



Weekly Market Review

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The Week Ending November 3, 2017

The big news last week was Republicans from the House of Representatives releasing the much-anticipated tax bill. The overarching theme is to reduce the complexity of our tax system. The bill proposes reducing corporate taxes from 35% to 20%. To help offset that cut, much of the interest that companies were able to deduct pretax will no longer be deductible. The simplification theme carries over to the personal tax side as well. Currently, we have seven tax brackets. This bill proposes that be reduced to just four brackets while expanding the 0% tax bracket to include more people. The standard deduction would be doubled, and the personal exemption would be eliminated. The mortgage interest deduction would be limited, and the state and local tax deduction would be eliminated. It's going to take some time to analyze the potential impact and debate the details.



The Fed met last week and voted to keep the Fed Funds rate unchanged at 1.25%, which was not surprising. The Fed will meet one more time this year on December 13th. Based on the Fed Funds future prices, the market is pricing in a 97% probability the Fed will hike 0.25% at that meeting. In other Fed news, President Trump announced his plans to replace Fed Chair Janet Yellen with Jerome Powell. Mr. Powell has been a Fed Governor for five years and is considered to be pragmatic. Assuming he is confirmed by the Senate, Mr. Powell will assume the post in early 2018. An interesting tidbit about Mr. Powell is that he is a lawyer by training and not an economist. Even though he does not have the formal academic training in Economics, he served as a top Treasury Department official during the George H.W. Bush administration and worked for a private equity investment firm before that. The last non-economist to serve as Chairman of the Fed was G. William Miller in 1978, appointed by Jimmy Carter.



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