

# ECONOMY

## Tax Increases Amid a Pandemic Could Backfire

THINK STRATEGICALLY:

# The Race for the COVID-19 Cure

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



### The Heroes, COVID-19 Pharmaceuticals

Since the COVID-19 pandemic began, more than a dozen, if not more, pharmaceutical companies began searching for a COVID-19 vaccine; of those, only six companies became serious contenders. We all now know the race was finally won by the combination of Pfizer-BioNTech, followed by Moderna, AstraZeneca and finally Johnson & Johnson.

Some of these companies are well-known, others are virtually unknown outside of their realm. Allow us to explain what they do. We have ranked them according to their stock's performance from March 23, 2020 to March 23, 2021.

Moderna (MRNA) creates transformative medicines based on a molecule called messenger RNA, or mRNA, which carries instructions for producing a protein from SARS-CoV-2, the virus that causes COVID-19. It transfers the information stored in the genes to the cellular machinery that makes the proteins required for life. Moderna created the second COVID-19 vaccine authorized for emergency use by the Food and Drug Administration (FDA). Its stock price has risen 413.8 percent and closed on April 1 at \$132.55

BioNTech (BNTX) is a biotechnology company that focuses on developing cancer therapeutics, including individualized immunotherapy and vaccines for infectious diseases, including the first FDA-authorized COVID-19 vaccine. Developed alongside Pfizer, their vaccine, Comirnaty, is also based on mRNA and therefore does not contain the virus and cannot cause COVID-19. The Comirnaty Vaccine is BioNTech's first commercial product. Its stock price has risen 95.11 percent and closed on April 1 at \$113.87.

Johnson & Johnson's (JNJ) is the world's largest and most diverse healthcare firm. It comprises three divisions: pharmaceutical, medical devices and diagnostics, and consumer. It developed the fourth COVID-19 vaccine and only requires one dose. Its stock price has risen 44.28 percent and closed April 1 at \$162.83.

Pfizer (PFE) is one of the world's largest pharmaceutical firms, with annual sales of \$50 billion. Pfizer also spends an outsized amount on research and development, close to \$8 billion annually. The Pfizer-BioNTech partnership produced the world's first COVID-19 vaccine. Its stock price has risen 31.02 percent and closed April 1 at \$36.30.

Astra/Zeneca (AZN) sells drugs across

several major therapeutic classes, including gastrointestinal, diabetes, cardiovascular, respiratory, cancer and immunology. It produced the third COVID-19 vaccine in collaboration with Oxford University. Its stock price has risen 27.39 percent and closed April 1 at \$49.53.

Gilead Sciences (GILD) develops and markets therapies to treat life-threatening infectious diseases. The FDA approved the antiviral drug Veklury, or Remdesivir, for the treatment of patients with COVID-19 requiring hospitalization; however, the drug proved ineffective in preventing COVID-19. Its stock price has lost 11.17 percent and closed on April 1 at \$66.44.

### Week in Markets: S&P 500 Crosses 4,000, Dow Rises Over 2,000 Points in March

The Easter holiday weekend provided an excellent respite to one of the strongest first quarters for equities in recent memory, ending with the S&P 500 crossing the mythical 4,000-point mark for the first time Thursday. Significantly as well, the Dow Jones Industrial Average rose 2,049.18 points in March.

Also, two critical economic indicators supported the economic recovery: the U.S. Index of Consumer Sentiment, which rose to 84.9 percent, up from 76.8 percent last month, or 10.55 percent; and the Institute of Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI), which increased to 64.7 percent, from 60.8 percent last month, a rise of 6.41 percent from the previous month. We must note that consumer confidence rose to its highest level since the pandemic began, and the manufacturing PMI rose at the fastest pace since 1983.

The market rotation continues to take place as investors divest themselves of stocks that have benefited during the pandemic, such as technology stocks, and purchase ones shunned over the past year such as hotels and airlines.

Let's review three tech stocks that greatly benefited from the pandemic and three Beach (Bookings, Entertainment, Airlines, Cruise/Casino and

Hotels) stocks that suffered greatly during the pandemic. We mark these stocks from March 23, 2020, and their closing price on the first anniversary of the pandemic, March 23, 2021.

### The Digital Stocks Portfolio

Zoom (ZM) was trading at \$159.56, and closed March 23, 2021, at \$339.76, a 112.9 percent rise.

Peloton (PTON) was trading at \$23.34, and closed on March 23, 2021, at \$113.35, a 385.6 percent rise.

Tesla (TSLA): was trading at \$86.86, and closed March 23, 2021, at \$662.16, a 662.3 percent rise.

### The Beach Sector Portfolio

Avis Budget (CAR) was trading at \$13.40, and closed on March 23, 2021, at \$65.82, a 391.2 percent rise.

Royal Caribbean (RCL) was trading at \$28.19, and closed March 23, 2021, at \$83.90, a 197.6 percent rise.

JetBlue Airways (JBLU) was trading at \$6.86, and closed March 23, 2021, at \$19.25, a 180.6 percent rise.

Most investors are focused on their stocks' rotation as the market continues to face high volatility.

Wall Street Summary for the Week on April 1:

The Dow Jones Industrial Average closed at 33,153.21, up 80.33 points, or 0.24 percent, for a year-to-date (YTD) return of 8.32 percent.

The Standard & Poor's 500 closed at 4,019.87, up 45.30 points, or 1.14 percent, for a YTD return of 7.02 percent.

The Nasdaq Composite Index closed at 13,480.41, up 341.39 points, or 2.60 percent, for a YTD return of 4.49 percent.

The Birling Capital Puerto Rico Stock Index closed at 2,439.14, up 20.03 points, or 0.83 percent, for a YTD return of 19.27 percent.

The U.S. Treasury 10-year note closed at 1.69 percent

The U.S. Treasury 2-year note closed at 0.17 percent.

### The Final Word: First Impressions on the American Jobs Plan

President Biden has now shifted his

attention to U.S. infrastructure and competitiveness, proposing a \$2 trillion plan to modernize America. The plan includes a series of tax increases and reforms applicable to businesses and corporations that will subsidize the cost of infrastructure improvements over 15 years. Any bill of that magnitude has to include some tax increases, and we are sure the economy is not ready for new taxes.

**Infrastructure Investment for Progress:** The \$2 trillion plan will attract clear bipartisan support, but we think the focus should be on green energy and its related infrastructure.

**Increased Corporate Tax Rates:** The tax rate increase provisions described by Biden in the American Jobs Plan will be impacted positively or negatively as the House and Senate draft their bills.

### Some of these increases include the following:

Increase in capital gains taxes.

Changes to estate taxes.

Increase to 39.6 percent for those in the highest income brackets.

We think that amid a pandemic, taxes should not be raised. On the one hand, you are offering a bazooka \$1.9 trillion stimulus, and two weeks later, you propose tax increases. This asymmetric thinking can harm the economy and derail much of the progress made thus far.

As usual, the American Jobs plan will be the subject of critical debate over the next few months in Congress. Also It does not mention preferential taxes for companies established in the U.S. territories, which would benefit Puerto Rico enormously. It is now up to Resident Commissioner Jenniffer González to put forth her best strategies and include tax provisions that attract manufacturing to Puerto Rico.

In conclusion, we note that even with Democratic support, the American Jobs Plan will not be easy to pass and will face total opposition from Republicans.

*Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.*

Weekly Market Close Comparison	4/1/21	3/26/21	Return	YTD
Dow Jones Industrial Average	33,153.21	33,072.88	0.24%	8.32%
Standard & Poor's 500	4,019.87	3,974.54	1.14%	7.02%
Nasdaq Composite	13,480.11	13,138.72	2.60%	4.49%
Birling Puerto Rico Stock Index	2,439.14	2,419.11	0.83%	19.27%
U.S. Treasury 10-Year Note	1.69%	1.67%	1.20%	0.80%
U.S. Treasury 2-Year Note	0.17%	0.14%	21.43%	0.75%