

From the White House to Massachusetts

Massachusetts Collectors and Treasurers Association

Michael A. Tyler, CFA
Chief Investment Officer
Eastern Bank Wealth Management

June 20, 2017

Michael A. Tyler, CFA

- Chief Investment Officer, Eastern Bank Wealth Management
- Former Partner at Wellington Management in Boston
 - Built and led telecom investment practice
- Founder/CEO of investment boutique
 - Guided institutional clients on corporate takeovers and managed hedge fund
- Harvard MBA, Princeton BA



President Trump's Economic Agenda

- Trump's economic agenda has four core themes
 - Lower taxes
 - Deregulation
 - Infrastructure investment
 - Protectionist trade policy
- Other agenda items also have economic consequences
 - Immigration and travel ban
 - Military buildup

President Trump's Tax Plan

- Reduce corporate income tax rate from 35% to 15%
 - Encourage investment via one-time tax on repatriated cash
 - Include S-corps, LLPs, LLCs, and other “pass-through” businesses
 - Shift from worldwide to territorial tax system (no tax on foreign profits)
- Cut individual and household taxes to stimulate spending
 - Reduce top bracket to 35% and raise the standard deduction
 - Eliminate alternative minimum tax and estate tax entirely
 - Eliminate deduction for state and municipal taxes paid
- No indication of how budget will be affected
 - If it's not revenue-neutral after 10 years, it can be filibustered
- Details are still sketchy – just one page of bullet points

Tax Plan Implications

- Plan is just a first step toward a long negotiation
- Tax cuts by themselves would create huge deficits
- Aspects designed to raise revenue will face opposition
 - States and cities oppose elimination of deductibility of their taxes
 - Importers will oppose elimination of taxes on foreign earnings
- Differences with Speaker Ryan's plan are present but small
 - Ryan's "border adjustment tax" is not in Trump plan; DOA in the Senate
 - Ryan's top corporate and individual rates are higher than Trump's
- Some aspects need to be rethought
 - Inclusion of pass-through entities encourages gaming the system

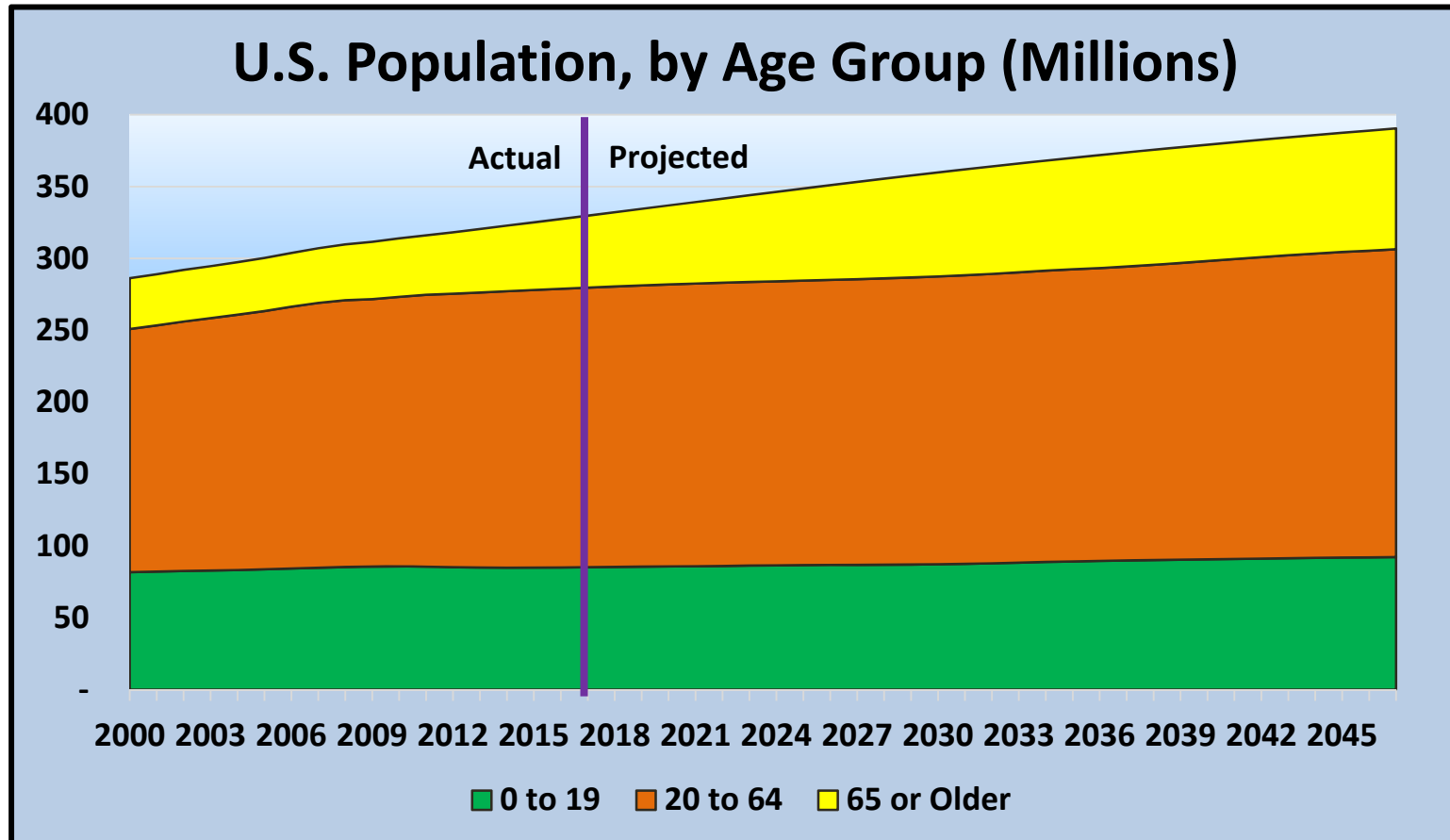
Investor-Hostile Policies

- Stricter immigration policies reduce labor force growth
 - Fewer people = less production and less spending
 - Trump's stated immigration policy could cause a recession
- Protectionist trade policies are misguided
 - Higher tariffs and abandoned trade deals lead to lower trade volumes
 - Protectionism could spark a trade war, impairing our export growth
- Quitting Nafta/TPP kills more jobs than it saves
 - New Nafta-enabled jobs are in higher-skill, higher-pay fields
 - But Obama failed to re-train and re-educate displaced workers

Investor-Friendly Policies

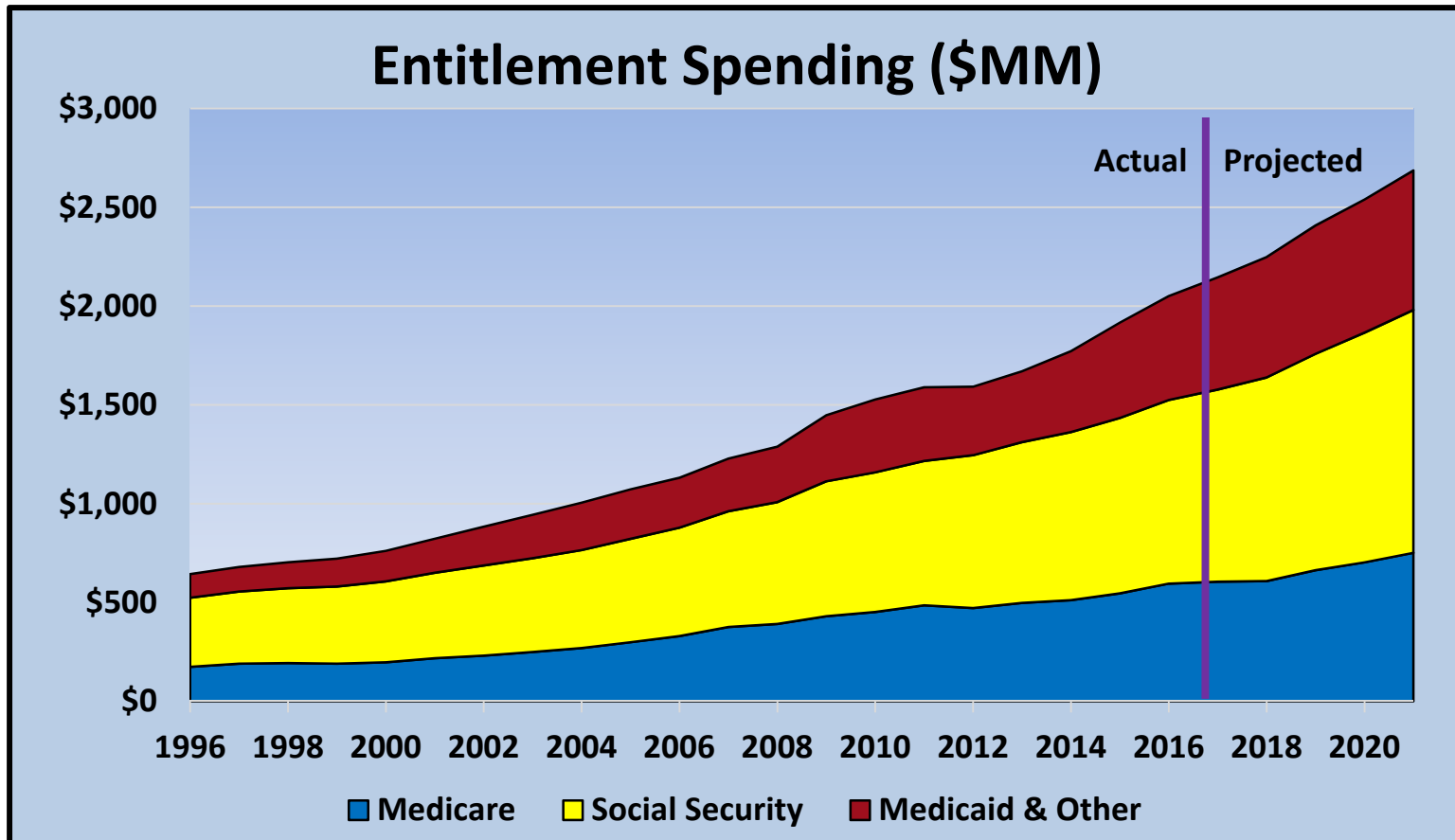
- Deregulation can be done mostly without Congress
 - Health care, automobiles, utilities, telecom, energy firms benefit most
 - Financial firms would benefit from unwinding Dodd-Frank
 - Societal impact is a separate question – except for SRI investors
- Infrastructure investment is popular but hostage to tax bill
- Trump has shifted significantly on trade policy
 - China is not a currency manipulator
 - Nafta can be tweaked rather than abandoned
 - Tariff “war” appears to be much less likely now

Demographics



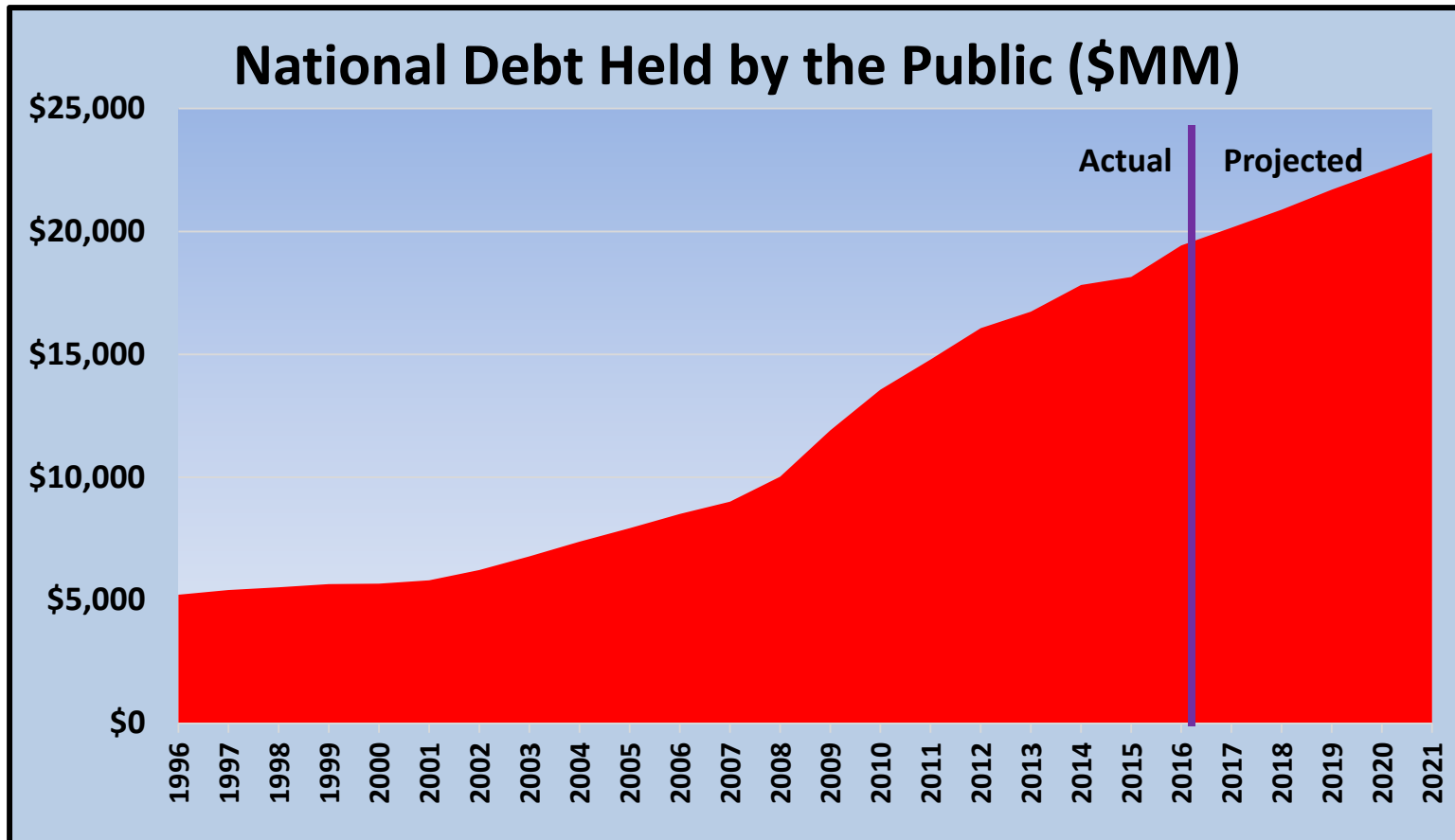
Source: Congressional Budget Office

Entitlement Spending



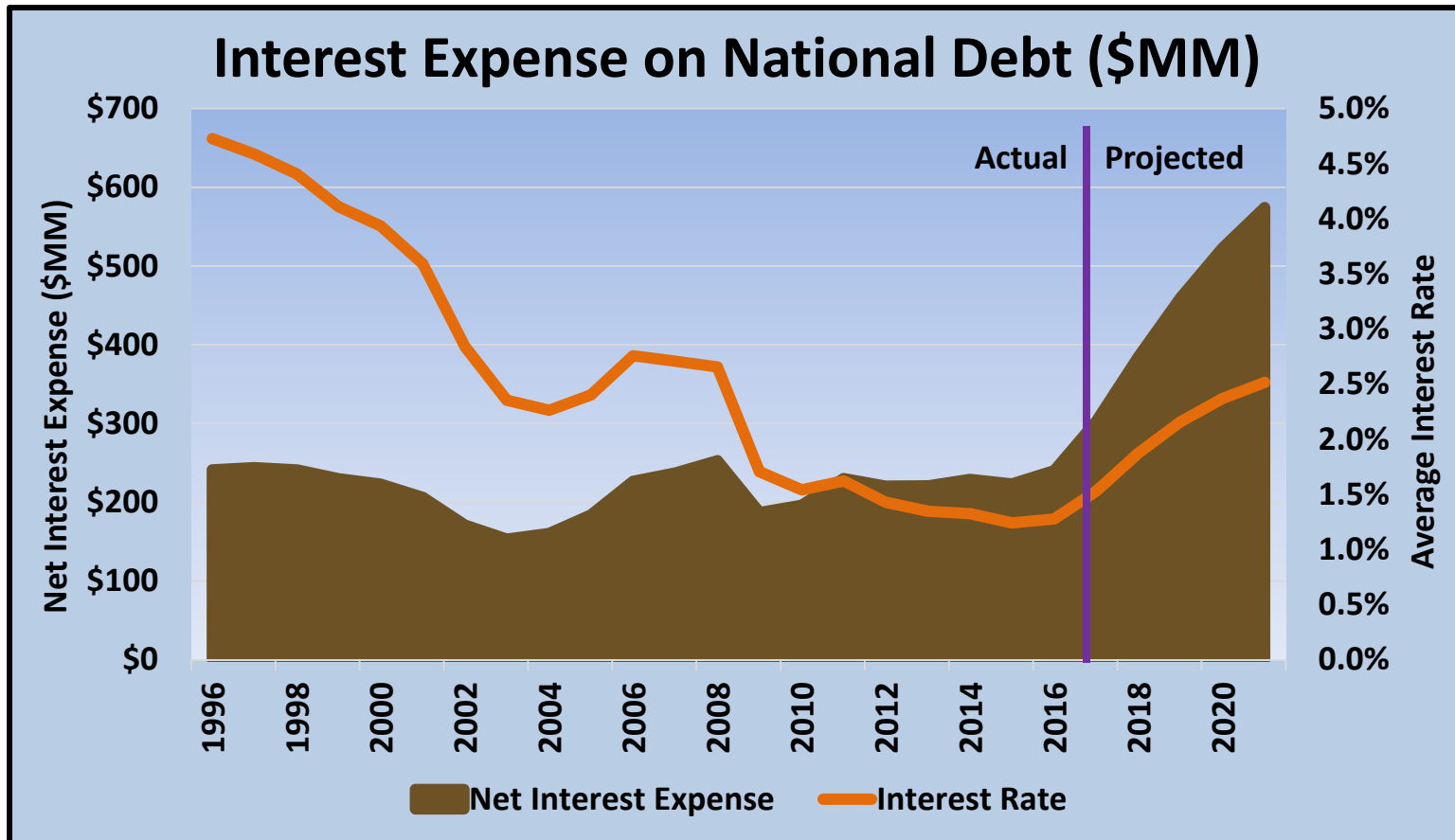
Source: Treasury Department

National Debt



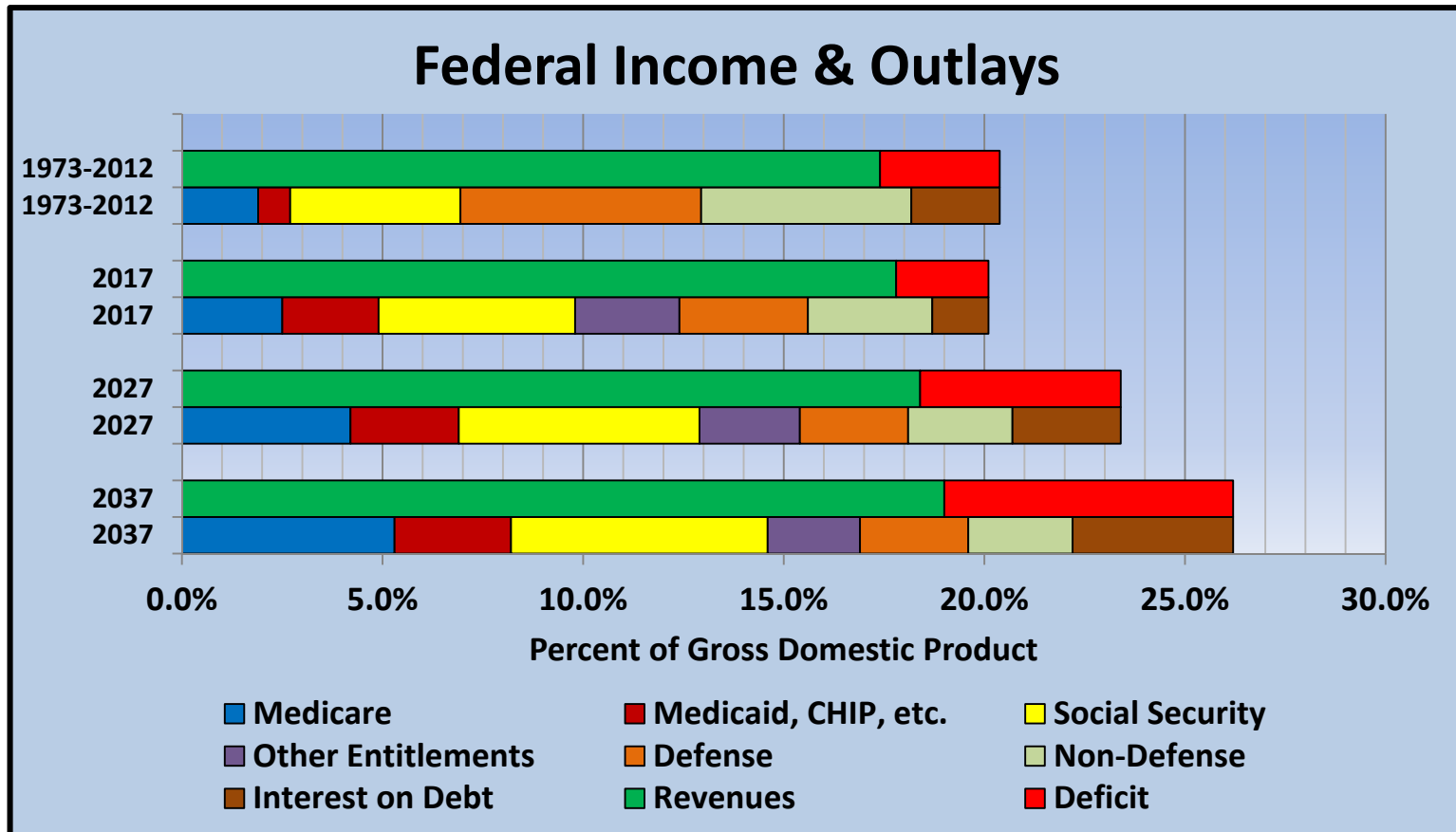
Source: Treasury Department

Interest on National Debt



Source: Treasury Department

Balancing the Federal Budget



Source: Congressional Budget Office

Trump's Agenda: Outlook

- Tax reform will take a year longer than originally anticipated
 - If it is truly revenue-neutral, then benefits will be highly diluted
 - If it includes genuinely big tax cuts, it will greatly add to the deficit
- Infrastructure investment bill probably won't happen soon
 - This is the most popular and bipartisan item on Trump's agenda
- Budget math doesn't add up
 - Tax cuts could cut federal revenues by 15%
 - Entitlement growth and infrastructure investment would boost outlays
 - Rising interest rates will increase debt service costs
 - Rising budget deficits could double the national debt

Trump's Agenda: Market Impact

- Deregulatory agenda is already well underway
 - Stocks of companies in heavily regulated industries have risen
- Markets are wary of policies that detract from growth agenda
 - Trump must tread carefully on immigration and trade issues
 - Restrictions won't save U.S. jobs, but they will depress GDP
- Markets no longer anticipate quick implementation
 - Big hurdles are unavoidable
 - Slow population growth, strong dollar, debt service costs don't help
- Markets are resilient, and will recover from policy failures
 - Stocks and bonds are mildly expensive but not in bubble territory

Contact Info and Disclosures

Michael A. Tyler, CFA
Chief Investment Officer
Eastern Bank Wealth Management
265 Franklin Street, 3rd Floor
Boston, MA 02110
(617) 897-1122
m.tyler@easternbank.com

Eastern Bank Wealth Management (EBWM) is a division of Eastern Bank. Views expressed are our current opinions as of the date appearing on this material only; all opinions herein are subject to change without notice based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector. This material is for your private information and we are not soliciting any action based on it.

The information in this report has been obtained from sources believed to be reliable but its accuracy is not guaranteed. There is neither representation nor warranty as to the accuracy of, nor liability for the decisions based on such information.

Past performance does not guarantee future performance.

Investment Products: *Not insured by FDIC or any federal government agency. Not deposits of or guaranteed by any bank. May lose value.*