

Coach's Corner

Latest commentary from David Richman and Dave Gordon to help you elevate the success of your practice

Disclosure

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness. Past performance is no guarantee of future results.

[After-Tax Advisor](#) | [Bridge to Referrals](#)

Step into Eddie Perkin's time machine

By: David Richman | April 13, 2021

"Be a time traveler" is one of my favorite isms from Eddie Perkin, chief investment officer, equity at Eaton Vance. This ism expresses the importance Eddie places on looking beyond the noise of a particular moment as one attempts to anticipate future financial headlines.

In a recent conversation, Eddie stepped into his time machine to look forward six months from now. Below are some excerpts from our discussion, with Eddie's current theses in bold.

David: "Eddie, let's explore your take on the market moves of the past several months."

Eddie: "Since early November 2020, when the highly efficacious COVID-19 vaccines were announced and the election results came in, the market has been focused on the reopening of the economy and what that has meant for a cyclical rotation and higher interest rates."

David: "Now, take us for a brief ride in your time machine."

Eddie: "From the vantage point of the fall 2021, a different set of topics will be on investors' minds. The market narrative in late 2021 could be one of anticipated fiscal tightening with a 2022 drop in government spending and higher taxes on companies and individuals."

David: "How does that scenario inform your current thesis?"

Eddie: "**Ready, fire aim with respect to tax planning now.** It may be best to act before we know all of the fine print. It seems reasonable to think capital gains tax rates on high-income investors will move upward. My best guess is that the new rates will not be retroactive to the beginning of the year nor delayed until 2022. Most likely, they will be effective immediately in fall 2021, around the time of the introduction or passage of the bill. If this is right, certain investors would be well served harvesting long-term tax gains in the first half of the year under a presumably more favorable tax regime."

David: "What else does your time machine suggest regarding financial headlines as we move to the end of Q3 and into early Q4?"

Eddie: "**Inflation will be the headline story** — it's both a micro and a macro story. As states rapidly administer vaccines, the economy seems likely to reopen rapidly. In a normal recession, companies reduce capacity and cut costs, which can lead to being caught off guard as things rebound. This rebound is likely to produce an extreme version of this effect, exacerbated by unpredictable demand surges and supply shortages in unexpected sectors of the economy. Layer in low inventory levels and disrupted supply chains and it gets worse. The only way to resolve a mismatch of supply and demand is with price

changes to rebalance the market. That's the microeconomics answer."

"There is also a macroeconomic story going on at the same time. Just since December 2020, we have seen two massive fiscal spending packages, equivalent to a combined 14% of GDP. The Fed has indicated a willingness to keep monetary policy loose through 2023 and to tolerate more inflation than what it has been comfortable with historically."

David: "Once again, how does this scenario inform your current thesis?"

Eddie: "The kindling of the bonfire is in place and the match has been struck."

David: "I have learned to respect that time machine of yours, Eddie. Assuming you turn out to be right, what do you think investors should be doing today?"

Eddie: "The one-year return of the Russell 2000 from the market bottom in March 2020 was more than 120% — a decade's worth of return in 12 months. I would be willing to bet that the next 12 months will produce a return below that level. The challenge for investors will be to find attractive risk/return opportunities against the backdrop of a rapidly recovering economy, renewed inflation and tax policy uncertainty. An active approach focusing on quality business franchises that can manage, and take advantage of, those external pressures should be well served in that environment."

Bottom line: Consider deploying your own time machine in client conversations. As a forward-thinking advisor, you can help clients prepare for what may lie ahead, agree upon tactical adjustments and capture referable moments.

All investing involves risk including the risk of loss.

At the Advisor Institute, our goal is not to shape your opinion or provide investment advice, rather to share this viewpoint as an example of what we believe to be a superb display of thesis articulation.

Related Content

[RELATED POST: A cyclical rotation: Potential opportunities and risks](#)



David Richman
National Director
Eaton Vance Advisor
Institute

"This ism expresses the importance Eddie places on looking beyond the noise of a particular moment as one attempts to forecast future financial headlines."



To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

 This image indicates content designed specifically for Financial Advisors / Investment Professionals. This material is not to be used with the public.

Before investing in any Eaton Vance fund, prospective investors should consider carefully the investment objective(s), risks, and charges and expenses. For open-end mutual funds, the current prospectus contains this and other information. To obtain a mutual fund prospectus or summary prospectus and the most recent annual and semiannual shareholder reports, contact your financial advisor or [download a copy here](#). Read the prospectus carefully before you invest or send money. For closed-end funds, you should contact your financial advisor. To obtain the most recent annual and semi-annual shareholder report for a closed-end fund contact your financial advisor or [download a copy here](#). Before purchasing any variable product, consider the objectives, risks, charges, and expenses associated with the underlying investment option(s) and those of the product itself. For a prospectus containing this and other information, contact your investment or insurance professional. Read the prospectus carefully before investing.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

Eaton Vance does not provide tax or legal advice. Prospective investors should consult with a tax or legal advisor before making any investment decision.

The information on this Web page is for U.S. residents only and does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any

jurisdiction to any person to whom it is not lawful to make such an offer.

© Eaton Vance Management. All rights reserved. Eaton Vance open-end mutual funds are offered through Eaton Vance Distributors, Inc. Two International Place, Boston, MA 02110. Member [FINRA](#) / [SIPC](#)