

# Quick thoughts

## How might the markets react to changes in personal taxes?

MAY 5, 2021



**Stephen Dover, CFA**  
Chief Market Strategist,  
Head of Franklin Templeton  
Investment Institute  
Franklin Templeton

Whether driven by the politics of fairness or the need to address budget shortfalls, taxes are back in our discussions globally. Can US President Joe Biden muster the votes to raise personal income and capital gains taxes, and if he can, will stocks tumble?

- President Biden got off to a fast and popular start in his first 100 days. Higher taxes, both to fund infrastructure spending plans and to promote fairness, are more likely.
- For the broad contours of markets—US and global—raising the US capital gains tax rate is unlikely to have a large market-wide impact. Higher capital gains taxes are likely to have bigger impacts on sectors and individual stocks, (e.g., the FAANGs<sup>1</sup>) rather than on the market as a whole.
- Some investors will attempt to tax optimize. They may be contemplating sales already and are likely to bring them forward. Some may “earnings optimize,” choosing to avoid the threshold by deferring other compensation to stay below the US\$1 million per year earnings threshold for higher tax rates.
- Higher taxes are not a forgone conclusion. Moderate Democrats and Independents may balk, and others may split the caucus over restoration of state and local tax deductions (SALT).
- Higher capital gains tax rates may not produce much immediate selling. Wealthy Americans generally have access to liquidity or can borrow against appreciated assets.
- There are a few final questions to consider: Will higher US taxes on capital harm US productive investment? Will they push business investment abroad? Higher taxes on capital do deter its formation. But as John Maynard Keynes pointed out long ago, the key driver of business investment is “animal spirits,” not the cost of capital.

If the economy performs, business will invest. As for shifting capital abroad, there is little evidence that changes in personal tax rates, as opposed to corporate tax rates, leads to a global reallocation of capital. For additional investment lenses to view the impacts of taxes, policies, and other economic factors globally, read “America’s U-Turn” by Francis Scotland, Director of Global Macro Research, Brandywine Global; Dr. Sonal Desai’s “On My Mind”—A Tale of Two Recoveries”; and Western Asset’s “Second Quarter 2021 Global Outlook.”

## Endnotes

1. FAANG represents the stocks of five US technology companies: Facebook, Amazon, Apple, Netflix, and Alphabet (Google).

## WHAT ARE THE RISKS?

**All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested.** Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Any companies and case studies shown herein are used solely for illustrative purposes; any investment may or may not be currently held by any portfolio advised by Franklin Templeton. The opinions are intended solely to provide insight into how securities are analyzed. The information provided is not a recommendation or individual investment advice for any particular security, strategy, or investment product and is not an indication of the trading intent of any Franklin Templeton managed portfolio. **Past performance does not guarantee future results.**

Franklin Templeton (FT) does not provide legal or tax advice. Federal and state laws and regulations are complex and subject to change, which can materially impact results. FT cannot guarantee that such information is accurate, complete or timely; and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information.

## IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as of May 5, 2021 and may change without notice. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. **All investments involve risks, including possible loss of principal.**

Data from third party sources may have been used in the preparation of this material and Franklin Templeton (“FT”) has not independently verified, validated or audited such data. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Products, services and information may not be available in all jurisdictions and are offered outside the U.S. by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Issued in the U.S. by Franklin Templeton Distributors, Inc., One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com—Franklin Templeton Distributors, Inc. is the principal distributor of Franklin Templeton U.S. registered products, which are not FDIC insured; may lose value; and are not bank guaranteed and are available only in jurisdictions where an offer or solicitation of such products is permitted under applicable laws and regulation.

**Australia:** Issued by Franklin Templeton Investments Australia Limited (ABN 87 006 972 247) (Australian Financial Services License Holder No. 225328), Level 19, 101 Collins Street, Melbourne, Victoria, 3000 / **Austria/Germany:** Issued by Franklin Templeton International Services S.à r.l., Niederlassung Deutschland, Frankfurt, Mainzer Landstr. 16, 60325 Frankfurt/Main, Tel 08 00/0 73 80 01 (Germany), 08 00/29 59 11 (Austria), Fax +49(0)69/2 72 23-120, info@franklintempleton.de, info@franklintempleton.at / **Canada:** Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1500 Toronto, ON, M5H3T4, Fax (416) 364-1163, (800) 387-0830, www.franklintempleton.ca / **Netherlands:** Franklin Templeton International Services S.à r.l., Dutch Branch, World Trade Center Amsterdam, H-Toren, 5e verdieping, Zuidplein 36, 1077 XV Amsterdam, Netherlands. Tel +31 (0) 20 575 2890 / **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. Dubai office: Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E., Tel +9714-4284100, Fax +9714-4284140 / **France:** Issued by Franklin Templeton International Services S.à r.l., French branch., 20 rue de la Paix, 75002 Paris France / **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 17/F, Chater House, 8 Connaught Road Central, Hong Kong / **Italy:** Issued by Franklin Templeton International Services S.à r.l.—Italian Branch, Corso Italia, 1—Milan, 20122, Italy / **Japan:** Issued by Franklin Templeton Investments Japan Limited / **Korea:** Issued by Franklin Templeton Investment Trust Management Co., Ltd., 3rd fl., CCMM Building, 12 Youido-Dong, Youngdungpo-Gu, Seoul, Korea 150-968 / **Luxembourg/Benelux:** Issued by Franklin Templeton International Services S.à r.l.—Supervised by the Commission de Surveillance du Secteur Financier—8A, rue Albert Borschette, L-1246 Luxembourg, Tel +352-46 66 67-1, Fax +352-46 66 76 / **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. / **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A., Rondo ONZ 1; 00-124 Warsaw / **Romania:** Franklin Templeton International Services S.à R.L. Luxembourg, Bucharest Branch, at 78-80 Buzesti Str, Premium Point, 8th Floor, Bucharest 1, 011017, Romania. Registered with Romania Financial Supervisory Authority under no. PJM07.1AFIASMDLUX0037/10 March 2016 and authorized and regulated in Luxembourg by Commission de Surveillance du Secteur Financier. Telephone: + 40 21 200 9600 / **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E. 7 Temasek Boulevard, #38-03 Suntec Tower One, 038987, Singapore / **Spain:** Issued by Franklin Templeton International Services S.à r.l.—Spanish Branch, Professional of the Financial Sector under the Supervision of CNMV, José Ortega y Gasset 29, Madrid, Spain. Tel +34 91 426 3600, Fax +34 91 577 1857 / **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd which is an authorised Financial Services Provider. Tel +27 (21) 831 7400, Fax +27 (21) 831 7422 / **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich / **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL, Tel +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority / **Nordic regions:** Issued by Franklin Templeton International Services S.à r.l., Contact details: Franklin Templeton International Services S.à r.l., Swedish Branch, filial, Nybrokajen 5, SE-111 48, Stockholm, Sweden. Tel +46 (0)8 545 012 30, nordicinfo@franklintempleton.com, authorised in the Luxembourg by the Commission de Surveillance du Secteur Financier to conduct certain financial activities in Denmark, in Sweden, in Norway, in Iceland and in Finland. Franklin Templeton International Services S.à r.l., Swedish Branch, filial conducts activities under supervision of Finansinspektionen in Sweden / **Offshore Americas:** In the U.S., this publication is made available only to financial intermediaries by Templeton/Franklin Investment Services, 100 Fountain Parkway, St. Petersburg, Florida 33716. Tel (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax (727) 299-8736. Investments are not FDIC insured; may lose value; and are not bank guaranteed. Distribution outside the U.S. may be made by Templeton Global Advisors Limited or other sub-distributors, intermediaries, dealers or professional investors that have been engaged by Templeton Global Advisors Limited to distribute shares of Franklin Templeton funds in certain jurisdictions. This is not an offer to sell or a solicitation of an offer to purchase securities in any jurisdiction where it would be illegal to do so.

Please visit [www.franklinresources.com](http://www.franklinresources.com) to be directed to your local Franklin Templeton website.

*CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.*

