

"WASHINGTON, WE HAVE A PROBLEM"

Weekend Reading

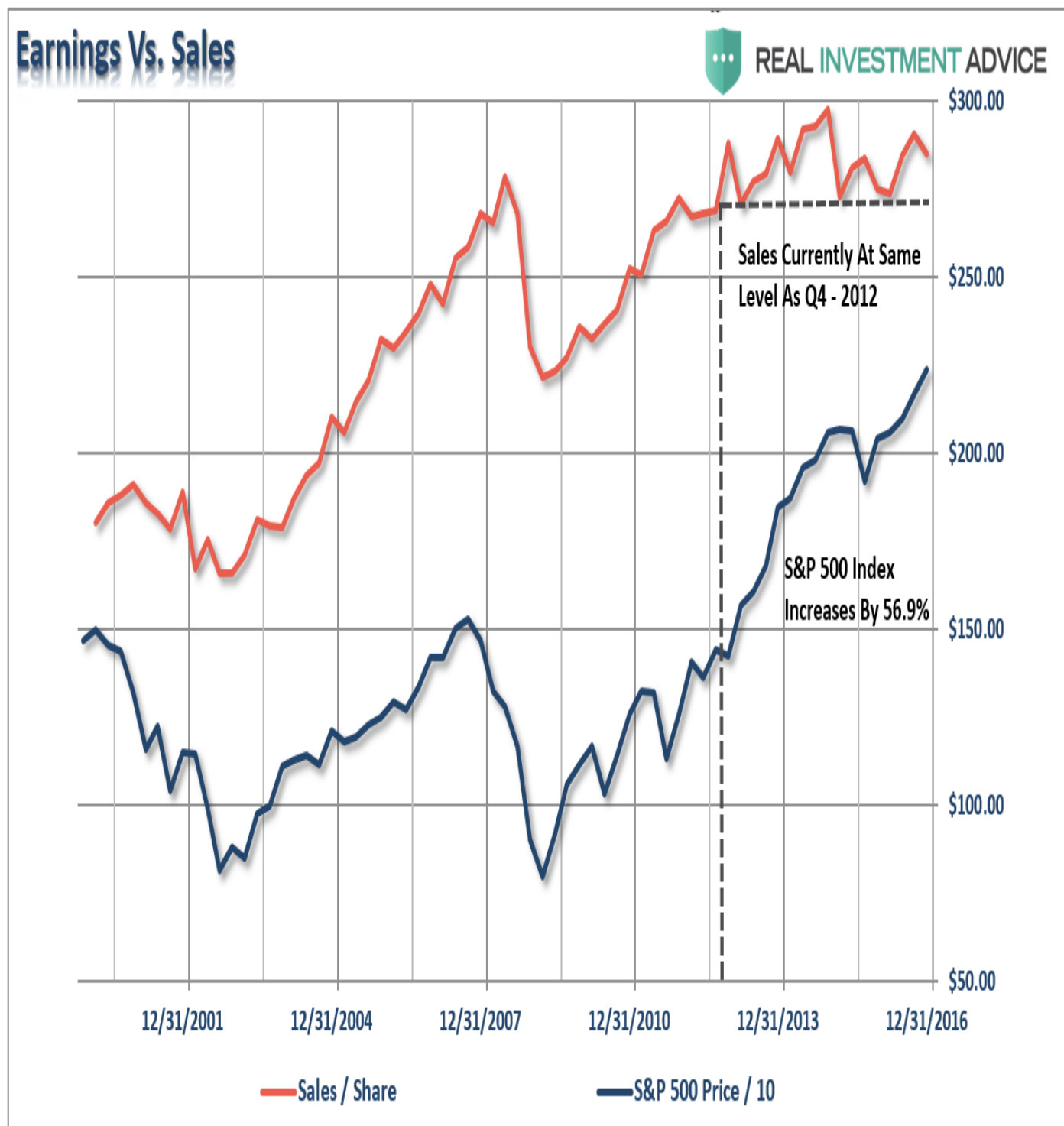


In this [past weekend's missive](#), I discussed the failure of Congress to get the Affordable Care Act (ACA) repealed, much less replaced. The problem, of course, is the failure to repeal the ACA leaves in question the ability to pass other agenda based items such as tax reform, border wall construction, repatriation or immigration reform. As I noted the debt ceiling debate, which is rapidly approaching, is the next major hurdle. To wit:

"With the government currently at the 'debt ceiling limit,' and the June 1st deadline approaching for 'extraordinary funding measures,' Congress will need to address the FY18 budget resolution before it can act on tax reform. This is necessary to provide the 'reconciliation instructions' that allow Republicans to pass tax legislation with only 51 votes in the Senate (and therefore no Democratic support). Reaching an agreement on the FY budget resolution will not be easy; in the past, conservatives have demanded a balanced budget within ten years but this would require endorsing spending cuts (in non-binding form) that some centrist Republicans might oppose along with the BAT. Given this backdrop, tax reform will probably not begin to move through the legislative process until after June at the earliest. Of course, while Wall Street believes 'tax reform' will be a much easier process than repealing health care, the reality is it could be just as tough as government entitlement programs, funding for Planned Parenthood, and other programs central to the Democrats, and some left-leaning Republicans, come under attack. For the markets, which have ramped up since the election on 'hopes' of a quick implementation of reforms under the new Administration, the risk of

disappointment is running high. ?•

This assessment has not changed in the past week, and already we are beginning to discussions of border wall construction being postponed, along with infrastructure spending, **and tax cuts being whittled down to just 28% for corporations vs. 15-20%.**•The last point is the most important given that current valuations in the market are currently being supported by the notion that tax cuts will lead to a profits expansion. **The issue, however, remains that while profits may expand from paying lower taxes, and could be much less than currently hoped for, top line revenue growth still remains a missing ingredient as shown in the chart below.**•



While anything is certainly possible, there is the simple issue that economic cycles do NOT last forever. With wage growth still stagnant, debt levels rising and inflation coming from all the wrong areas (*health care, rent & gasoline*), the risk of disappointment in the "hope" trade is very high. Of course, you combine the risk of a "fiscal policy" error with the Fed on a "monetary policy tightening" cycle and you have all the ingredients for a bad outcome. But then again, maybe this time will

indeed *"be different."* Just some things I am thinking about this weekend as I catch up on my reading.

Trump/Fed/Economy

- **Retailing In America: Game Theory In Reverse** [by Danielle DiMartino-Booth via Money Strong](#)
 - **Political Noise Can't Drown Out Russia** [by James Rickards via Daily Reckoning](#)
 - **Trump Faces An Even Bigger Debacle** [by David Stockman via Daily Reckoning](#)
 - **Will Tax Reform Boost Economic Growth** [by James Picerno via Capital Spectator](#)
 - **Building More Apartments Than Renters** [by Akin Oyedele via BI](#)
 - **#MAGA Poll Explodes To Highest Since 70's** [by Bob Bryan via BI](#)
 - **GOP Failure On AHCA Just The Beginning** [by Glenn Reynolds via USA Today](#)
 - **The Reason Why Significant Tax Reform Hasn't Happened Since 80's** [by Pedro Da Costa via BI](#)
 - **Trumps Poll Numbers Low, Can He Boost Them?** [by Jake Novak via CNBC](#)
 - **Tax Reform Not As Simple As It Sounds** [by Caroline Baum via MarketWatch](#)
 - **No, Tax Reform Won't Be Easier Than AHCA** [by Howard Gleckman via Forbes](#)
 - **GOP Nightmare: \$2 Trillion Funding Hole** [by Tyler Durden via Zero Hedge](#)
 - **Tax Cuts Can't Be Financed By Cutting Waste** [by Mark Thoma via Fiscal Times](#)
 - **GOP Will Struggle To Win Tax Reform** [by William Gale via RCM](#)
 - **Trump's Tax Approach Could Look Like Obama's** [by Andrew Ross-Sorkin via NY Times](#)
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Markets

- **Don't Mistake A Bubble For Economic Growth** [by Jesse Colombo via Forbes](#)
 - **Raoul Pal: Everyone Is On The Wrong Side Of Bonds** [by Jonathan Garber via BI](#)
 - **Market Impact Of AHCA Failure Unclear** [by Mohamed El-Erian via Bloomberg](#)
 - **Two Fed Presidents Warn Of Valuations** [by Tyler Durden via Zero Hedge](#)
 - **As Markets Sag, Might Be Time To Be Bullish** [by Avi Gilbert via MarketWatch](#)
 - **Why Long-Term Stock Returns Look Miserable** [by Anora Mahmudova via MarketWatch](#)
 - **No Indication Bull Market Is Slowing Down** [by Andrew Slimmon via US News](#)
 - **Corporate Profits Have Stalled** [by Anthony Mirhaydari via Fiscal Times](#)
 - **Yes, The Trump Rally Is Over** [by Jeff Reeves via The Hill](#)
 - **Fear Threatens Market Comeback** [by Mark DeCambre via MarketWatch](#)
 - **Post-Election Rally May Be Repealed & Replaced** [by Doug Kass via Real Clear Markets](#)
 - **Stock Rally Could Last Until 2018** [by Avi Gilbert via BI](#)
 - **Dollar Will Lead Stocks Lower** [by Erik Swarts via Market Anthropology](#)
 - **Market Strength Has Little To Do With Trump** [by Michael Brush via MarketWatch](#)
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Research•/ Interesting•Reads

- **How Many Jobs Do Robots Destroy** [by Wolf Richter via Wolf Street](#)
- **Mnuchin Says Not To Worry About Robots** [by Elena Holodny via BI](#)
- **Optimistic Americans Losing Hope** [by John Mauldin via Maulding Economics](#)
- **The Holy Grail: Fair Value Of Equity Markets** [by Research Affiliates](#)
- **Robots: The 4th Industrial Revolution** [by David Kelnar via Medium](#)
- **Pensions Crisis Coming** [by Stephen McBride via Forbes](#)

- **10-Retirement Stats Every Boomer Should Know**[by Maurie Backman via Motley Fool](#)
 - **Asset Price Collapse Is Biggest Economic Risk**[by Martin Feldstein via Project Syndicate](#)
 - **White Working Class In Big Trouble**[by Noah Smith via Bloomberg](#)
 - **Hayek Saw It Coming 70-Years Ago**[by Tyler Durden via ZeroHedge](#)
 - **Say's Other Law**[by Sandwichman via EconoSpeak](#)
 - **\$17 Trillion Will Vanish In This Cycle**[by John Hussman via Hussman Funds](#)
 - **Can Small Caps Turn It Around?**[by Dana Lyons via Tumblr](#)
 - **Bogle's 4% Return Estimate May Be Optimistic**[by Jesse Felder via The Felder Report](#)
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?The United States have developed a new weapon that destroys people but it leaves buildings standing. It's called the stock market." - Jay Leno

Questions, comments, suggestions ? please [email me](#).