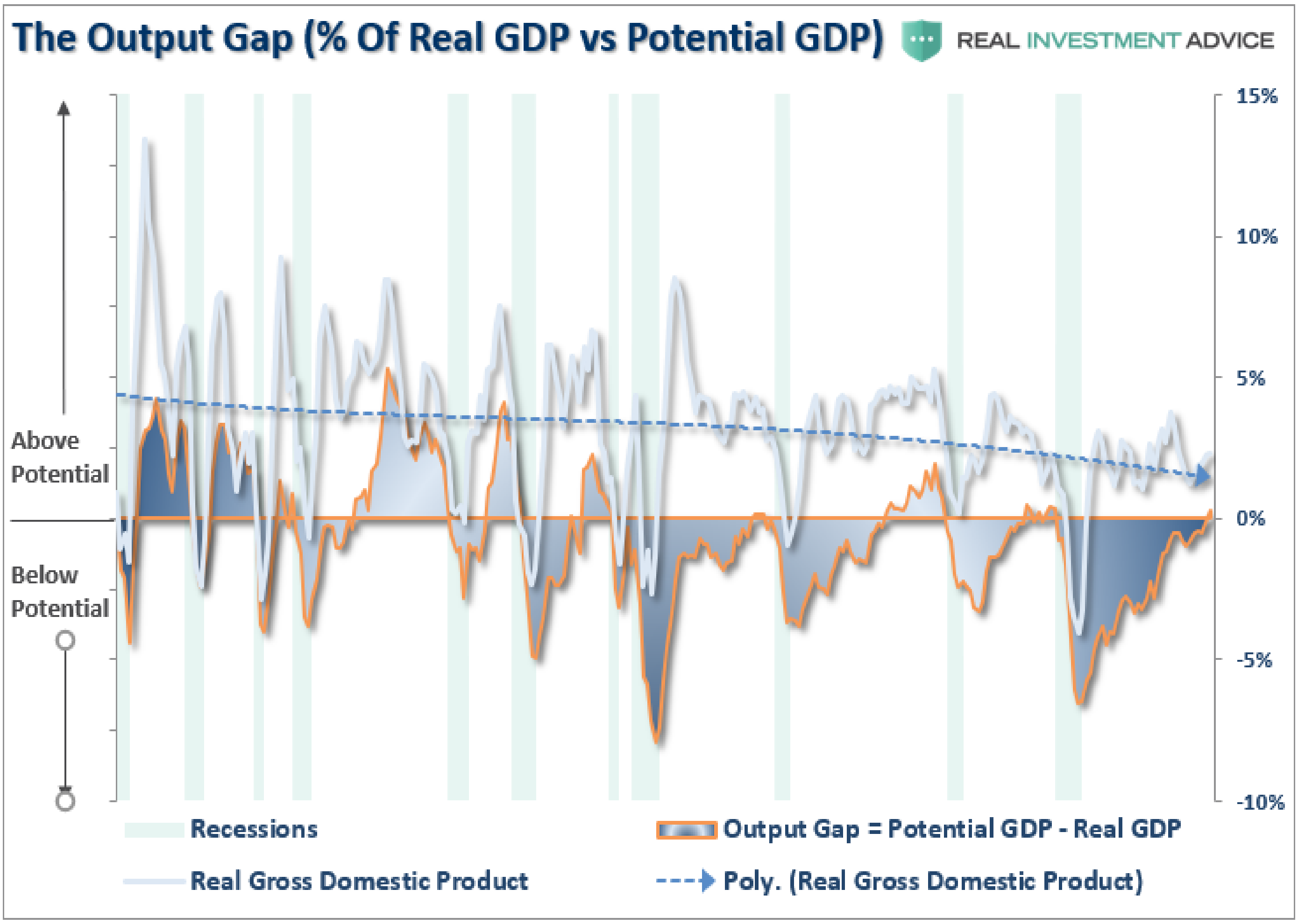
Since the election, equity bulls have been pinning their hopes on *"tax cuts"* as the needed injection to support currently elevated stock prices. Stocks have advanced sharply since the election on these expectations, and while earnings have recovered, primarily due to the rise in oil prices, **whatever economic growth was to come from tax reform has likely already been priced in.•** For some background on our views, both Michael Lebowitz and I have been discussing the tax bills as they are currently proposed since May of this year.

- The Spurious Math Of A Tax Cut Rally
- Corporate Tax Cuts - The Seen & Unseen
- 3-Myths About Tax Cuts
- Bull Trap: The False Promise Of Tax Cuts
- The Conundrum Of Debt, Tax Cuts & The Economy
- Tax Cuts - The Economic Cure-All

Buy The Rumor - Sell The News We are currently in the second longest economic expansion since WWII. While•Republican lawmakers are betting on jump-starting economic growth, the problem becomes the length of the current liquidity-driven expansion. All economic cycles end, and we are already closer to the end of the current expansion than not. However, Patrick Watson over at Mauldin Economics recently made a brilliant observation. To wit:

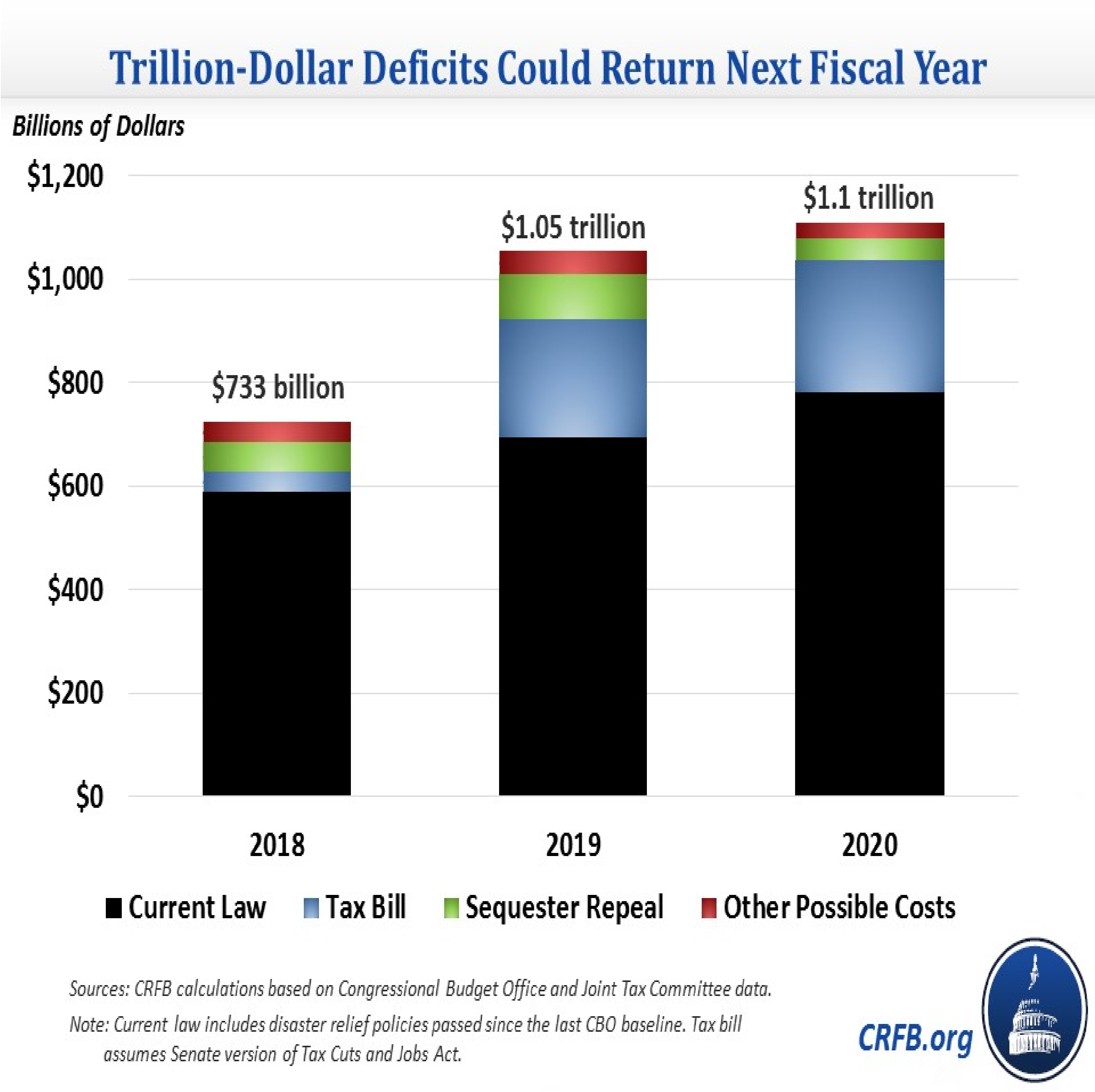
> *"The gap between the gray line (potential GDP) and the red line (actual GDP) represents unused capacity. You can see we had a lot of it at the recession?s 2009 depth. The gap slowly shrank since then. Now it?s closed. Great news, right? Yes, it is?but don?t celebrate just yet. Actual GDP can?t stay above potential GDP for long before bad things start happening. This chart proves it:"*



> *"We see here how GDP moved above and below its potential since the 1970s. Notice that each time the green line went above zero, a recession (the gray bars) began soon after. 'Soon' can vary, of course. GDP ran above potential for extended periods in the late 1990s and 2006?2007, but in both cases, intense downturns followed.* ***Plus, the Fed wasn?t tightening as it is now?which suggests the current expansion is at least approaching its endpoint."***

While the Trump administration, and congressional Republicans, suggest their tax changes will stimulate **years** of economic growth and more than pay for themselves, **the reality is likely quite the opposite. What investors are missing is that while tax reform could well provide for a modest bump to GDP growth, that growth bump is being offset by the Federal Reserve tightening monetary policy by lifting interest rates.** Don't forget, the reason the Fed lifts interest rates is to SLOW economic growth to quell inflationary pressures. Furthermore, as the brilliant minds at the *Committee for a Responsible Federal Budget* penned recently, the tax reform legislation will likely bring back trillion-dollar deficits by 2019. To wit:

"If they aren't careful, we estimate legislation under consideration could bring back trillion-dollar deficits by next year. Even under current law, deficits are likely to reach almost $600 billion this year and $700 billion next year. By our estimate, a combination of tax cuts, sequester relief, and other changes would increase deficits to $1.05 trillion by 2019 and $1.1 trillion by 2020."



Of course, a trillion-dollar deficit would require further debt growth in order to fund the revenue gap. **As the debt levels continue to expand, estimated to hit $30 trillion over the next 8-years, the impact to economic growth will continue to be negative.•**With the Federal Reserve already in the process of reducing their balance sheet, with the rest of the world set to follow, the primary support of the markets is quickly fading. **This elevates the•risk of a policy mistake by the Fed, and as•Doug Kass noted Wednesday, the risk of a Congressional mistake has also risen:•**

"History shows that if the Senate version is adopted and the corporate tax rate reduction is delayed for another year, the odds of a recession are greatly increased. (A position

that Art Laffer has publicly taken.) The biggest mistake made by the Reagan Administration was to delay the corporate cuts by a year as the Senate version does.• ***Companies waited a year to expand capital investments back then -- causing a recession in 1981-82."***

Just something to think about as you catch up on your weekend reading list.

Trump, Economy & Fed

- **Deficit Hypocrisy On Full Display** by Caroline Baum via MarketWatch
- **GOP Tax Bill: "Fuggedaboutit"** by David Stockman via Daily Reckoning
- **A Conservative Uprising Confronts Deficit Hawks** by Russell Berman via The Atlantic
- **Tax Bill And Trillion-Dollar Deficits** by Committee For A Responsible Federal Budget
- **Worrying Data Raises Recession Fears** by Simon Constable via Forbes
- **The Negatives Of The GOP Tax Plan Via WallStreet** by Tyler Durden via ZeroHedge
- **GOP Sought To Undercut Unfavorable Analysis Of Tax Plan** by Jim Tankersley via NYT
- **A Tax Cut For Everyone** by Stephen Moore via The Washington Times
- **Tax Cuts Could Trigger The Next Recession** by Patrick Watson via Forbes
- **Senate Tax Bill Is Disappointing** by Scott Sumner via Econolog
- **The Great Recession Is Still With Us** by Annie Lowrey via The Atlantic
- **Media Is Dishonest About GOP Tax Plan** by Philip Klein via Washington Examiner
- **How An Unequal Tax Grew More Unequal** by Heather Long via Washington Post
- **The GOP War On Economics** by Jonathan Chait via New York Magazine
- **Not Much Evidence Tax Cuts Boost Wages** by Marc Chandler via Real Clear Markets
- **This Tweet Explains Why Millennials Are Fed Up** by Jeff Stein via Washington Post
- **Trump's Economic Revolution All About Investment** by Tyler Cowen via Bloomberg

---

Markets

- **BIS: Excessive Risk Taking & Consequences** by Tyler Durden via ZeroHedge
- **A List Of What WallStreet Has Said About Bitcoin** by Mark Decambre via MarketWatch
- **The Case For The No-America Portfolio** by John Coumarianos vis WSJ
- **An 18-Year Bull Market** by SA Gil Weinreich via Seeking Alpha
- **Today's Rational Exuberance** by Anatole Kaletsky via Project Syndicate
- **Global Equity Markets $20 Trillion Dollar Mistake** by Kevin Muir via The Macro Tourist
- **A Doomsday Moment For High-Yield** by Charlie Henneman via Enterprising Investor
- **Is This The Scariest Chart Of All** by Shawn Langlois via MarketWatch
- **Rally Kicks Into Dangerous Overdrive** by Michael Kahn via Barron's
- **JPM: Tax Cuts 50% Priced In** by William Watts via MarketWatch
- **Where To Find Income Without Big Risks** by Paul Katzeff via IBD
- **This Move Can Save Your Profits From A Crash** by Michael Sincere via MarketWatch
- **Blow Off Top** by Sven Henrich via Northman Trader
- **The Spurious Math Of A Tax Cut Rally** by Michael Lebowitz via RIA
- **Reflections Of A Distorted, Delusional Reality** by Doug Kass via RIA

Research•/ Interesting•Reads

- **Carmegeddon For Tesla** by Wolf Richter via Wolf Street
- **CB's Have Stepped Into Every Market Shock Since 2013** by Tyler Durden via ZeroHedge
- **Blowing Up The Debt Is A Threat To America** by Leon Panetta via USA Today
- **Deep Value** by Cliff Asness via AQR Capital Management
- **Time For Investors To Loiter Around Lifeboats** by Jonathon Rochford via MarketWatch
- **Wealth Inequality Isn't Our Biggest Issue** by Jeffrey Harding via Independent Mind
- **$1 Million Retirement Nest Egg Isn't Enough Anymore** by Jessica Dickler via CNBC
- **Bitcoin: Is Greed Back?** by Tom Lauricella via Morningstar.com
- **Navigating The Speculative Id Of Wall Street** by John Hussman via Hussman Funds
- **Record Calm As Markets Get A Shock** by Dana Lyons via The Lyons Share
- **Time To Get Real With Your Portfolio** by Jesse Felder via The Felder Report

---

***?As contrarians, the only thing to fear is the lack of fear itself." -** Bernie Schaeffer*

Questions, comments, suggestions ? please email me.