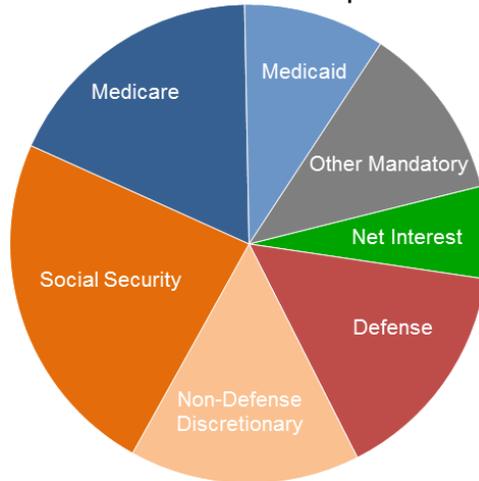


"The U.S. is an insurance company with an army"

Chart of the Month - September 2017

One of the ongoing dramas in Washington is reaching an agreement to raise the debt ceiling. It has never made sense that Congress approves all of the spending, and then in a different debate needs to agree to pay for that spending. Recently, President Trump sided with Democrats to push the debt limit discussion out to December. Now focus swings to the prospect of tax reform.

Significant U.S. Government Expenditures (2016)

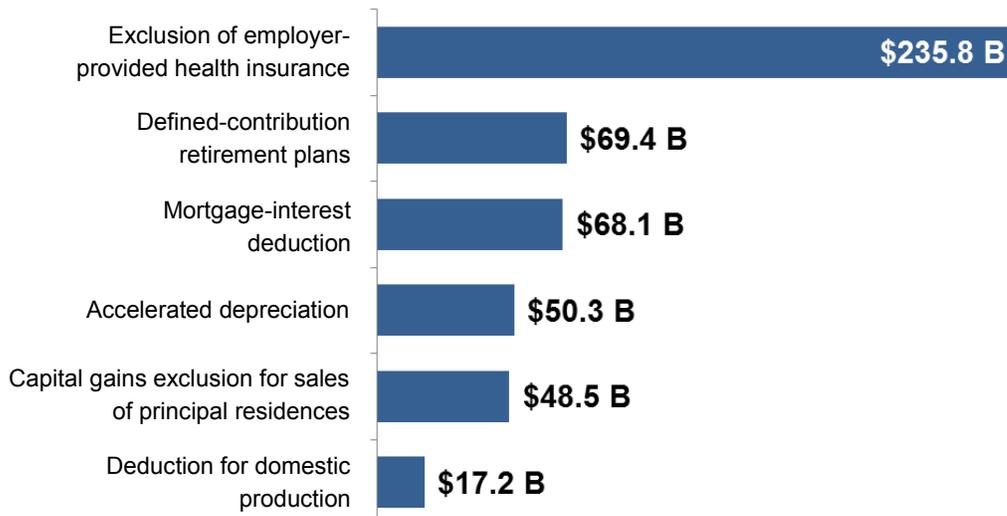


Source: Congressional Budget Office, 2016 Outlays. "Other Mandatory" includes income security, military retirement, veterans' programs, offsetting receipts and other programs.

Since we've had a Congress, there has been debate about how best to spend our collective tax dollars. Going into this next round of deliberation, we should acknowledge that much of the budget is already spoken for through social programs (Social Security, Medicare and Medicaid) and interest. As shown in the chart above, balancing the budget will be difficult without alterations to the major entitlement programs.

And reducing existing tax breaks will also be tough. Just as the major spending programs are popular, the largest tax breaks and deductions also have broad appeal.

Selected Tax Breaks and how much revenue they would represent in 2018



Source: Tax Policy Center calculations of Treasury Department data; The Wall Street Journal

The takeaway? The reason we don't get tax reform very often is because it's hard. People don't like to have things taken away. That said, there does seem to be some political momentum for getting a deal done. The details are fuzzy but it appears corporate tax rates would be lower, fewer deductions would be offered and companies would have more incentive to bring cash stashed overseas back home. Also, it appears Congress is willing to tolerate higher deficits. It's reasonable to think the stock market would rally and bond yields would drift higher if a deal does materialize.

We do not position our Global Asset Allocation strategies for forecasted political outcomes, but our fixed income exposure is conservatively positioned and we feel our strategies would withstand higher interest rates relatively well.

Market Performance*

Index	August 2017	Year to Date (1/1/17-8/31/17)	One Year (9/1/16-8/31/17)
S&P 500 Index	0.3%	11.9%	16.2%
MSCI EAFE Index	0.0%	17.0%	17.6%
Barclays U.S. Aggregate Bond Index	0.9%	3.6%	0.5%
JP Morgan Global Aggregate Bond Index	1.0%	6.8%	0.3%
Bloomberg Commodity Index	0.4%	-2.7%	3.0%
Gold (\$/oz)	4.1%	14.7%	0.9%

*Data Source: Bloomberg

"The U.S. is an insurance company with an army" - Peter Fisher, U.S. Treasury Undersecretary, 2002.

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