

Equity markets continue strong despite increased geopolitical risk. The first major tax reform in 30 years is likely to benefit smaller domestic companies, hence a recent outperformance in small cap equities. Although the details continue to be hammered out, Trump and the republicans will need a win here, after the miserable failed attempt to repeal and replace Obamacare.

Under the new tax code, personal income tax brackets will condense from seven to three. The top marginal rate is targeted to be reduced from 39.6% to 35%. The corporate tax rate is projected to drop to a more competitive 20% from 35% - currently the highest rate among developed economies. The lower corporate rate will make US based firms more competitive while increasing corporate earnings (after tax earnings). It might also repatriate some of the \$3.6 trillion in cash held overseas by multinationals. US tax reform should theoretically encourage global growth - both here and abroad. The proposed nondeductibility of interest will likely slow merger and acquisition / private equity / leveraged buy outs, at least initially. Conversely, the lower rate may promote the outright sale of units from conglomerates, which in recent years have primarily been limited to tax free spin offs to avoid the high corporate rate. Much of the tax changes are being incorporated into equity prices as the more concrete proposals take hold with congressional republicans. The non-deductibility of state and local taxes presents a challenge for individual taxpayers who itemize Schedule A in states with high tax rates. California and New York stand out. This proposed loss of deduction may be offset to a degree by the elimination of the AMT alternate minimum tax. None of the above proposals are final, and I do not believe any will be retroactive to January 1st, 2016.

Since the announcement of the tax reform plan, the dollar has rallied after an intermittent struggle year to date. Expect another rate increase from the fed in 2017, and three as the targeted number of increases in 2018. Increased rates typically translate to a stronger dollar, as investment is drawn by international investors. In the euro zone, quantitative easing is winding down, as employment and core inflation are gathering momentum. The stronger dollar does not bode well for gold. Gold was projected to be weaker as the dollar gained strength in 2017. With a generally weaker dollar YTD, gold has performed quite well – in line with the S&P 500 index for 2017. The dollar's lack of strength has been a surprise, and is mainly a function of slower than expected growth coupled with a yield on the 10 year bond essentially unchanged since January 1st.

Global GDPs and the Purchasing Manager's Index PMI are both moving higher. These broad measures are making many very bullish on stocks at the moment. Headline numbers can be misleading. There can be micro events and trends that can cause dramatic shifts in investor sentiment and the markets. By most measures, domestic markets are fully or overvalued. October is typically a month associated with pullbacks. I have been increasing cash levels in order to take advantage of any turbulence.

Intel launched its 8th generation core chips, with improvements coming to the i7 and i5 chips. Tesla has announced a move away from a reliance on Nvidia chips, and seems to be gravitating to Intel chips for Model S, X and the new Model 3 vehicles.

Apple is having some issues with the iPhone 8, but only on a limited number of phones. The issues will be addressed through a software update.

Increased consumer spending helped push the final estimate for 2nd quarter GDP to 3.1%. The underlying economy continues strong, despite the anticipated near term drag on productivity from the recent series of hurricanes. September numbers released in the coming weeks may have some hurricane related distortions.

The next few months can provide challenges and opportunities. Regardless of viewpoint, it is important to keep focused on the long term growth opportunities in equities. Fixed income / bonds still appear wildly overvalued with a set up for a move lower as interest rates rise. Equities are not immune to rate rises – however when driven by a strong economy, the general trend is higher. Please call or email any time to discuss asset allocation, cash levels and/or strategy. Thank you!