

Boenning Morning Comment

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Despite all the turmoil in Washington, the bull market continues to chug along. Higher earnings, low inflation and a weaker dollar offset the concerns out of Washington.

Given the lack of economic consequences, at least for the moment, I will leave discussion of the personal changes, bickering and expletive infested quotes for others to discuss. Suffice it to say, the ongoing turmoil can't be all that helpful in moving an economic agenda forward. While the appointment of General John Kelly as Chief of Staff, on paper, has the ability to bring back some semblance of law and order to the West Wing, as long as the trio of Kushner, Scaramucci and Bannon report directly to the President and are left free to undermine as they please, the odds of making much process are slim. Hopefully, the appointment of Kelly might change that but we won't know the outcome for some time.

With that said, the real lesson last week happened around 1am Friday morning when Senator John McCain turned his thumb down and sealed the defeat of the last Republican attempt to force legislation to repeal Obamacare through the Senate. While the President tweeted over the weekend, scolding the Republicans for their failure to cross the finish line, the math suggests that further near term attempts to revive the effort are destined to fail. Mr. McCain has returned to Arizona to begin treatment for his newly discovered cancer. If you are keeping score, his absence equates to a no vote given Republicans have to get to 50 to pass anything through the reconciliation process. Senator Susan Collins was reelected in 2014 with a 68% margin and remains highly popular in Maine. She was the first Republican to signal her opposition to all versions of the current repeal and replace alternatives and probably can't be swayed by anything that the most conservative wing of the party will accept. Lisa Murkowski lost a primary battle in 2010 after Tea Party loyalists put a lot of money up to support a very conservative opponent. Rather than give up, however, Ms. Murkowski ran as an independent and won convincingly. She won reelection resoundingly in 2016 and isn't up for reelection until 2022. When the White House sent Interior Secretary Ryan Zinke after her threatening to withhold funds for Alaska, the push back for all over stopped that effort in its tracks. President Trump's demeaning tweets criticizing Ms. Murkowski's lack of loyalty obviously won't be taken in an endearing way. Indeed, with an already solid wall of three, other Republicans who stayed in the fold out of party loyalty might now be freed to express doubts.

Obamacare repeal is deal. Obamacare repair is not. At some point this fall, steps will have to be taken to shore up the exchanges and make other changes to put the program on a solid footing. Both parties need to be careful. In the end, Americans who may lose affordable coverage will have to determine who to blame. The simple answer is the incumbent, regardless of party affiliation. Congress was elected to improve the quality of life, not to emulate Nero while Rome burns. Both sides will have no excuse if there are not insurance alternatives available for millions of Americans.

Healthcare is important, but there are even more important real lessons from last week's events. First, Republicans are going to have a very hard, maybe an impossible time, trying to get 50 votes to pass anything presuming 100% Democratic opposition. That goes for tax reform as well. Some Republicans will want to emphasize growth in any reform package and are willing to tolerate the risks of exploding the deficit. Others want to move in the direction of

balancing the budget as soon as possible. These deficit hawks see a government already out of control that desperately needs spending discipline. The almost universal condemnation of the White House proposed budget services as a guideline for expectations. The reasons for condemnation are vastly different from one member of Congress to another. And that leads to my second point. Doing big reform packages is hard, very hard. It becomes even harder without committed and coordinated leadership. That isn't just pointing fingers at President Trump although his lack of detailed attention to the healthcare legislation alternatives certainly didn't help. If we look at tax reform, the other reality big package after health reform, the House Ways and Means proposal centered around border adjustment taxes was almost dead on arrival and now appears to be completely abandoned. For its part, we haven't seen anything from the White House yet save a one-page regurgitation of campaign rhetoric a few months ago.

For complex legislation to have any chance at all, it is logical to want as many inputs as possible and as many smart minds as is practical working to bring about a cohesive whole that a majority can embrace. If there was a lesson learned from the healthcare debate, it should be that cobbling together a comprehensive bill without robust import from all factions, left, right and center, isn't going to work with some a slim political majority as the Republicans have in the Senate. Any serious package needs to be explained and sold to the American people. Simply churning out one package after another for quick partisan votes without adequate explanation or debate simply isn't going to succeed.

Indeed, even with lots of input, efforts to achieve bipartisan agreement, and a strong sale campaign, the odds for comprehensive tax reform are slim. They might be less slim if there was cohesive, inspired and patient leadership from the White House but there are few signs to date that is going to happen. Therefore, the better course, and the one that probably will ultimately happen, is for a series of smaller bills to be introduced that could pass the tests. Reducing corporate tax rates to 25-28% can, perhaps, happen if some package of associated loophole closures can be agreed upon. Repatriation of overseas earnings at a modest cost should also get a majority vote. On the individual side, if the administration really wants lower taxes, it needs to disperse them to everyone. Obviously, Democrats want more of the proposed cuts focused on middle and lower income families than Republicans but if all parties win, bipartisan support is possible. Winning 60% of Republicans and 60% of Democrats could be a lot easier than trying to get 100% Republican support alone. There were a lot of obvious reasons Democrats wanted nothing to do with repealing President Obama's signature piece of legislation. But Democratic constituents would view tax cuts positively I would presume. They also would favor money to repair roads, bridges and airports. Democrats who vote against tax cuts will have to explain why they chose to do that to voters.

Therefore, the lessons of last week, were (1) force feeding hastily crafted partisan packages through Congress has very long odds no matter what the subject of the legislation may be and (2) anything comprehensive is going to have a very hard time with this bifurcated Congress without 100% support and leadership from the White House. The clearer path is the try smaller bills with more likelihood of bipartisan support. The only way to get there is to engage Democrats in the drafting process. To date, that hasn't happened but that is not to say the lessons of last week fell entirely on deaf ears. If they did, however, the odds of any meaningful tax reform, no matter how small, will decrease. The time has come for a change in tactics. If unilateral Democratic opposition to Obamacare was a unique event, a shift makes sense. If Senator Schumer wants to stonewall anything that comes from the Republicans, it makes progress more difficult. But it also puts him on the spot if Republicans can make a public case that obstinate Democratic opposition stand between the American public and better growth, lower taxes and renewed infrastructure.

It would be nice to believe Senator McCain's speech on the Senate floor last week was heard on both sides of the aisle. Maybe it is the first crack in a very well fortified wall between the two parties. Or maybe, it will all be for naught and we will endure more gridlock at least until after the 2018 elections.

At the moment, markets are presuming nothing happens and, until there are any signs of serious bipartisan discussion, that is the right conclusion to make. We can hope for better and expect more of the same. As long as earnings continue to rise, rates stay low and the dollar doesn't rise sharply, equity investors will do just fine.

There is one caveat. As our economy starts to recover and growth in Europe flattens out, as appears to be the case, it would be logical to expect the slide in the dollar to slide. That has been one of the catalysts for the strong stock market in recent weeks. If the dollar simply stays about where it is, that's fine. But if it starts to rally and regain some of its recent losses, its impact on multinationals will be negative and the rally we are enjoying might stall. Watch the dollar as a telltale signal for stocks, at least over the near term.

Today Wesley Snipes is 55. Mark Cuban turns 59.

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