RAYMOND JAMES®

market update

From the Office of:
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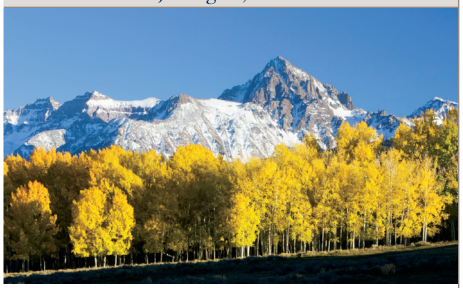
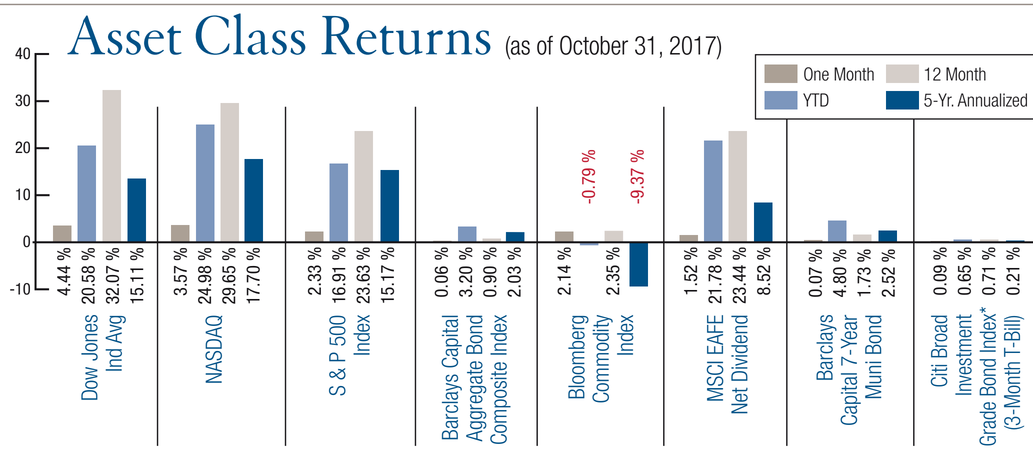


"A man who is a master of patience is master of everything else."

-George Savile



Market/Economic Synopsis

- Dow Jones Industrial Average stalwart General Electric declares dividend will be cut by 50%
- Acquisition and takeover bids heat up, highlighted by Hasbro/Mattel deal and Qualcomm/Broadcom offer
- Brent crude oil prices reach multi-year high, closing over $63/bbl on November 10, in large part due to geopolitical tensions in Saudi Arabia
- Bitcoin and other cryptocurrencies experience heightened volatility with multiple 10% intraday swings recently
- U.S. yield curve continues to flatten as short end of interest rate curve rises in anticipation of a December rate hike by the Federal Reserve
- Venezuelan debt holders in limbo as restructuring conversations make little headway
- President Trump swings through Asian region with focus on trade agreements and military strategy

Key Provisions of the House's Tax Proposal

The following is from the Raymond James point of view publication, and provides a succinct summary of our current, proposed legislation for tax reform.

The proposed changes include reduced business taxes, fewer individual income tax brackets, and an elimination of personal exemptions.

On November 2, House Republicans released their long-awaited bill calling for the largest transformation of the U.S. tax code since 1986. The "Tax Cuts and Jobs Act" provides for a complete revamping of the individual and business income tax systems starting in 2018, including substantially reducing business tax rates, compressing individual brackets and eliminating personal exemptions and most personal deductions.

The current seven individual income tax brackets are consolidated to four brackets: 12%, 25%, 35% and 39.6%, and the benefits of the 12% bracket are eliminated for higher income taxpayers. The 39.6% bracket would apply to married couples with income exceeding $1,000,000 or $500,000 for single taxpayers.

Almost all itemized deductions are eliminated, including medical expenses, most state and local taxes, and some miscellaneous deductions such as tax preparation fees (but not investment management fees). The few that remain include charitable contributions, some mortgage interest and real property taxes. While the current mortgage interest deduction is limited to debt of $1 million, interest on newly-purchased principal residences is capped at debt of $500,000. Other repealed deductions include moving expenses, alimony and student loan interest.

In order to compensate for the elimination of personal exemptions, the standard deduction available to those who don't itemize deductions essentially doubles to $12,200 and $24,400 for single and married taxpayers, respectively. One significant effect of the proposed changes is the vast majority of taxpayers would not itemize at all but rather claim the standard deduction.

Long term capital gains and qualified dividends would continue to be taxed at either 15% or 20%. The 3.8% tax on net investment income, or so-called Medicare surtax, remains intact. In addition, the gain exclusion from the sale of a principal residence is modified, restricting its use to once every five years instead of the current two years and phasing it out for high income taxpayers. The highly controversial and extremely complicated alternative minimum tax (AMT) is repealed.

More significant business income tax changes include a reduction in the corporate rate from 35% to 20% and a complete re-working of the taxation of businesses operating as sole proprietorships and pass-through entities, such as S corporations, partnerships and limited liability companies, depending on owner participation and business type. While passive investors in pass-through businesses would get the 25% rate, the tax treatment of active business owners varies. Owners of professional services businesses such as lawyers and accountants are taxed at regular rates up to 39.6%, whereas active business owners like in manufacturing and retail may elect to be treated as part-employee and part-investor, with 70% of the business income taxed as compensation up to 39.6% and 30% taxed as business income at a 25% rate. Alternatively, owners can elect a formula based on their facts and circumstances to determine the allocation ratio for labor and capital.

The current $5,000,000 exemption for estate, gift and generation-skipping transfer (GST) tax would be doubled beginning in 2018 to $10,000,000 and indexed for inflation. The gift tax rate would decrease next year from 40% to 35%, and the estate and GST taxes would be repealed after 2023. In addition, the basis step-up to fair market value at death would continue.

President Trump and Republican leadership suggest this legislation will provide significant tax relief to middle class taxpayers while simultaneously boosting corporate profits and encouraging economic growth. However, skeptics say heirs of wealthy people and business owners are the most likely benefactors. Families with fewer children and deductions are also expected to benefit. Anticipated losers include high earners living in high income tax states such as California, New Jersey and New York, buyers of large homes, home sellers with high income and individuals with medical expenses. High-income taxpayers could see a higher marginal bracket since the bill pushes many households from the 33% bracket to the 35% bracket.

Keep in mind that this initial legislation will likely undergo countless changes as it works its way through Congress, and we may see alternate versions introduced by others in Congress as well.

Raymond James financial advisors do not render advice on tax matters. You should discuss any tax matters with the appropriate professional.

By The Numbers

This section of our market letter includes interesting statistics – some of it financial, some of it not!

1. MORE THAN KATRINA - Damage caused by Harvey and Irma is estimated to be $290 billion. Harvey's damage estimate of $190 billion would make it the costliest weather disaster in US history. Harvey and Irma were the first Category 4 or higher hurricanes to strike the US mainland in the same year (source: AccuWeather).

2. DIFFERENCE OF OPINION - The Trump White House submitted a 10-year budget plan to Congress on 5/23/17 that forecasted a $16 billion surplus in fiscal year 2027. The Congressional Budget Office released its analysis of the White House numbers and projected a $720 billion deficit in fiscal year 2027 (source: White House, CBO).

3. IMPORTS – The USA imported an average of 51,500 shipping containers per day in 2016, an all-time record. Each box is a 20-foot long cargo container. The 2 busiest container ports in the USA are Los Angeles and Long Beach (source: National Retail Federation).

4. MORE THAN JUST WAGES – For every $1 spent for wages and salaries in the private sector, employers spend an additional 44 cents on benefits. Average compensation is $23.15 per hour while the cost of benefits averages an additional $10.11 per hour (source: Bureau of Labor Statistics).

5. GONNA PARTY LIKE IT'S 1999 - After adjusting numerical data from the past for the impact of inflation, the median household income in 2016 ($59,039) is the highest ever recorded in the United States, surpassing the previous median income record high ($58,665) set in 1999 (source: Federal Reserve Bank of St. Louis).

6. TOP ECHELON - It took $170,500 of household income to rank in the top 10% of earners in calendar year 2016 (source: Census Bureau).

7. MORE THAN DOUBLE - The artificial constraints used by the Treasury Department for the last 6 months to hold our national debt at $19.8 trillion have been suspended through Friday 12/08/17. This allowed our country's debt to climb to $20.2 trillion as of last week. 10 years ago today (9/25/07), our national debt was only $9.0 trillion (source: Treasury Department).

8. UNBEATABLE - The Cleveland Indians won 22 consecutive baseball games through 9/14/17, the 2nd longest winning streak in the 148-year history of major league baseball. If the Indians had a 55% chance of winning each of the individual games, then the odds they would win 22 games in a row were 1 in 515,253 (source: MLB).

From The Homefront

As Thanksgiving week approaches, we hope you are able to spend time with your family and friends. One of my favorite traditions during Thanksgiving dinner is to have all at our table share one thing we are thankful for. Whether we are thankful for our meal, our health, our freedom, or otherwise, it is a great way to take a moment to reflect on what we have and give thanks for all we are blessed with. Perhaps you would like to share this tradition with your family this year. We wish you safe travels and an enjoyable time with those closest to you during the holidays.

If you prefer to receive this newsletter via email, please notify us at jeff.sgroi@raymondjames.com.

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