



# YOUR FINANCIAL FUTURE

Your Guide to Life Planning

December 2017

Market Watch | December 2017



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Dear Valued Investor:

We hope that you have enjoyed spending time with loved ones during this holiday season. This time of year often presents an opportunity for some additional rest and relaxation, but there is always the possibility for activity in the markets--or as was the case last week, the government. Last Friday, December 22, 2017, President Trump signed the 2017 Tax Cuts and Jobs Act into law. Although the depth of detail of this new law may be intimidating, on balance, we believe its passage provides firmer footing for investors as we begin a new year.

The \$1.5 trillion tax cut is a complex, 1,000-page law intended to spur economic activity through a reduction in both individual and corporate tax rates, and simplify the tax code by eliminating or trimming a variety of deductions and exemptions. At a high-level overview:

- The Joint Committee on Taxation suggests the estimated total cost over 10 years will be just over \$1 trillion, with the offset of \$500 billion in added revenue from an estimated economic growth impact of +0.7% per year over the next 10 years.
- The estimated net tax cuts for individuals total approximately \$1.15 trillion, or about 77% of the package, a greater focus on individual tax cuts than the original House bill.
- The estimated net tax cuts for U.S. corporations total around \$330 billion, or 23% of the overall package.

The new tax law has important implications for major corporations, small businesses, and individual taxpayers, and is designed to shift the trajectory for economic growth, the federal budget, monetary policy, and perhaps most critically for investors--corporate profits.

There are legitimate concerns that the new law could increase the potential for higher inflation and weigh on the deficit. Yet U.S. consumers may be poised to reap approximately \$100 billion in 2018 and \$200 billion in 2019 thanks to the individual tax cuts. Meanwhile, U.S. corporations can potentially boost investment from a combination of lower taxes, repatriated profits, and immediate expensing, further supporting economic growth.

Perhaps the biggest immediate takeaway for investors is that the accelerated timeline to pass the law has decreased uncertainty. As a result, individuals and businesses have the opportunity to begin planning around the changes and pulling forward the new law's impact.

With the new tax law in play, we are upgrading our projections for 2018 U.S. economic growth to a range of 2.75-3.0% from our original forecast of 2.5%, raising estimates for corporate profits, and consequently increasing our projection for the S&P 500 Index's price target to a range of 2850-2900 by year-end.\* Our upgraded S&P 500 target keeps our broad return expectations for 2018 at approximately 10% including dividends. We are maintaining a cautious bond market view, due to the greater risk of rising interest rates.

The new tax law should help provide fiscal support for the economy as monetary support is withdrawn. And although it helps decrease the chance of a recession in 2018 and even in 2019, we still expect to see market

volatility increase from the extraordinarily low levels that persisted in 2017. Nevertheless, for markets and the economy, we believe the new law provides a firmer launching point as we enter the new year.

As always, we encourage you to contact your financial advisor with any questions. And from all of us at LPL Research, we wish you a healthy and happy 2018.

#### *IMPORTANT DISCLOSURES*

*\*Based on a trailing 12-month price-to-earnings ratio (PE) of 19-20. Forecasts are from our Outlook 2018: Return of the Business Cycle publication.*

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*Economic forecasts set forth may not develop as predicted.*

*This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.*

*The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.*

*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price.*

*The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.*

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