



THE DANA VIEWPOINT

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The Good, the Bad, and the Ugly

We will cover all three of these categories in this Viewpoint; fortunately, there will be more of the Good than the Bad or the Ugly.

The prize for Ugly goes to the omnibus spending bill that was approved by Congress and signed by President Trump. This bill was needed to prevent a government shutdown and provide approved funds for Federal spending for the final six months of this fiscal year. Items that Republicans and Democrats both desire and disdain are in this bill. It is ugly and did not accomplish all the original goals, and yet it was passed hastily with little or no debate.

The Bad is represented by North Korea and the tariffs. Trump is attempting to execute new approaches to both the North Korea problem and the misappropriation of intellectual property by China. In a meeting with South Korean representatives in North Korea, Kim Jong-un offered to meet directly with President Trump, and Trump accepted. The meeting is tentatively scheduled to happen within the next few months, and the meeting between the leaders of the two countries would be a first. Certainly there are risks, but any successes would take a step towards minimizing the threat of one global bad actor.

Tariffs are almost always perceived to be universally bad, and Trump's gambit to use them in order to coerce China to move to a more level playing field in trade with the United States has risks. It appears that his targeted sanctions are an attempt to limit the intellectual property theft by China that has gone on for decades. China does not respect copyright law, and they have also required the transfer to them of any technology employed in manufacturing operations performed by Chinese companies for U.S. customers. This technology transfer certainly represents a cost for U.S. companies, and Trump's approach could begin to reverse a problem that has existed for decades. We will have to wait and see.

Now on to the Good; Jerome Powell chaired his first FOMC meeting and answered questions at the press conference following the meeting. Powell is a lawyer by training, but thankfully he behaved like a doctor and followed the Hippocratic Oath: First, do no harm. The Fed delivered the expected rate increase, but the markets had little reaction to the move or the press conference. The meeting statement was little changed from past statements, and Powell's downplaying of the

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connection between economic growth and inflation was welcome. The press conference resulted in little change to market expectations for measured future rate increases. Some fear that a stronger economy and higher wages will lead to inflation. Currently, headline CPI is slightly over two percent and core CPI is slightly below two percent. Both will rise over the next few months as some low numbers from a year ago roll off, but there are still no signs that inflation is headed higher on a sustained basis. For a rebuttal of the belief that higher wages could fuel an inflationary spiral or lead to a market downturn, we would recommend the op-ed by the new Director of the National Economic Council, Larry Kudlow, in the March 13 *Wall Street Journal*.

We would place the future effects of the corporate tax cut in the Very Good column. The corporate tax cuts will take effect this year as there are indications that the economic expansion may be gaining momentum. These concurrent events could have mutually beneficial effects on the market. The first order effect of the tax cut would be higher profits for companies and their shareholders; but economic effects cause reactions, and there are other things companies can do with this newfound profit margin rather than pass it all into profits for shareholders. They might make investments to increase productivity, the benefit of increased productivity could accrue partially to employees through increased wages, and partially to shareholders through increased profits. Part of the profit margin would certainly be spent on gaining market share through price competition. In this way, the tax cut is anti-inflationary. Productivity gains are also anti-inflationary.

While there are worries outside of our shores, the U.S. economy continues to experience growth without inflation, an unqualified good thing.

Random Thought for March 2018: “I believe alien life is quite common in the universe, although intelligent life is less so. Some say it has yet to appear on planet Earth.”

- Stephen Hawking

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