



Tax reform, an Asia trip, and Saudi corruption

U.S. equity markets fell slightly last week mostly due to concerns about prompt passage of tax reform. Last week investors got to see the Senate version of tax reform. There are clear differences and we don't agree with the Secretary of the Treasury that they are immaterial. They are not for a number of reasons. There are certainly philosophical differences between the two bodies but perhaps more important, is they represent different constituencies. Members of the House represent small sectors while senators are dependent on entire states to be elected. Clearly, members of the House have narrower interests than senators and are often far more ideologically committed. Senators more often have conflicting interests. These make compromise that much more difficult. The other problem is, everyone is in favor of tax reform before the details are announced since no one knows whose ox is being gored. Now that most of the details are known, the special interests are coming to the forefront and lobbying hard. Lastly, we still haven't heard how it will affect the budget. Of course, no one knows what the final bill will be but it surely will be different than either the House or Senate version and that is the way it is supposed to work. The founding fathers made it messy for good reasons. So the market is almost surely correct in thinking tax reform will take longer than advertised and be different than either proposed bill.

Mr. Trump's trip to Asia comes to an end and leaves investors with some interesting questions. Yes, he did discuss trade with China and he arranged, in principle, some trade deals with President Xi valued at about \$250b. That is admirable but doesn't address the much larger problem, which is unequal access and intellectual property theft. Mr. Xi and Mr. Trump did announce some opening for U.S. companies in the financial industries but that is a small start. We have written much about our view on the Trans Pacific Partnership (TPP). In reading the transcripts of most Asian leaders, most notably those from Vietnam, they are very anxious for the U.S. to take a larger role in Asia. It is hard to understand why the U.S. doesn't. At a meeting last year with the Vietnamese ambassador to the U.S., he said that Vietnam was anxious for the U.S. to maintain a strong presence in Asia but the U.S. can't expect small countries that border on China to publicly express any favoritism, understandable. It would be wise for the United States to reconsider its role in the TPP. There are two other confusing issues arising out of Mr. Trump's Asia trip. First, his conciliatory remarks about and to President Putin. The other, his attachment to President Rodrigo Duterte. Mr. Duterte is a long standing enemy of the United States and newly aligned friend of China.

Last, is the remarkable events occurring in Saudi Arabia. We are still in the dark about what is going on but it has all the earmarks of being explosive. Saudi Arabia has been a pocket of stability in a very unstable region and this will not help. It leaves open the question, what will happen to the Gulf Cooperation Council?

All these points have very important ramifications for both the world and U.S. economies and, therefore, the financial markets.

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**The Week Ahead:**

- **MONDAY:** US Federal budget report expected at -58.0b; Russia GDP y/y expected at 2.00%; China Retail Sales y/y expected at 10.50%; China Industrial Production y/y expected at 6.20%
- **TUESDAY:** UK CPI expected at 0.20%; EC GDP SA q/q expected at 0.60%; US Producer Price Index Ex Food, Energy, Trade m/m expected at 0.20%
- **WEDNESDAY:** US CPI Ex Food and Energy m/m expected at 0.20%; US Retail Sales Ex Auto and Gas expected at 0.30%; US Business Inventories expected at 0.00%
- **THURSDAY:** UK Retail Sales Ex Auto Fuel m/m expected at 0.00%; EC CPI m/m expected at 0.10%; US Industrial Production m/m expected at 0.50%
- **FRIDAY:** : US Housing Starts m/m expected at 5.60%; CA CPI NSA m/m expected at 0.10%; US Building Permits m/m expected at 2.0%