

# Cumberland Advisors Market Commentary – Trump Tax Reform: Looking Backward and Forward

Two members of the research department of the Banque de France have published an interesting note important to US investors. We applaud the work of Cristina Jude and Francesco Pappada. The title is “Does the Trump corporate tax reform impact the composition of the US current account?” Here is a direct link to their paper: <https://blocnotesdeleco.banque-france.fr/en/blog-entry/does-trump-corporate-tax-reform-impact-composition-us-current-account>. We thank the authors and the Banque de France for permission to share this work with our readers.



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The implications of their findings give us reason to pause and reflect on the impacts on US markets. Note how they describe the issue of “profit hoarding” and “profit shifting.” Also note the roles of “small jurisdictions,” which they list as Bermuda, Ireland, Luxembourg, the Netherlands, Singapore, and Switzerland. Their paper is well-documented, and links to

their backup citations are in the paper.

I have been mulling over the implications of their comments on repatriation in particular. They present data to suggest that the transitory effects are nearly over. That development has implications for portfolio management. It also means that there are second-derivative implications as multinational corporations return to a baseline allocation approach to their foreign-sourced profits.

So the activity in stock buybacks and dividends and internal corporate decisions attributable to repatriation are shifting. Note that if repatriation had a positive effect on your portfolio, their research suggests that the positive force is spent or nearly so.

There is another secondary effect on the short end of the yield curve.

A multinational corporation that was engaged in "profit hoarding" parked cash in special types of accounts in order to qualify for deferral of tax to the US. Those accounts were often held in Treasury bills. The repatriation of those monies caused the Treasury bills to be sold and the cash to be moved into the US-based banking system. The entire process usually happened in one day. Note that the aggregate of Treasury bills and banking system aggregates was unchanged. It is the ownerships that changed.

Those changes occurred in the very short end of the yield curve. They happened at the same time that other forces impacted short-term interest rates, so there is no way to know how much of the volatility in the front of the yield curve was attributable to this transitory effect. What we do know is that the transitory effect is ending, if the researchers are correct in their observations.

Only time and retrospective research will reveal the impacts.

Our final takeaway is that the repatriation flows provided a tailwind to the US stock market. That tailwind happened coincidentally with other tax-code changes and with policy changes. It seems to be ending.

Without a tailwind, the US securities markets have to realign to its absence. We will see what that means this year.

At Cumberland we maintain a cash reserve in our US ETF portfolios. In our bond accounts we have been taking profits as the rally in the Treasury market has steamrolled and yields have dropped precipitously. We think it is time for more defensive posturing in bonds. Yields don't fall forever, and stocks require earnings growth rates to rise.

Also note that the number of listed stocks in the US has been declining since the late 1990s (see [Where Have All the Public Companies Gone?](https://www.bloomberg.com/opinion/articles/2018-04-09/where-have-all-the-u-s-public-companies-gone) <https://www.bloomberg.com/opinion/articles/2018-04-09/where-have-all-the-u-s-public-companies-gone>). The average age of the remaining listed companies has nearly doubled. So we have a shrinking and older cohort of listed companies trading on the US exchanges (see [How Did the U.S. Stock Market Get So Old?](https://www.bloomberg.com/news/articles/2019-03-05/how-did-the-u-s-stock-market-get-so-old) <https://www.bloomberg.com/news/articles/2019-03-05/how-did-the-u-s-stock-market-get-so-old>).

Fewer stocks, which are older and therefore more mature companies, combined with a post-repatriation paradigm – that is what faces the stock market in 2019–2020.

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Cumberland Advisors invites you to our “Financial Markets and the Economy – Financial Literacy Day III” event, to be held April 11, 2019, from 8:30 AM to 4 PM at the Selby Auditorium of the University of South Florida Sarasota-Manatee.

Our focus is “Financial Markets and the Economy”, featuring:

Panels-

- The Stock Market
- Health Hunger and Philanthropy
- How the World Looks to Me – A Global Economic Outlook

Special Presentations-

- [A Conversation with Susan Harper](#), Canada’s Consul Gen in Fla, on Trade/World Affairs
- [Keynote by Gretchen Morgenson](#), Senior Special Writer in the Investigations Unit at The Wall Street Journal and Former Business and Financial Editor for the New York Times.

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