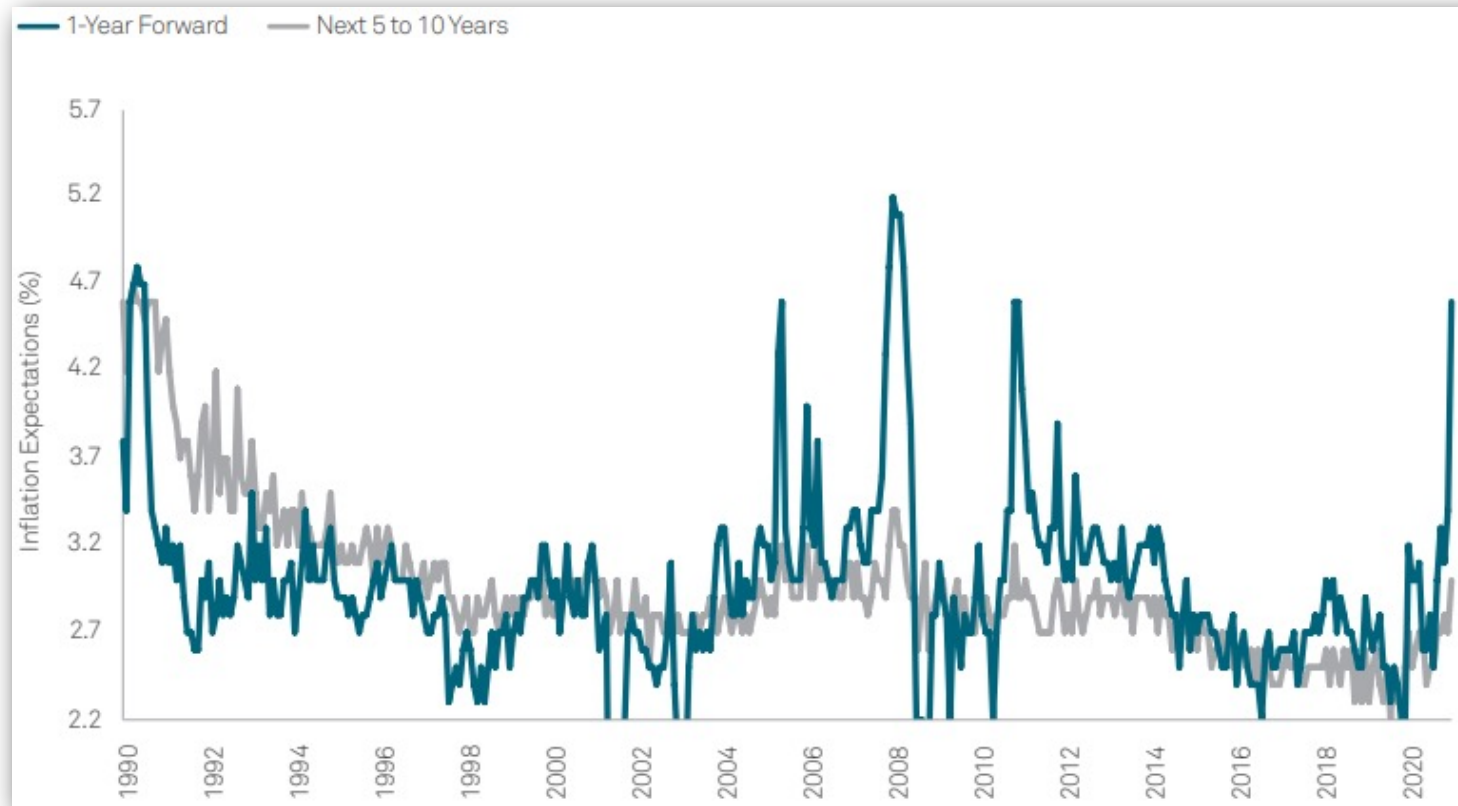
Inflation & Market Implications

Understanding what is currently priced into the markets is important.



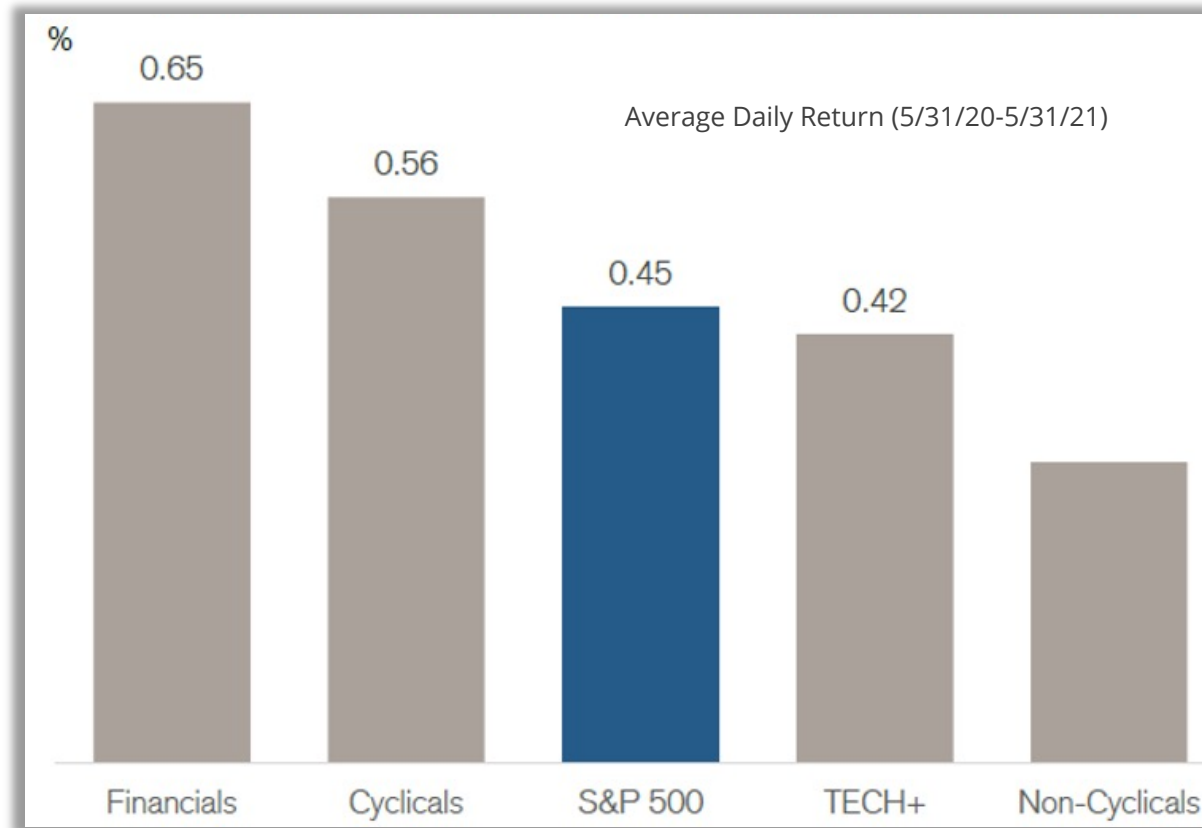
Inflation & Market Implications

The bond market is also betting on transitory inflation.



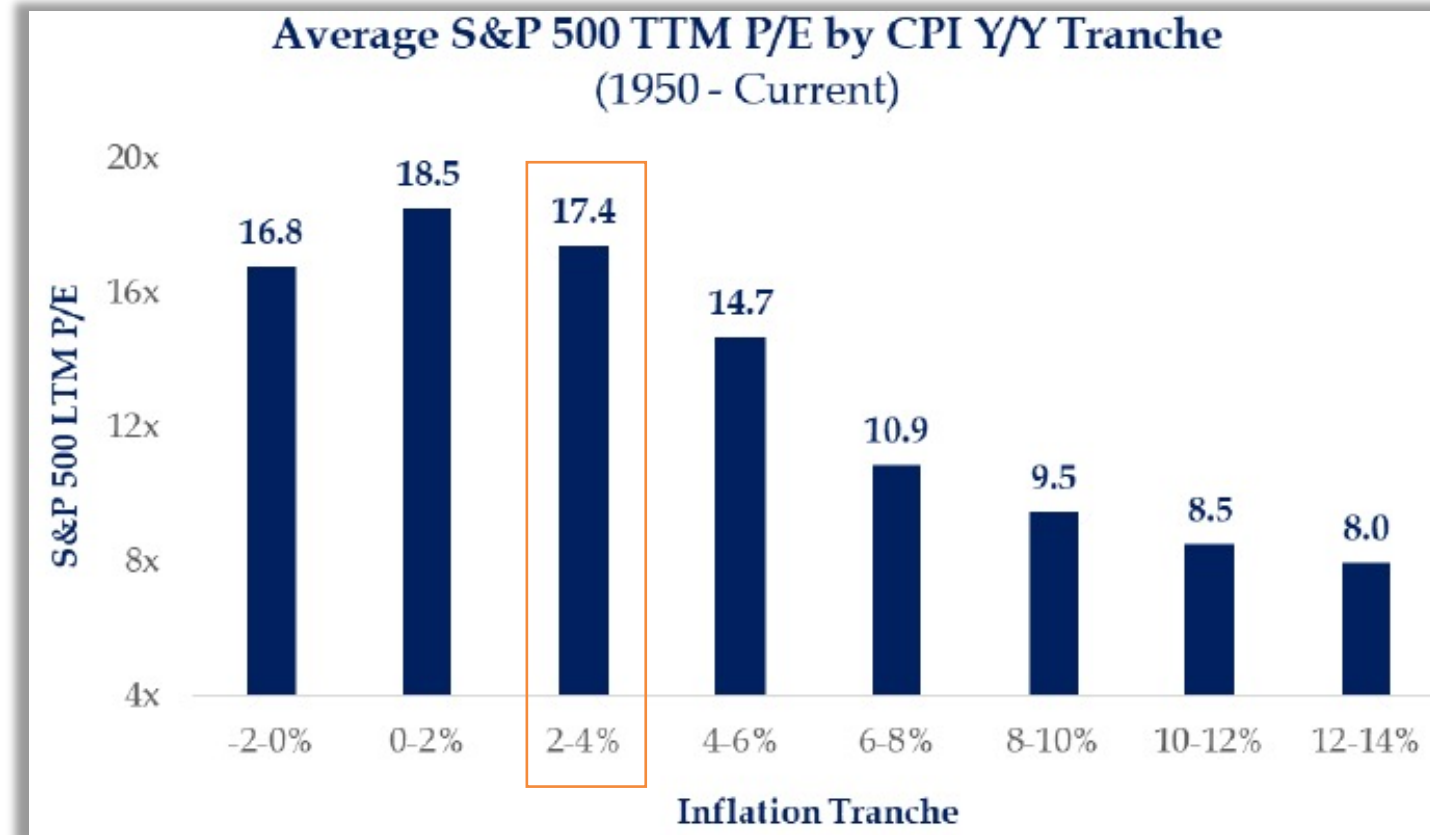
Inflation & Market Implications

Over the past year, the market has moved *higher* on average when inflation expectations have moved up.



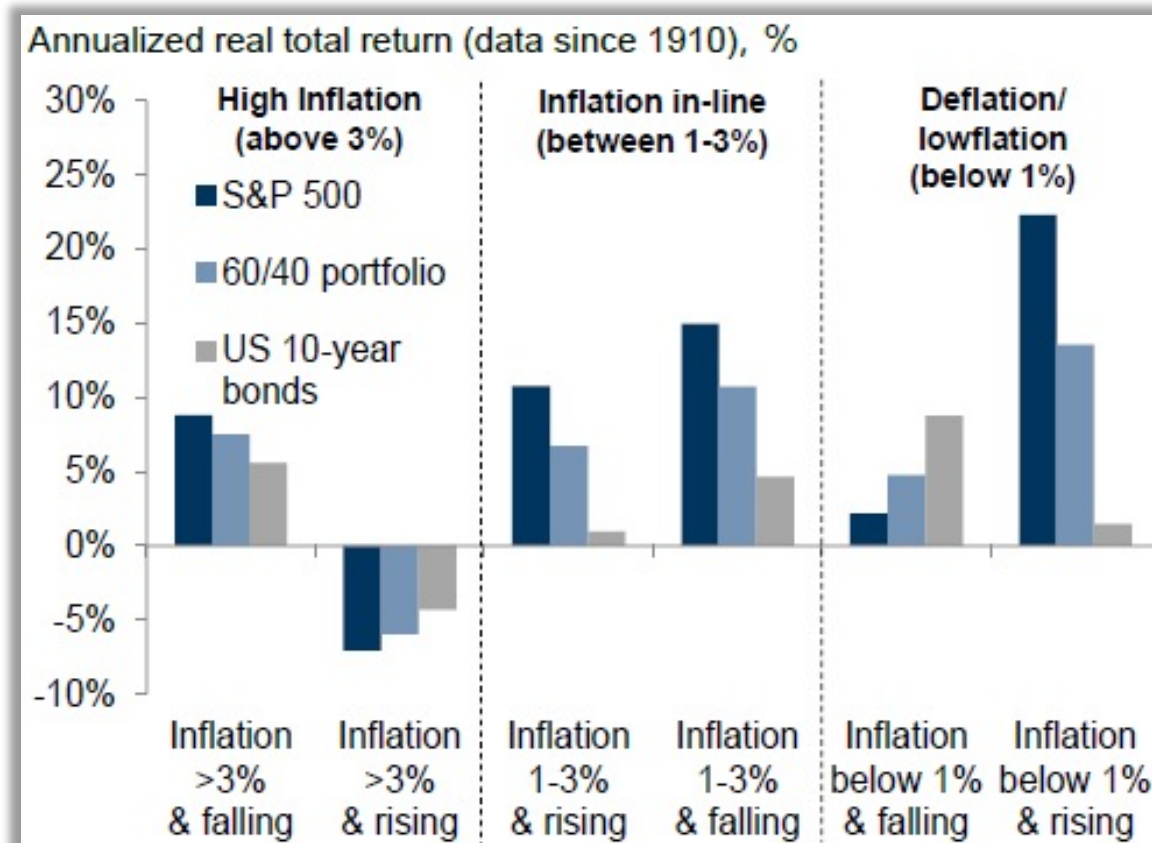
Inflation & Market Implications

Higher levels of inflation *are* associated with declining markets.



Inflation & Market Implications

Context is important. We are moving from a deflationary environment to one that is more inflationary.



Inflation & Market Implications

Interest rates have moved higher over the past year but remain historically low.



Closing Comments: Inflation & Market Implications

Key Issues	BakerAvenue's View	Key Market Metrics We Are Monitoring
<p data-bbox="183 815 366 858">Inflation</p> <p data-bbox="461 729 907 811">Is the increase in inflation transitory, or secular?</p> <p data-bbox="461 865 899 946">Will monetary policy turn restrictive?</p>	<p data-bbox="1001 575 1829 789">Recent price spikes should abate with the economic reopening and healing supply chain. Also, secular forces (e.g. technological advances, globalization ageing demographics, etc.) should help keep the odds of secular inflation low.</p> <p data-bbox="1001 843 1829 1100">We suspect the Fed will gradually remove accommodation. It is important to remember that the Fed now <i>wants</i> to overshoot inflation temporarily in order to ensure that inflation averages 2% over the cycle. Markets will need to adjust to this line of thinking.</p>	<ul data-bbox="1880 665 2402 1015" style="list-style-type: none"><li data-bbox="1880 665 2175 701">• Interest Rates<li data-bbox="1880 751 2313 786">• Inflation Expectations<li data-bbox="1880 836 2402 872">• Supply Chain Commentary<li data-bbox="1880 922 2244 1015">• Fed Disclosures & Commentary

TAX UPDATES

Investment Income

CURRENT	PROPOSED
20% maximum capital gains rate where AGI exceeds \$445K, Single, \$501K, MFJ Unlimited	39.6% rate for capital gains where AGI is over \$1M in any tax year
3.8% Net Investment Income Tax (NIIT) where AGI exceeds \$200K, Single, \$250K, MFJ	Retain NIIT
1031 Like-Kind exchanges available without restriction	Limit eligible gain to \$500K for 1031 Like-Kind exchanges

Individual Taxes

CURRENT	PROPOSED
<p>Top bracket currently 37% through 2025, then reverts to 39.6%</p> <p>Top bracket starts at \$523K, single, \$628K, MFJ</p>	<p>Top bracket increases to 39.6%. Top bracket may start at \$400K \$400K applies to Individual or Household?</p>
<p>Employee Social Security at 6.2% on wages capped at \$143K</p>	<p>Employee Social Security of 6.2% on wages exceeding \$400K, as well as up to \$143K. Applies to NSO Exercises</p>
<p>For Itemizers, State And Local Tax (SALT) deduction capped at \$10K Deductions off-set top bracket.</p>	<p>No announced change to SALT cap. Limit Itemized deductions to the 28% tax bracket.</p>

Gifts and Estate Tax

CURRENT	PROPOSED
<p>Exemption amount is \$10M (Plus Indexation) through 2025, reverts to \$5M (Plus Indexation) after 2025.</p> <p>2021 Exemption Amount \$11.7M</p>	<p>No announced change to either Exemption Amounts or Estate/Gift Tax Rates</p>
<p>Step-up in basis for Capital Gains Tax purposes for inherited assets</p> <p>Unlimited</p>	<p>Eliminate CGT step-up and replace with automatic Deemed Disposal</p> <p>\$1M/\$2M may continue to "Step-Up"</p>

Business Taxation

CURRENT

21% corporate rate

Qualifying Business Income (QBI) Deduction of 20%
of profit for pass-thru entities

PROPOSED

28% corporate rate
Talk of 25% compromise
Global Minimum Corporate Tax Rate

Eliminate

Taxes & Market Implications

Personal tax changes have had less of a market impact historically.

Date Of Higher Capital Gains	Old Rate	New Rate	S&P 500 Index Returns			
			Three Months Before	Next Three Months	Next Six Months	Next Twelve Months
1/1/2013	15.0%	23.8%	1.5%	6.7%	10.5%	25.3%
1/1/1987	20.0%	28.0%	5.4%	19.1%	24.0%	0.3%
10/4/1976	36.5%	39.9%	0.5%	1.6%	-5.6%	-7.7%
12/30/1969	27.5%	36.5%	-1.6%	-1.7%	-20.4%	-0.6%
Average			1.4%	6.4%	2.1%	4.3%
Median			1.0%	4.1%	2.4%	-0.2%
% Positive			75.0%	75.0%	50.0%	50.0%

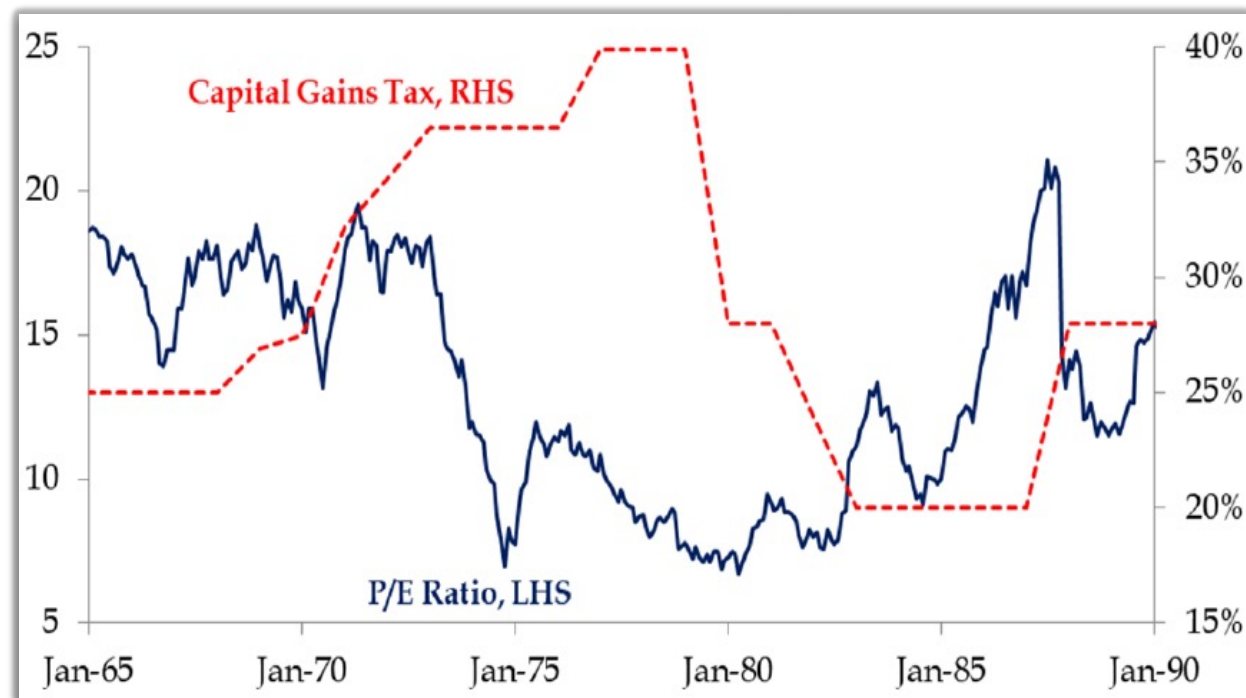
Forward returns post tax increases remained positive.

Lack of correlation between returns and tax changes.



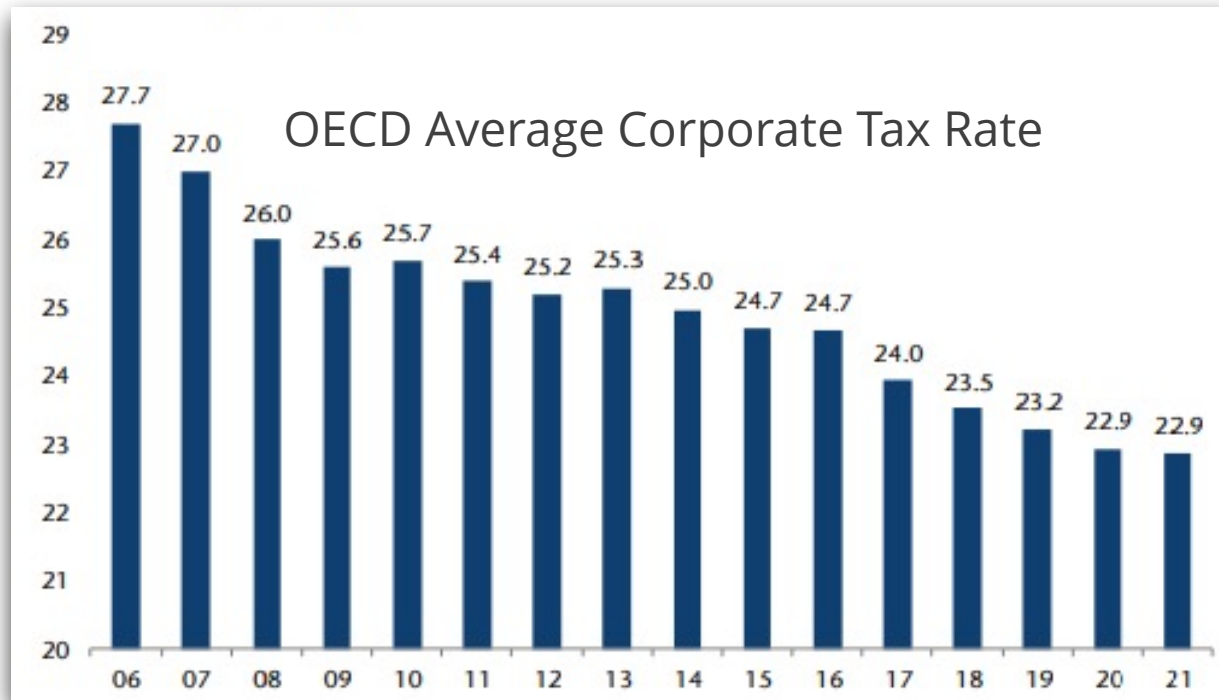
Taxes & Market Implications

Multiple compression *can* coincide with higher capital gains taxes. However, the backdrop is historically more important for stocks than capital gains taxes.



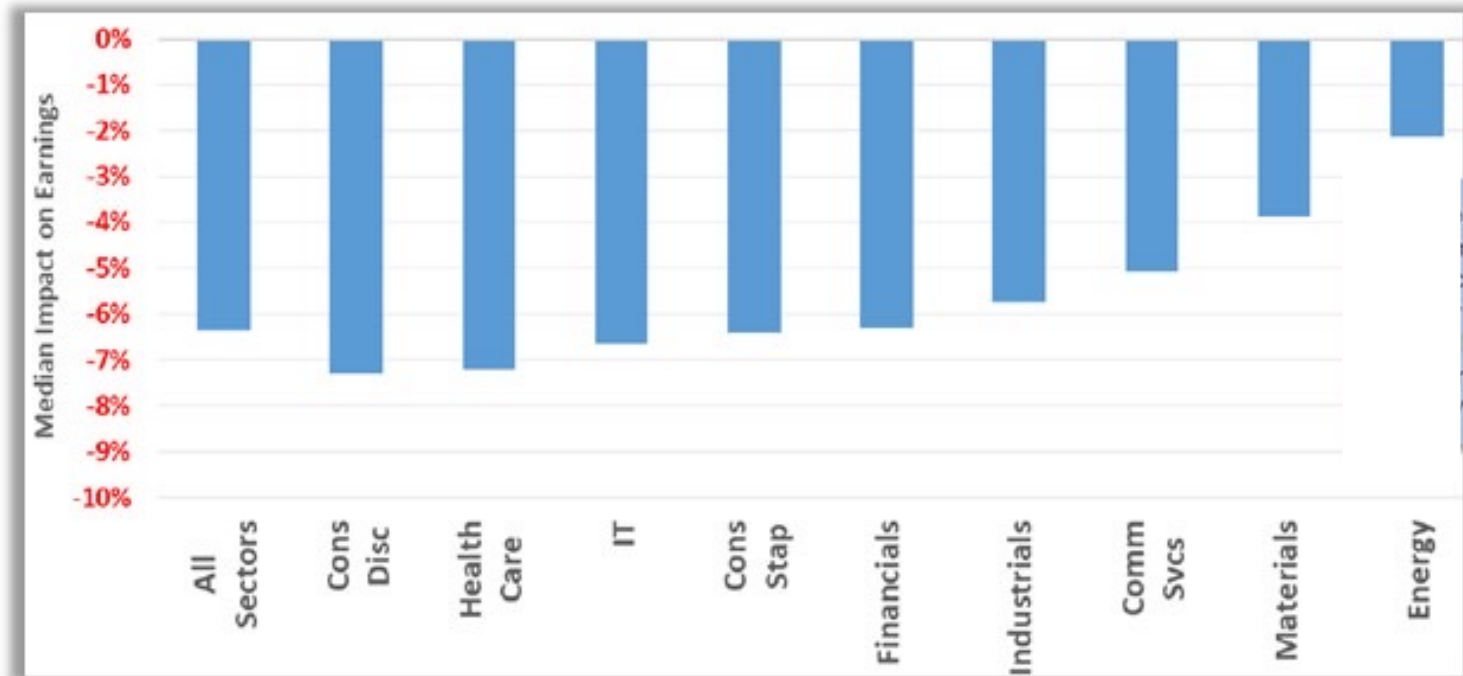
Taxes & Market Implications

Relative to personal tax code changes, corporate tax changes have historically had a more pronounced impact on the market. That said, tax rates have drifted lower for decades.



Taxes & Market Implications

Sector and industry impacts will vary.



Closing Comments: Taxes & Market Implications

	Key Issues	BakerAvenue's View	Key Market Metrics We Are Monitoring
Taxes	<p>Will consumer spending slow due to higher personal tax rates?</p> <p>Will an increase in the corporate taxes derail the narrative surrounding improving fundamentals?</p>	<p>Elevated savings rates should buoy consumer spending.</p> <p>We expect a ~5% hit to earnings growth in '22. Valuations are <i>already</i> incorporating higher corporate taxes.</p>	<ul style="list-style-type: none">• Personal spending rates• Technical selling pressure• Corporate fundamentals• Relative valuations

Questions



Thank You



For additional questions, please contact us at bakerave.com/contact or call us at 415.986.1110

Since 2004, BakerAvenue Wealth Management has guided clients through personal and professional life transitions.

Our firm provides comprehensive wealth management and investment expertise for high-net-worth individuals, families, trusts and foundations. Driven by our purpose, we strive to make a positive impact on society alongside financial return. We're headquartered in San Francisco with offices in New York, Dallas and Seattle.



