A Passage of Tax Reform Could Provide a Boost to Industrials

1. After Congress passed the Tax Cuts and Jobs Act (TCJA) on 12/20/17, President Donald Trump signed it into law on 12/22/17.

2. President Trump touted tax reform as a tax cut for the middle class, but the biggest boost to the U.S. economy and markets could come from the reduction in the federal corporate tax rate from 35% to 21%, in our opinion.

3. While a tax cut of this magnitude should be a win-win scenario for all sectors, Industrials has the second highest effective tax rate at 29.7% (includes deductions) paid by the 11 major sectors, according to S&P Global Data and Bloomberg.

4. In addition to the anticipated tax savings, Industrials may also benefit from a TCJA provision allowing for full expensing of equipment purchases (100% bonus depreciation), according to the Tax Foundation. It is a temporary provision that will begin to be phased out after 2022. The Tax Foundation believes that "full expensing for equipment is one of the most pro-growth aspects of tax reform."

5. Lastly, the passage of the TCJA gave President Trump his first major legislative victory. That was critical for getting Trump’s $1 trillion U.S. infrastructure initiative up for consideration in 2018, in our opinion.

6. The S&P 500 Industrials Index outperformed the S&P 500 Index in five of the six periods featured in the chart. Industrials topped the broader market for the 15-year, 10-year, 5-year, 3-year and year-to-date periods ended 1/19/18.

7. The returns were as follows (S&P 500 Index vs. S&P 500 Industrials): 15-year average annualized (10.10% vs. 11.09%); 10-year average annualized (10.15% vs. 10.38%); 5-year average annualized (15.97% vs. 16.68%); 3-year average annualized (13.96% vs. 15.12%); 1-year (26.64% vs. 25.20%) and year-to-date (5.20% vs. 5.23%).

View from the Observation Deck

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