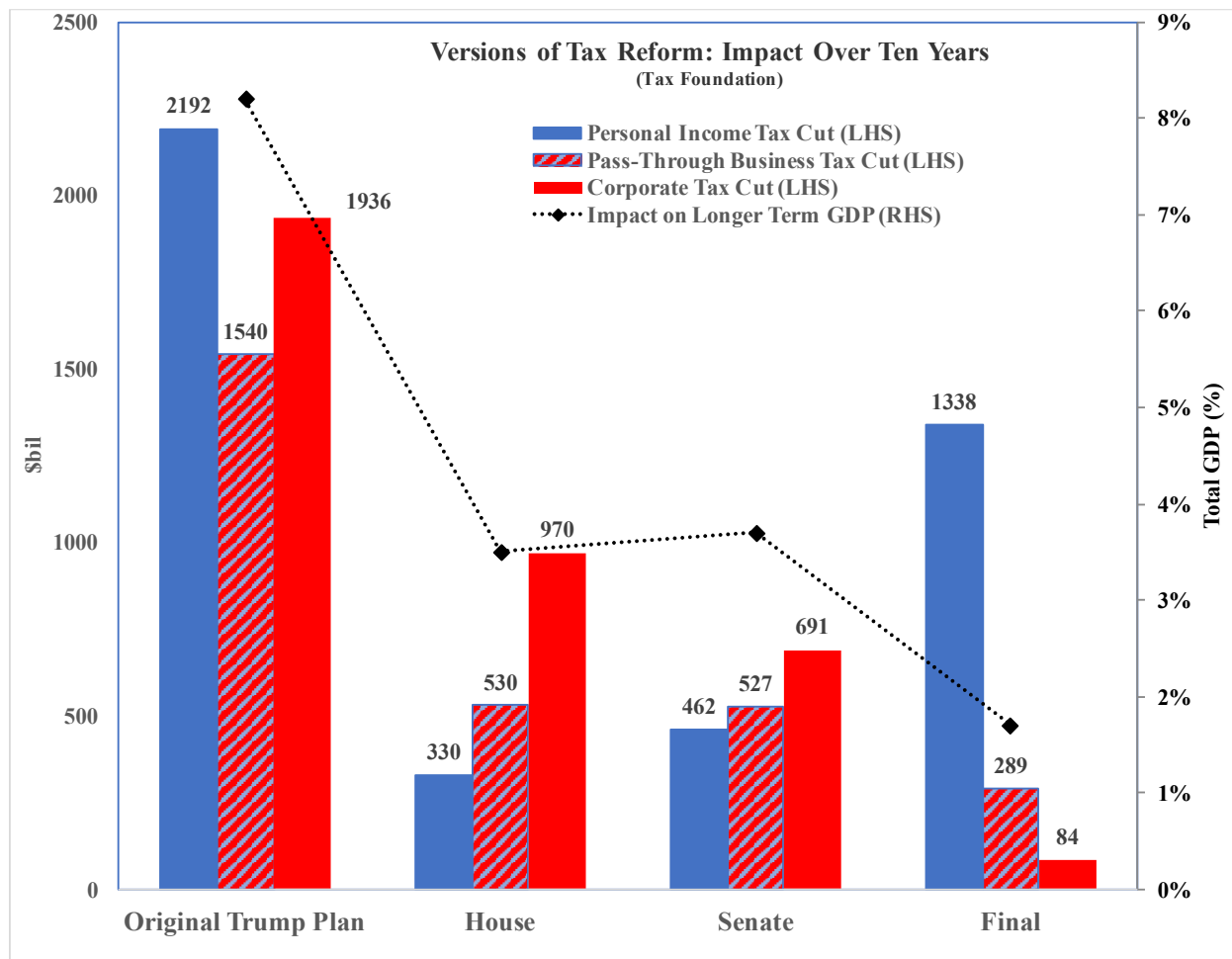


## State of the Markets: Macro Commentary

### Tax Reform: “This is the way world ends not with a bang and but a whimper”

Well, it’s over. Tax reform is done, at least for now. I think T.S. Elliot quote seems the right characterizations of the law now versus how it was originally pitched. In the graph below I show the Tax Foundation analysis of the tax reform starting with the original proposal by Trump in Sept 2016, the house and senate passed versions, and now the current law.



Some observations:

- In contrast to current rhetoric, this is not a corporate tax cut. The headline cut of the marginal rate from 35% to 21% is almost completely offset by base broadening. So, the convexity is the real story of corporate tax reform rather than a net revenue gain for corporates. That means there are net losers and net winners. For example, pass-through companies are helped a bit as are domestic corporates. However, companies with net tax assets are hurt, while those with net liabilities are helped.
- Again, in contrast to rhetoric, this is massive personal income tax cut across all income groups. I would add the pass-through tax cut to this category as well because this will also add directly to after tax personal income. In my view, it would seem that the republicans looked to the 2018 elections and concluded that corporates can't vote.
- Most importantly, this tax reform will not be a game changer for future GDP. The Tax Foundation (TF) models show that the new tax law will increase future GDP by 1.7% vs the original trump plan of 8.4%, or 17 bp vs 80 bp a year. Keep in mind the TF is on the optimistic side of the dynamic analysis. Yes, personal income is going to go up by about 170 billion a year. However, the impact on GDP is small. Tax cuts given to lower income families (low savers) will be spent, while tax cuts given to higher income families will be saved (the high savers). Their savings will likely be use finance the rising deficit. So again, convexity is the right way to view the cut as well.

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