

On The Mark

History of tax hikes and market impact

May 14, 2021

Key Takeaways

- Despite the assumption many have that increasing tax rates would sink stocks, historically, markets have generated positive returns in the wake of tax increases.
- Other economic factors, such as ongoing stimulus and an accommodative Fed, can counterbalance the influence of higher taxes. In short, taxes matter, but not necessarily for their forecasting ability.

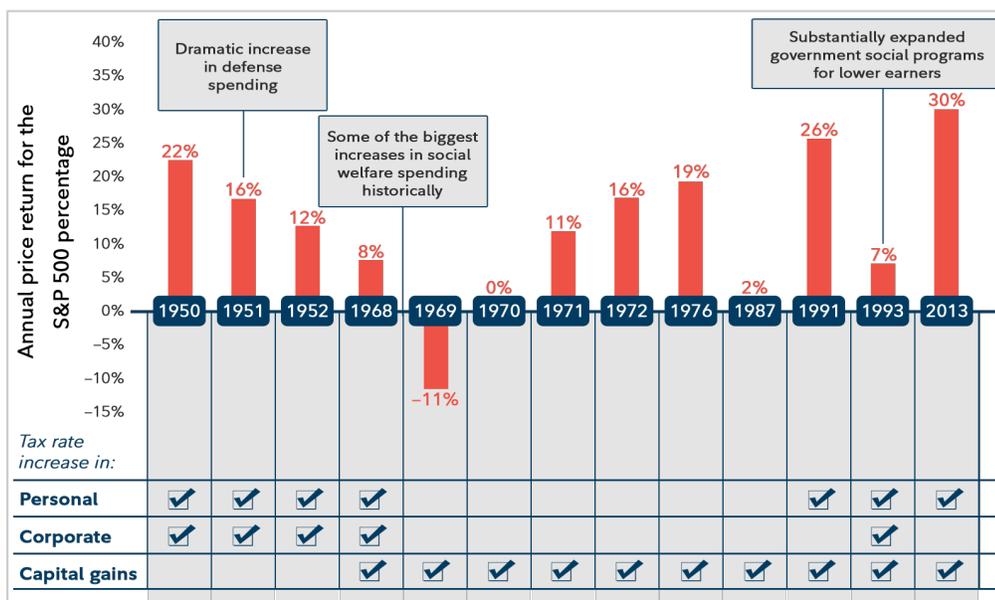
Last year, we revisited the topic of higher taxes and the impact on markets during the election season. In 2021, with various proposed tax increases to fund the American Jobs Act and the American Families Plan, we thought it might be a good time to revisit what we know so far and how markets have historically behaved after tax hikes.

Among the proposed taxes increases, are three key areas—corporate, personal and capital gains—have received the most attention. The first proposal is to raise the corporate income tax rate from 21 percent to 28 percent. The second proposal is to raise the top marginal

tax rate to 39.6 percent on individuals earning \$400,000 or more. Lastly, there is a proposal to apply ordinary income tax rates, including the proposed 39.6 percent rate, to the capital gains of individuals with more than \$1 million in taxable income¹.

This by no means is the full set of comprehensive tax proposals but highlights some of the key issues the markets have focused on recently. While the exact fate of each of these tax increases remains open to debate in Congress, as investors it may be worth taking a look at how past tax hikes have impacted markets.

The below chart by Fidelity looked at tax increases across corporate, personal, and capital gains, and the impact on the stock market as measured by the S&P 500 index since 1950². The data analyzed by Fidelity looked at the calendar year of the tax changes, plus the year prior and the year after. Historically, large changes in the tax landscape have been rare, occurring only 10% of the time over the last 70 years. The last time there was an increase in the corporate, personal and capital gains tax all in the same year was in 1993 and yet the S&P 500 gained 7% that year. Another example is looking at the capital



Source: Fidelity

gains which went up 9% in 2013 and yet stocks rose 30% that year³. The study also highlights that stocks rose 100% of the time when corporate taxes were raised. In summary, since 1950, there have been 13 instances of tax increases and the S&P 500 index had positive or flat returns 12 of the 13 times despite tax the increase.

If this has left you scratching your head, the answer lies in understanding the bigger picture. Tax hikes don't happen in a vacuum. These observations of the past are not meant to draw a conclusion that tax policies can't have an impact on the market in the short term. They certainly can, but there are many other factors to consider as well. Tax

increases are often accompanied with additional stimulus such as increased defense spending and expanded government social programs as shown in the chart. These examples have acted as a counterbalance, making it difficult to predict the direction of stock markets. In 2021, there appears no shortage of stimulus from low interest rates set by the Federal Reserve, additional government spending for individuals, and potential future spending on infrastructure. In short, taxes matter, but not necessarily for their forecasting ability.

¹ <https://taxfoundation.org/biden-first-100-days-taxes/>

² <https://www.fidelity.com/learning-center/trading-investing/tax-hikes-history>

³ <https://www.ubs.com/global/en/wealth-management/chief-investment-office/market-insights/house-view/daily/2021/latest-23042021.html>

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-
2445
800-664-5345

IMPORTANT INFORMATION

This is for informational purposes only, is not a solicitation, and should not be considered investment, legal or tax advice. The information in this report has been drawn from sources believed to be reliable, but its accuracy is not guaranteed, and is subject to change. Investors seeking more information should contact their financial advisor. Financial advisors may seek more information by contacting AssetMark at 800-664-5345.

Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss. Actual client results will vary based on investment selection, timing, market conditions, and tax situation. It is not possible to invest directly in an index. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Index performance assumes the reinvestment of dividends.

Investments in equities, bonds, options, and other securities, whether held individually or through mutual funds and exchange traded funds, can decline significantly in response to adverse market conditions, company-specific events, changes in exchange rates, and domestic, international, economic, and political developments.

AssetMark, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. AssetMark and third-party service providers are separate and unaffiliated companies. Each party is responsible for their own content and services.

©2021 AssetMark, Inc. All rights reserved.

102427 | C21-17688 | 05/2021 | EXP 05/31/2022