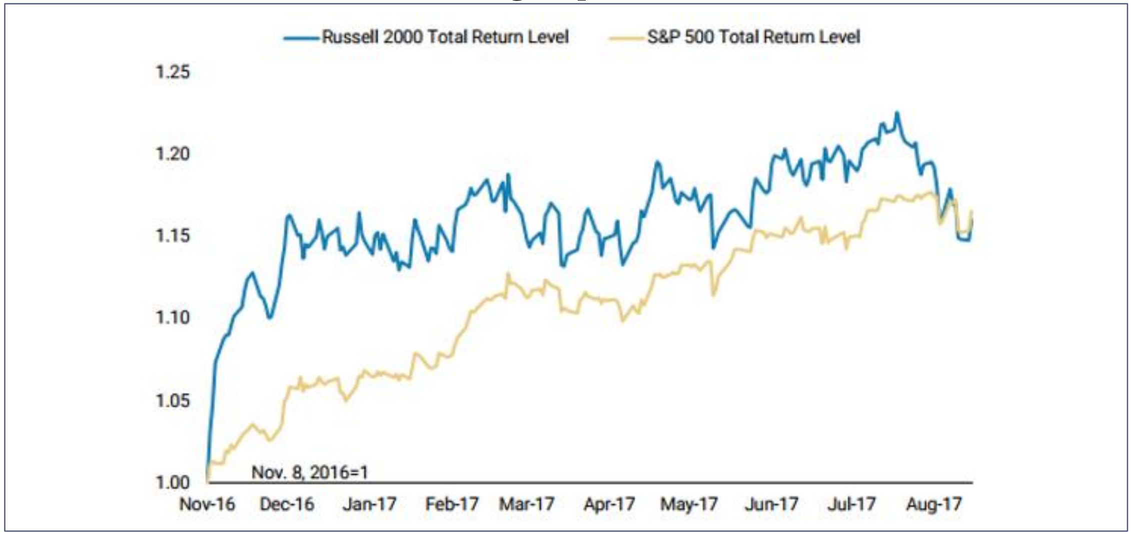
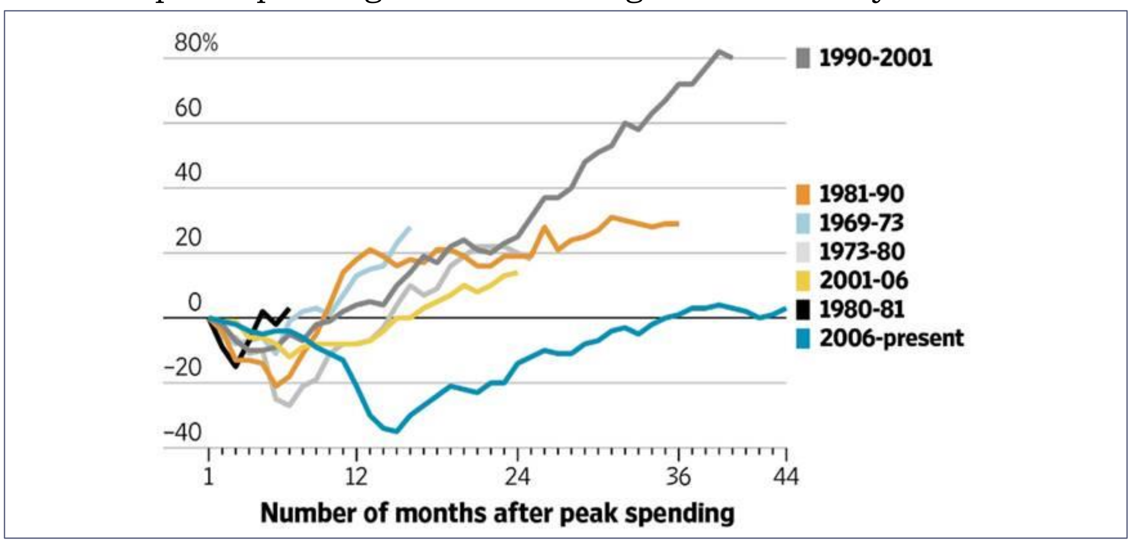
Market Recap

Resetting Expectations



Source: FactSet, Morgan Stanley

Capital Spending Remains a Drag on Productivity Growth



Source: Wall Street Journal, Commerce Dept.

On the heels of last year's U.S. presidential election, many cheered the prospect of tax reform as a welcome tailwind to corporate profits, with economists anticipating that reform could add more than 5% to 2017 earnings forecasts. Small Cap (i.e. smaller company) stocks – which tend to pay a higher average tax rate relative to larger U.S. multi-nationals – were expected to be an outsized beneficiary of lower tax rates, driving Small Caps to materially outperform their larger counterparts in the ensuing months. However, using Small Cap's more recent relative market performance as a proxy, investors' expectations for tax reform appear to have subsided. While this may not be surprising given ongoing political gridlock, market returns have nonetheless remained strong in 2017 thanks to resilient growth in corporate profits. It also serves as a reminder of some of the "upside risk" to current market levels should Congress begin to make more material progress on tax reform.

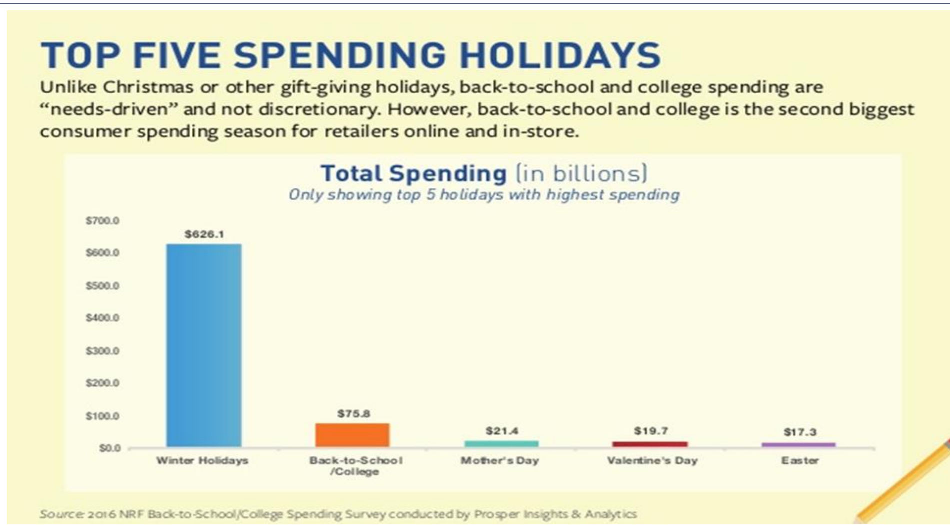
The current economic expansion has been characterized by its slow rate of growth, dragged down by the tepid pace of capital spending. Gross private domestic investment has been slow to rebound since the 2008-2009 recession, as compared to previous economic cycles. A more conservative approach to spending by corporate leaders (many of whom are resolved not to overextend their operations in the aftermath of the recession) is an undeniable factor underpinning the current environment. While caution is understandable, companies ultimately must reinvest (be it in new technology, inventory, or equipment) in order to sustainably grow their businesses. Growth in output per labor hour has averaged just 0.6% over the past five years, and until capital spending levels improve, significant progress in overall labor productivity seems unlikely.

Market Recap

Choosing Between a Traditional and Roth IRA

Source: Michael Kitces

The Surprising Importance of Back-to-School Spending



Source: NRF.com

Given the different tax treatment of contributions and withdrawals for Traditional vs. Roth IRAs, evaluating the most tax-efficient savings strategy requires an investor to consider whether she expects to be in a higher or lower tax bracket in retirement than today. Traditional IRA contributions are made with pre-tax dollars, but withdrawals are taxed at the owner's marginal income tax rate at the time of withdrawal, making it an appealing choice for someone who expects his tax rate in retirement to be lower than his current tax rate. Conversely, contributions to a Roth IRA are taxed at the owner's current marginal tax rate, but withdrawals are tax-free, making it better-suited to an investor who expects to be in a higher tax bracket in retirement than today. Distribution requirements are another factor to consider. Traditional IRA owners must begin making withdrawals by age 70.5, whereas Roth IRAs carry no such requirement, often making them more attractive as a wealth transfer vehicle.

Consumer spending accounts for more than two-thirds of U.S. economic activity. This is a highly seasonal measure, due in large part to the fact that the winter holiday season represents the vast majority of total consumer spending. However, unlike holiday shopping, which is discretionary, back-to-school shopping is needs-driven, making the category more resilient to yearly fluctuations. At 10%, back-to-school shopping is the second largest contributor to consumer spending, generating $75.8 billion in 2016. Although school supplies are the most widely-purchased back-to-school item, they represent the smallest line item within the broader back-to-school category. Shoes, clothing, and electronics each generate larger revenues, likely due to their larger price tags. On average, parents expect to spend roughly $204 on electronics, $139 on clothing, $130 on shoes, and $114 on school supplies in 2017.

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