# SkyView Investment Advisors:

# Hope Is Not A Strategy – But There Is Hope

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## Can They Ever Compromise?

Before leaving for Key West about a fortnight ago, house republican leaders were scrambling to pull in the necessary votes to reform ObamaCare. That effort failed. In comments (3/16/2017) at that time, I described the war between the two parties as resembling the old Kentucky mountain feud between the Hatfields and the McCoys. I closed with "Hopefully," when I return from Florida the politicians will be off their moonshine. Instead, it now appears they brewed a lot more since then.

## Tax Reform or Tax Rate Reductions?

Once the confirmation process for supreme court designee Gorsuch finishes, tax reform will become the next issue of great importance to investors. With the disarray in republican ranks, tax reform, in our opinion, will likely wind up simply as corporate tax rate reductions--important but not as "Revolutionary" as the house tax reform proposals. In our view, the destination based cash flow tax proposal seems nearly dead---and even when it showed life most observers gave it little more than a 20% chance of passage.

## The Familiar vs. "Revolutionary" Change

Additional "Revolutionary" tax reform proposals include eliminating interest expense deductibility and fully expensing capital expenditures. In our opinion, both proposals will likely meet the same fate as the so called border tax. Most corporate leaders will likely prefer the familiarity of current tax laws to the uncertainty of "Revolutionary" tax changes.

## Ending Global Dual Taxation – Still Likely

Finally, on a positive note, we still expect congress to move the U.S. from a global to a territorial taxation system--eliminating dual taxation on non-U.S. earnings. At the same time, Congress would likely implement a one-time tax on past un-repatriated income. This one-time tax would free up the potential for the repatriation of an estimated over $1 trillion of cash held outside the U.S. by U.S. global corporations.

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The absence of dual taxation on non-U.S. earnings would permit U.S. corporations to move cash to its best use without being concerned about U.S. tax laws. And it would eliminate any tax advantage to moving corporate headquarters outside the united states.

## Now What?

Reducing corporate tax rates and eliminating dual taxation will likely prove very positive for corporate earnings and cash flow. At the same time, investors will "kick the can down the road" by overlooking increased federal budget deficits resulting from the absence of offsetting revenues built into the broader tax reform proposals.

While difficult to quantify, reduced regulation will also add to a positive economic outlook particularly for many heavily regulated industries. With all that, investors will return to the reality of the fundamental earnings outlook for industries and companies—producing a mostly positive investment environment.

## The Fed – Still Accommodative

Based on the views of many observers, the fed will likely raise the fed funds rate an additional two-three times this year. Despite these increases, the fed funds rate will still remain at an historical low level. Bottom-line, current fed policy still remains accommodative.

*Despite increases in interest rates, the current fed policy still remains accommodative.*

When we approach year-end, the fed may begin passively reducing its over $4 trillion of balance sheet holdings. This action would also tend to push interest rates higher but more likely at the longer end of the yield curve. By doing so, the fed may look to steepen the recently flattening yield curve. Once that comes into the investment horizon, it may require a reexamination of the accommodative nature of fed policies. The last decade reinforced the familiar warning--"Do Not Fight the Fed." at some point, that philosophy may still hold, but in reverse, as a less accommodative fed policy takes hold.

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(See our 3/9/2017 commentary for a more detail discussion on these topics.)