

## Boenning Morning Comment

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Stocks managed to eke out small gains yesterday but futures this morning point lower after reports surfaced overnight that President Trump allegedly asked then FBI Director James Comey to drop his investigation into the affairs of Michael Flynn and Russian intelligence personnel.

I have no intention of adding my two cents to the political maelstrom erupting over charges back and forth between President Trump and the media. That will all get sorted out in due time one way or the other without directly affecting most of us. For months I have been pointing out that financial markets have no soul. The equity markets react to earnings and interest rates, not politics, not our nation's social conditions, and not to international affairs unless such events begin to impact earnings and interest rates.

From the morning after the election, investors have been excited by two things economically. First was the probability that the ever tightening noose created by a steady stream of new regulations would stop immediately and, hopefully, reverse itself in due course. Second, investors hoped that Mr. Trump could translate campaign promises of health care reform, tax reform, and infrastructure spending into reality.

For the past few months, Congress has begun to take steps forward along to path to effective change via legislation. After several false attempts, Republicans passed healthcare reform in the House and passed it on to the Senate. Various subcommittees in both the House and Senate have begun work on tax reform. Clearly, the pace has been slow and difficult. Republicans are having a hard time (1) getting consensus and (2) doing an effective job of getting their message across to the general public. Democrats are crying that 24 million Americans will lose health coverage if the House bill becomes law. Republicans so far don't have a very effective response. As for tax reform, House leadership wants to establish a border adjustment that effectively serves as a tax on imports. Democrats and retailers cry this is aimed directly at the middle class. Again, Republicans lack a cogent response and don't yet have a viable alternative to keep the costs down.

But that doesn't make legislative change dead. It just makes it dead for the moment. In politics and horror movies, the dead can almost always come back to life.

But now we have a new layer of obstruction, the controversies surfacing this week that seem to have the possibility of threatening the very core of the Trump Presidency. When events escalate to this level, they threaten to stop everything else from moving forward. That is when politics begins to interfere with economics and that is why stock futures are down this morning.

We are already hearing Watergate analogies in the media but this isn't Watergate, at least not yet. Once again, I am not making political judgements. I will leave that to the press and Congress. My only point for now is that we are at the level of accusations and not facts. Those could be sorted out very quickly in a world that has more leaks than a colander. Can Republican leadership in the Senate and House ignore what is swirling around them and move healthcare and tax reform forward? Logic says the answer is yes but with much difficulty.

Trump was labeled dead many times during the campaign and came back. Regardless of what one thinks of the House bill to repeal and replace Obamacare, the current law needs some fixes or there won't be any insurers willing to write individual policies. Certain aspects of tax reform make a lot of sense and can gain bipartisan support in less turbulent times. We are far from the epilogue in this novel.

But it is probably fair to assume that while the economic benefits of loosening regulation are going to be real over the next few years, one can no longer make any assumptions about the success of any fiscal initiatives. For Republicans, that could be a great opportunity lost. We have seen that tale played out badly on both sides of the aisle for the past two decades. It would be nice to hope that things start to die down but my sense is quite the opposite; that political events are likely to be forward faster in coming weeks, not slower. Wall Street will have to take a back seat to Main Street while these events get sorted out.

Given the events of the past six months, nothing really qualifies as a surprise and the range of political outcomes is quite wide. Meanwhile, first quarter earnings were excellent, inflation remains controlled, regulations are slowly starting to loosen, our economy seems to be moving out of its first quarter funk, risks or nationalism in Europe have declined substantially, and the economic mood of the nation is pretty good (except for retailers). That should keep markets on solid footing regardless of how the political events play out. This morning's dip is more a reaction to shocking news than any negative economic conclusion.

Stay calm and watch. We will all be watching.

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