

# alpha+ capital management

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The economy is humming and we think it probably will continue in that mode for a couple of years at an accelerating pace. Logic suggests that shortages of goods and labor will develop and that prices of both will advance more noticeably later this year and next as the pressures of demand proceed from the current level of intensity. Recently, price inflation reached the 2% annual rate, the highest in 5 years. Most important is the rise in economists' expectations of GDP growth rates ranging up to 5%.

The prosperity of recent years has brought a substantial rise in real estate and stock prices, aided by relaxed interest rates and the diminishing attractiveness of bonds, but in due course the economy and the accompanying price advances will moderate and prices will adjust in keeping with the nuances of the economic situation at that time. Under the conditions as described, there is no visible reason to change the allocation of assets in your investment portfolio.

That doesn't mean that nothing bad can happen. One category of potential trouble would be the stress caused by an outbreak of war; a second would be a surprise political upset in the US, and a third could be a disruptive outfall from the imposition of the new tariffs.

Obvious hotspots are North Korea, the Middle East and Latin America for reasons that are in the news continuously. Predictions here are of little value. Observations that deserve careful analysis would be a sudden substantial change of some sort, which brings us to Mexico and the recent election of a *socialist* president, Lopez Obrador, who once called President Trump "racist and xenophobic" because of Trump's plan for a wall to slow the northward migration. However, now that the Mexican elections are over, both have been saying nice things about each other.

The prospect of political upset is not worrisome as Trump appears in good health and Democrat political strength seems to have diminished somewhat, but the tariff impositions are another matter. Nevertheless, anyone focused on economics should remain alert for possible future negatives, even though conditions currently are relaxed and peaceful.

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Tariffs have not been a widely discussed subject in recent decades partly because the subject is complex and multi faceted. The essence is that the foreign tax burden on US exports is much larger than the burden the US places on foreign imports. It's a holdover from the postwar role of the US as a protector of Europe, and Europe as a recipient of our support. That was valid for the war-torn 1940s and 1950s, but less so now, 70 years later. Trump's decision to impose a large slug of US tariffs is stimulating some worry but also some positive reaction from our allies, indicating that they will cope with the changes. The risk element is that tariff contention may go too far and become disruptive. Sound judgment in negotiations is arguably part of the presidential toolkit but we will soon see how it turns out.

On another tax subject, the reductions in both corporate and personal tax rates seem to have gotten less than appropriate attention. A corporate rate of 21% vs. 35% translates to a 40% rise in net income which will be fully visible in next year's earnings reports.

Personal tax rates and a revised array of taxable income brackets make generalizations clumsy, so it will suffice to say that personal taxation will be reduced somewhat for about three out of four taxpayers.

The significant elements at work: economic prospects, tax burdens, international stresses and the domestic legislative outlook, taken together, comprise a benign package which should encourage long term investment.

Best wishes for a pleasant summer season.

Sincerely,

John May