

Boenning Morning Comment

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Stocks dips slightly on Friday in quiet mid-summer trading. Last week, the White House undertook a big shakeup in its communications team bringing on long time Donald Trump friend and hedge fund veteran Anthony Scaramucci to replace Sean Spicer. Mr. Scaramucci is certainly much more in the Trump mold than Mr. Spicer, a veteran of the Republican National Committee's organization. He will be a more forceful message although, as Mr. Scaramucci pointed out over the weekend, the head spokesman for this administration is clearly Donald Trump himself. But while clearer communications is always good, the central problem in Washington today isn't the clarity of the communications, it is the message itself.

Last spring, Treasury Secretary Mnuchin promised that tax reform legislation would be done by the August Congressional recess. Not only has that not happened, there is no hint yet what tax reform is even going to look like. During the Presidential election campaign, candidate Trump promised to repeal and replace Obamacare and lower corporate taxes to 15%. In neither case, did he say how that was going to be done. Details and explanations are not the stuff of successful campaigns. Campaigns are dominated by one-liners like "Make America Great Again", and not by the gory details.

But in the real world the details count. This weak Republican leadership says it is going to make yet another attempt to force healthcare reform through by trying to vote on a bill to repeal Obamacare. Replacement will have to wait for up to two years. Republicans must choose between fulfilling a campaign pledge or voting for a bill that is highly unpopular, even within its own base. There are no pleasant options. For its part, the White House has had very little visible input into the makeup of any of the Obamacare replacement alternatives offered to date. In many ways, it appears the White House is more focused on fulfilling a campaign pledge than producing good legislation. That shows in the unpopularity of the replacement bills to date. The odds still favor the likelihood that repeal and replacing Obamacare is going to die but in Washington, things can change with shocking rapidity.

Whatever happens, tax reform efforts almost certainly will begin this fall. One of the difficulties to date is that Republicans have decided to proceed in a totally partisan manner. That may have been necessary to repeal Obamacare but it should hardly be necessary to cut taxes. Once again, using the reconciliation process, Republicans will need 50 of 52 members to support any tax cut or tax reform package if it stays on a purely partisan path. That is going to be near impossible. First, in order to even consider going down that path, Congress has to pass a budget, something it never was able to do in the Obama years. To use reconciliation requires a package that is close to deficit neutral and that can't happen without a budget. Second, there are Republicans who favor a pro-growth package that allows for some deficit expansion while others want a much smaller deficit and a movement in the direction of a balanced budget. Trying to cobble together 50 votes out of that mix is going to be extremely difficult. If it is at all possible, the White House is going to have to lead and take a forceful role trying to pull a 50-vote coalition together. As noted earlier, so far, there isn't even a plan in place. The last promise of a plan was a one-page regurgitation of campaign pledges, hardly a basis for even preliminary discussion. Clearly, Treasury, the White House and the House Ways and Means Committee have all done a lot of groundwork. But until leadership comes together in a unified way, the chances of any tax reform is doubtful.

That means more of the same for as far as we can see. More of the same means sub-2% growth, capex uncertainty, low inflation, low interest rates, and a weak dollar. In the short run, that is good for earnings, particularly for U.S. multinational companies. But that is not a good long term solution. For one, it does absolutely nothing to help the base that got Trump and Republicans elected. It leaves in place a broken healthcare system with rising costs tied to a whole host of inefficiencies. Low inflation means stagnant wages. Translation: Americans work harder to stay in place. That's what they voted against last election, not for. It means corporates continue to delay capital expansion until they tax issues are resolved. It pushes capital overseas in search for better opportunities.

All isn't bleak. Bank executives in recent earnings calls are hopeful that less regulation inspires greater loan demand. Housing is solid and can get better if more mortgage credit becomes available. But clearly, so far, the Trump dream that led to a strong rally post-election is fading. Don't blame the messenger. The fault lies less in the message itself but in the lack of message. Tax reform can't be defined in 140-character tweets. It requires serious detail, and explicit explanation of what Americans will gain if tax reform is achieved. Mr. Scaramucci may be better able to explain those complexities than Mr. Spicer but the ultimate messenger has to be the President himself. Members of Congress, and that includes all the Republicans, listen to their constituents. If their constituents liked the Republican Obamacare replacement package, it would be law by now. But the flawed package was hastily crafted and badly described. Voters by more than a 2-to-1 margin favor Obamacare. That is why healthcare reform has died, at least for now. Republicans in Congress want to be loyal and they also want to be reelected. Hopefully, they can craft and explain tax reform better. It should be easier. After all, who likes to pay taxes?

Today, Jennifer Lopez is 48. Barry Bonds is 53. Lynda Carter turns 66.

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