

GDP

GDP rose at an annualized rate of 6.4% in the first quarter. Consumer spending rose 10.7%, business investment was up 9.9%, residential investment was up 10.8% and government spending rose 6.3%. Exports fell 1.1% while imports rose 5.7%. Inventories fell dramatically.

Our Take: The economy was roaring in Q1, especially in the goods-producing sectors. There are still some obstacles to overcome including bottlenecks due to supply chain issues, higher-than-desired unemployment (especially in service sectors) and a world economy still struggling with COVID-19-induced challenges. However, given the level of government stimulus and the reopening of much of the economy, growth is likely to continue in Q2.

Fiscal Plans

President Biden presented his plan for spending \$1.8 trillion over the next 10 years on an “American Families Plan” that provides an array of payments and tax credits to lower and middle-income households. This spending plan is in addition to the administration’s proposed \$2.5 trillion infrastructure plan and the \$1.9 trillion in stimulus and COVID-19 relief expenditures. The administration is proposing to pay for most of the new spending in this plan with \$1.5 trillion in tax increases on households making more than \$400,000 per year. These tax increases would be implemented through an increase in the top marginal rate to 39.6%, an increase in the capital gains rate from 20% to 39.6% for anyone making over \$1 million and an end to the step-up in cost basis for inherited assets for unrealized gains beyond \$1 million. The administration’s proposals leave the current \$10,000 SALT deduction cap in place.

Our Take: The administration’s spending plans are very ambitious and would drive further large increases in debt and deficits if implemented. The proposed tax increases would apply higher rates to a narrower tax base, creating more distortions in the flow of capital due to a greater value in sheltering income and assets from taxation. Given the current composition of Congress, the administration’s proposals face a very narrow path to passage that will have to include several moderate Democrats who have expressed concern about some aspects of the proposals.

Personal Income and Spending

Personal income rose 21.1% in March while spending increased 4.2%.

Our Take: The increase in incomes, fueled by massive government stimulus, was the largest on record. As a result, spending also surged. As income growth exceeded spending, the savings rate also ballooned, rising from 13.9% to 27.6%, leaving plenty of money in consumers’ pockets to continue the spending spree.

The Fed

As expected, the Federal Reserve Open Market Committee (FOMC) left its federal funds rate unchanged at the current range of 0.0%-0.25%. Economic activity and employment strengthened as the country made progress on vaccinations. The Fed recognized inflation has risen but largely attributed the rise to “transitory factors.”

With strong policy support, the sectors most negatively impacted by the pandemic show signs of improvement but remain weak. The committee continues to note that “substantial further progress” is needed before the current policy changes.

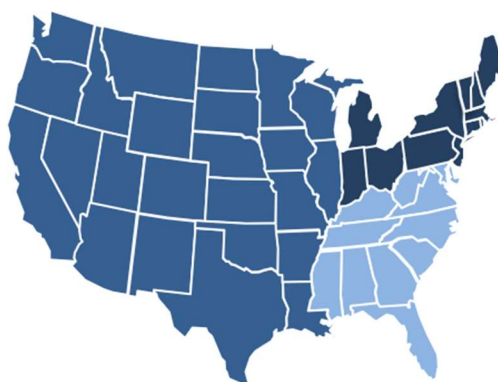
Our Take: Despite signs of an improving economy and rising inflation pressures, the Fed remains committed to its support of the recovery and continues to signal it will likely maintain its easy policy stance for the foreseeable future.

Municipals

The Census Bureau released the first results from the 2020 Census this week. Due to population changes, 13 states will gain or lose seats in the House of Representatives. Texas will gain two seats. Colorado, Florida, Montana, North Carolina and Oregon will gain one seat. States losing seats include California, Illinois, Michigan, New York, Ohio, Pennsylvania, and West Virginia. Overall, Census data showed that the South experienced population growth while the Midwest and Northeast experienced population declines.

Our Take: The 2020 Census results have been delayed due to COVID-19. Releasing the first results now gives states the ability to start the process of redrawing Congressional maps.

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