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# Market Observations
## March 2016

## MORE THAN WIND

March is a month of windy weather arising from seasonal meteorological phenomena. Additional wind of a Chicago-type has been added in this season of campaigning for the U.S. presidency. Much media coverage to date has becried the seeming lack of policy discussion, particularly in the broadcasted "debates." In fact, the leading candidates from both political parties each have published a range of policy positions. With the annual income-tax filing ritual at hand, a review of potential changes in tax policies and their impact is both timely and relevant.

### Perspective

All candidates currently campaigning for the U.S. presidency have robust websites on which their positions for a variety of key issues are set forth. Each website is quite different, reflecting the candidate's campaign approach. Positions on issues vary widely as well, both between and within the two political parties represented. Each candidate has proposed changes in the U.S. tax code for both individuals and businesses. Table I provides some key highlights of candidate proposals for changes in tax policy for individuals. The nature of these changes reflects individual candidate views on the scope of government. Candidates seeking to expand the role of government envision raising more tax revenue through a variety of code changes. Candidates seeking to circumscribe government activity propose to do so through policies that would reduce overall tax revenue.

The impact of tax policy extends well beyond the amount of revenue raised. Table II lists some of the key areas of impact. Each candidate asserts that their proposed policies will foster more economic growth and job creation with a moderate level of inflation. They envision that government finances will improve as well with higher revenue coming from a stronger economy whether tax rates are raised or lowered. While campaign coverage is less direct, the impact of tax policies on corporate profit growth and market valuations can be quite direct. In the absence of stronger economic growth, higher taxes for either individuals or businesses would tend to constrain both profits and market valuations. The benefits of lower taxes also could be constrained if a higher rate of economic growth is not forthcoming.

### Investment Implications

It is a long journey from campaign wind to the reality of any policy changes. Investors can benefit from knowledge of policy proposals and their future potential impacts. Their portfolios, however, should be guided today by clear objectives, horizons and risk assessments relative to prevailing government policies and market conditions.

Table I

**INDIVIDUAL TAX POLICY HIGHLIGHTS**

| | |
|---|---|
| CLINTON | Surcharges on and minimums for high-incomes.<br>Cap on all itemized deductions.<br>Higher rates on "medium-term" capital gains.<br>Limit value of tax-deferred and tax-free accounts. |
| CRUZ | Consolidate 7 brackets into one at 10%.<br>Retain only charitable and mortgage interest deductions.<br>Eliminate AMT, estate and payroll taxes.<br>Create tax-free savings accounts for up to $25,000 per year. |
| RUBIO | Consolidate 7 brackets into two - 15% & 35%.<br>Retain only charitable and mortgage interest deductions.<br>Eliminate AMT, estate and payroll taxes.<br>$2,000 personal credit versus standard deduction & personal exemption. |
| SANDERS | New tax brackets for high income - 37%, 43%, 48% & 52%.<br>Tax capital gains and dividends at ordinary rates for high incomes.<br>Limit the value of itemized deductions.<br>New employer payroll tax on all wages & salaries. |
| TRUMP | Consolidate 7 brackets into three - 10%, 20% & 25%.<br>Eliminate the AMT and estate taxes.<br>Increase standard deduction to $25,000 single and $50,000 married.<br>Higher phase-out for itemized deductions. |

Table II

**TAX POLICY IMPACTS**

Economic Growth & Inflation

Job Creation

Government Finances

Corporate Profit Growth

Market Valuations