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SHOCK & AWE TAX CUTS ARE COMING: NEW CHANGES LIFT TAX CUTS TO 1 PERCENT OF GDP

Good morning. Nothing like a loss in the Alabama Senate which has forced the Republicans to turbocharge their tax package. We believe the new package will represent a fiscal stimulus of at least 1% of GDP when the tax score comes out over the weekend. The frontloading of the corporate tax rate cut to 2018 and the new tax cut on the top income tax rate to 37% are really meaningful changes (roughly 0.6% of GDP). The equity and bond markets have not fully grasped the magnitude of this short-term stimulus. Here is what we know this morning:

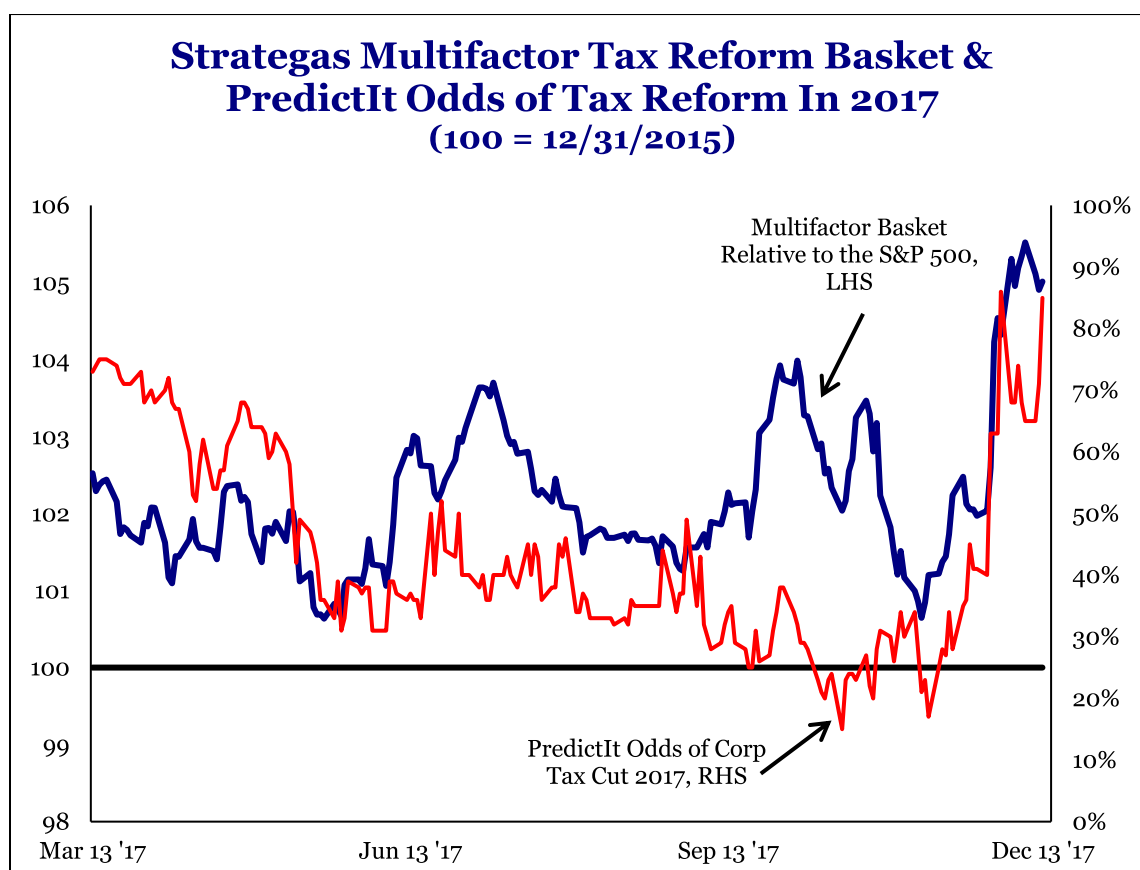
- Corporate tax rate at 21% implemented in 2018.
- Top individual tax rate at 37% with 5 brackets underneath.
- Pass through income will have a deduction of 20 percent. This is the equivalent of a 29.6 percent tax rate for pass through income.
- Corporate alternative minimum tax is repealed (which means R&D tax credits can still be taken, possible AMT refunds as well).
- Individual AMT is not fully repealed but is scaled back per the Senate bill.
- Combined state and local property and income tax deduction capped at \$10k. We assume this will also apply to pass through income.
- Corporate net interest deduction is 30% of EBITDA for the first five years and 30% of EBIT after that. EBITDA is a more generous deduction for companies compared to EBIT. No worldwide interest test.
- 100% expensing for capital equipment purchases. When expensing becomes depreciation in year six, the net interest deduction test flips to EBIT.
- Mandatory repatriation tax rates slightly higher again with a tax rate of 15% on cash and 10% on plant and equipment.
- No FIFO provision.
- Senate international structure but lower effective tax rate tests for the first year.
- Our belief is that the international tax provisions still have details to iron out with reinsurance being one of the last issues to get resolved.

LEGISLATIVE TEXT ON FRIDAY, BYRD BATH ON SATURDAY, SENATE VOTE MONDAY, HOUSE ON WEDNESDAY

The plan is to wrap up the final details today to post the text on Friday. Over the weekend the Parliamentarian will put the legislation through the “Byrd Bath.”

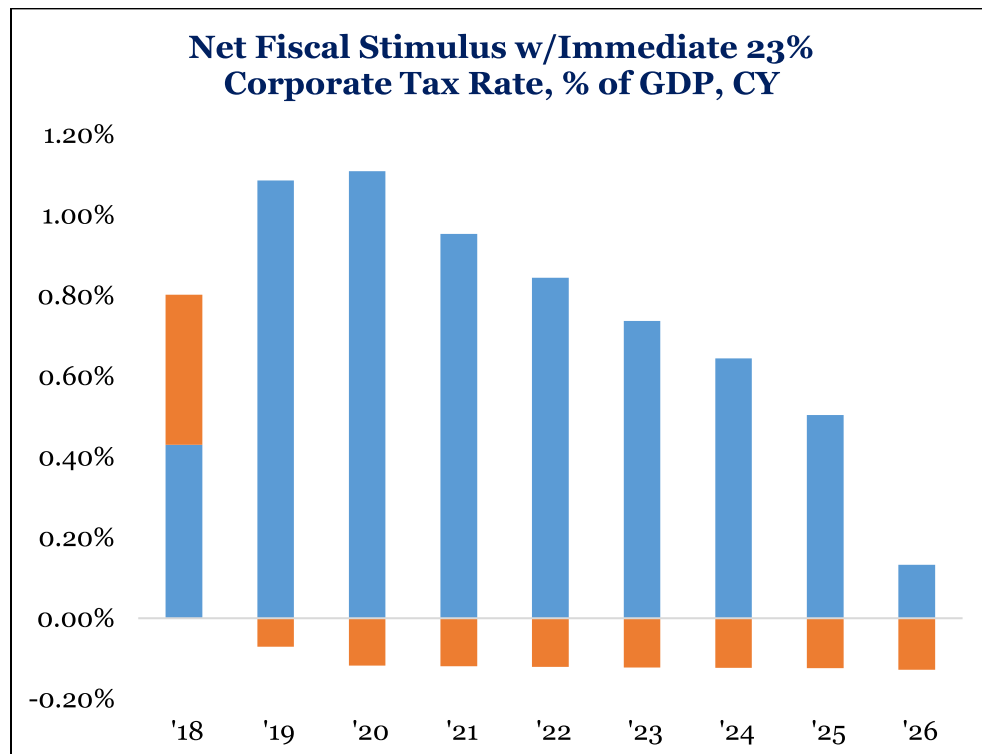
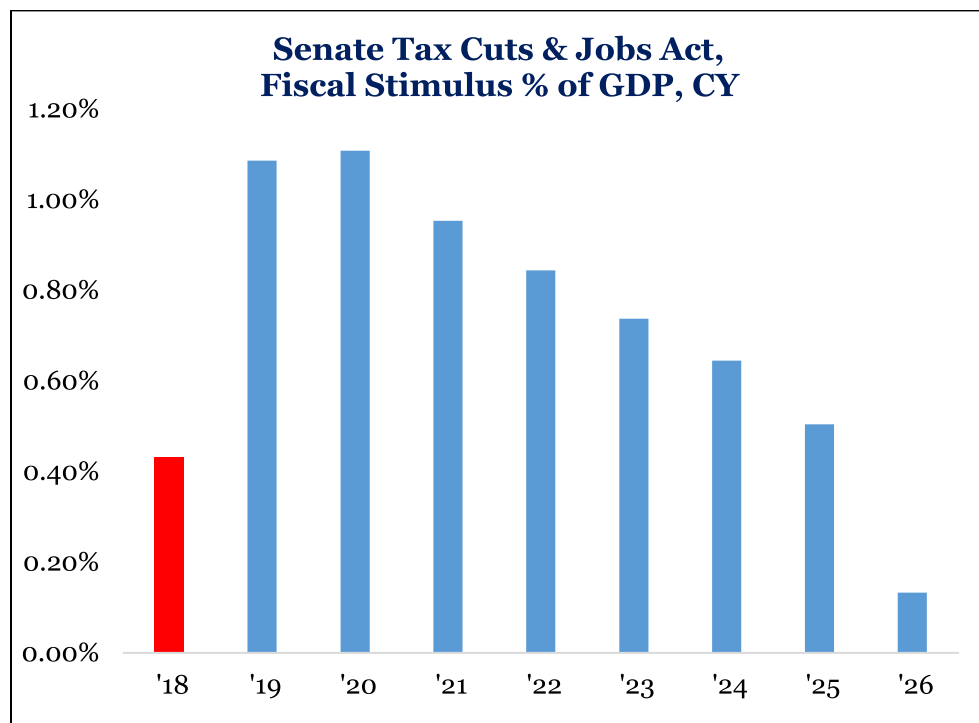
The Senate will likely vote first on Monday following 10 hours of debate. The House would then vote on Wednesday.

We are keeping a close eye on Senator McCain’s health and Susan Collins. If both of them are not ‘yes’ votes on Monday, the legislation will not pass the Senate. Probably not an issue but worth keeping an eye on.

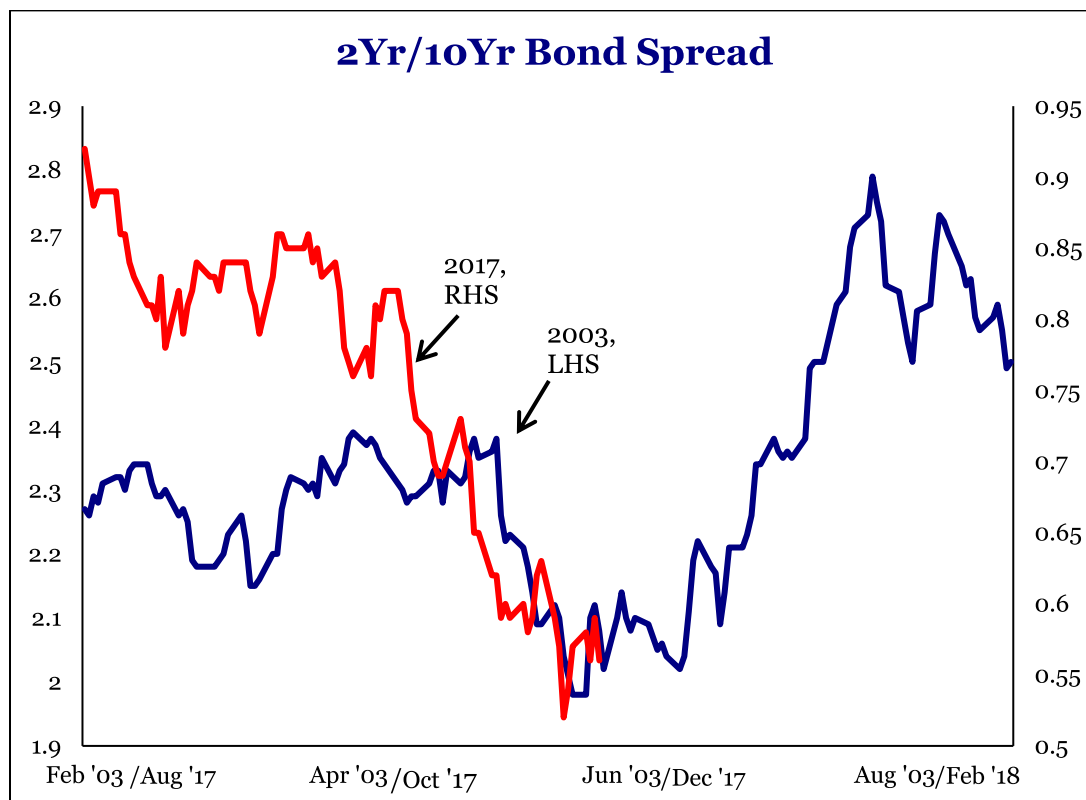


SHOCK & AWE TAX CUTS ARE COMING: THE NEW BILL MAY BE CLOSE TO 1% OF GDP IN FISCAL STIMULUS FOR CY 2018

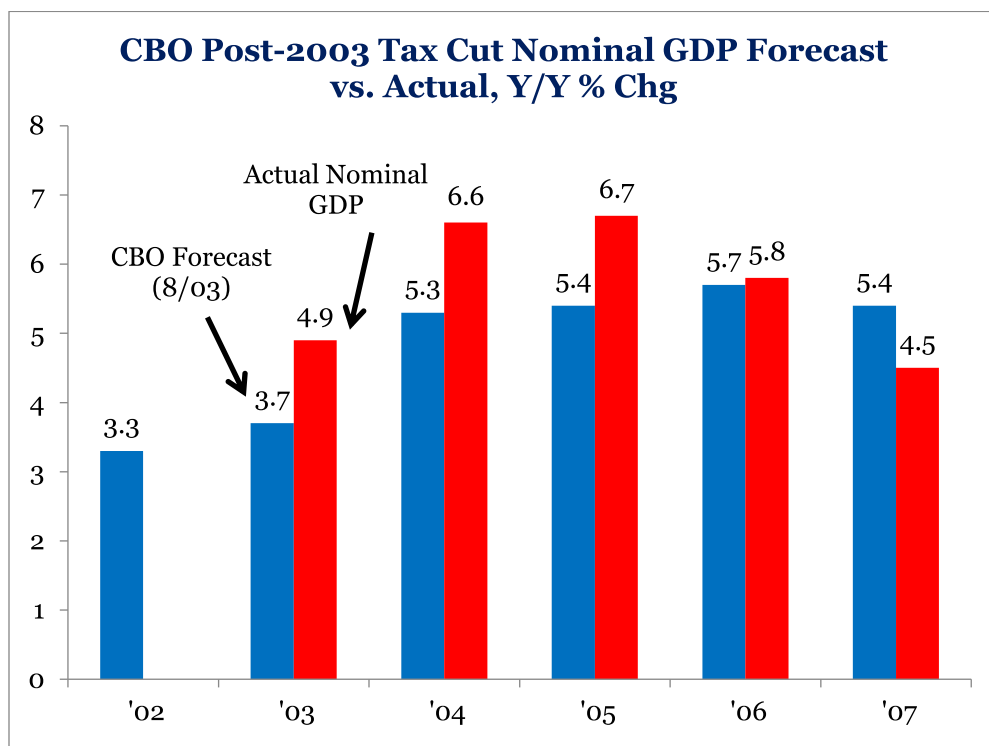
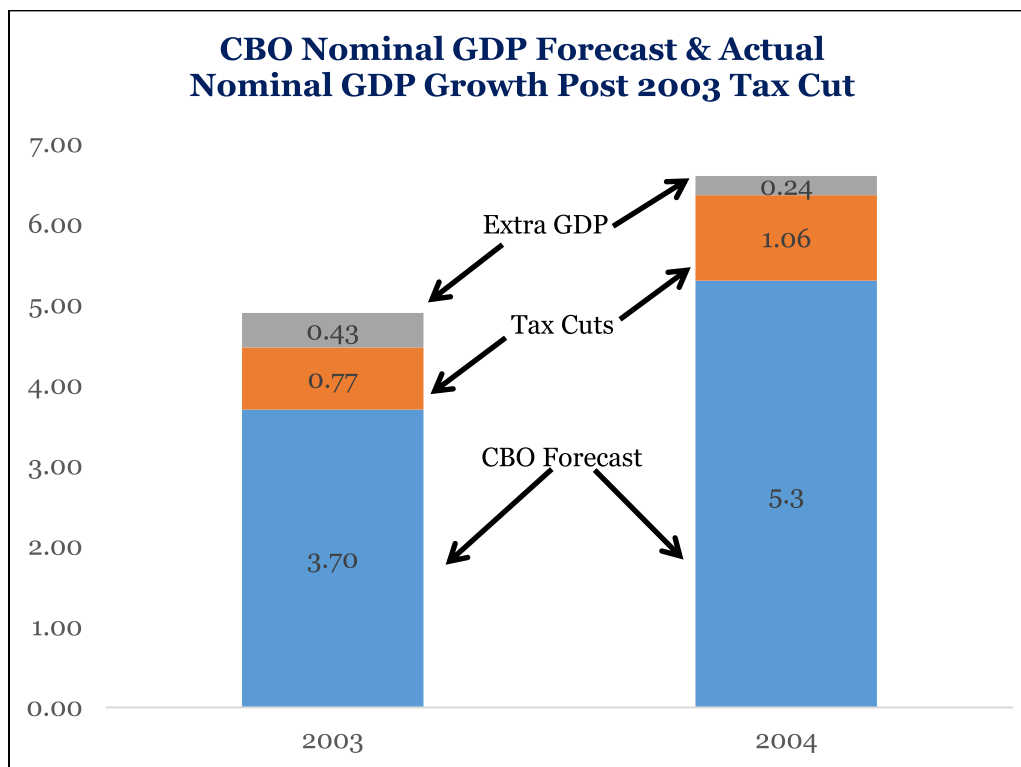
The Senate-passed legislation back loaded tax cuts which led to a small fiscal stimulus in CY 2018 (0.4%). A 23% corporate tax rate in 2018 would have lifted the amount of stimulus to 0.8% of GDP. Our sense is that the more generous 21% tax rate plus additional income tax relief will get you close to 1% of GDP before accounting for any supply-side effects.



JUST LIKE 2003: THE BOND MARKET DOES NOT SEEM TO BE PRICING IN THE MAGNITUDE OF THE TAX CUTS COMING



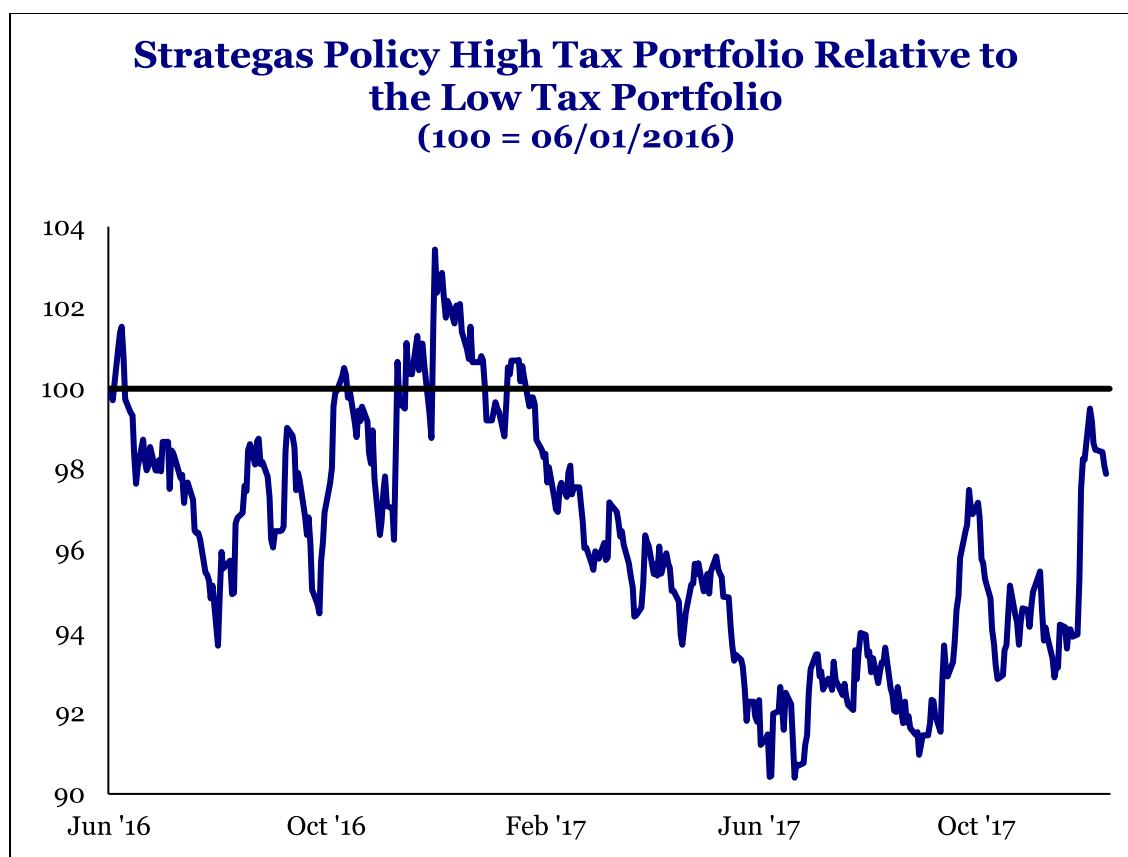
THE NEGATIVE CHORUS ABOUT THIS TAX CUT REMINDS US OF 2003 WHEN THE CONSENSUS WAS DEAD WRONG



The Congressional Budget Office made this forecast four months after the tax cut passed into law and missed nominal GDP by nearly \$1 trillion over three years.

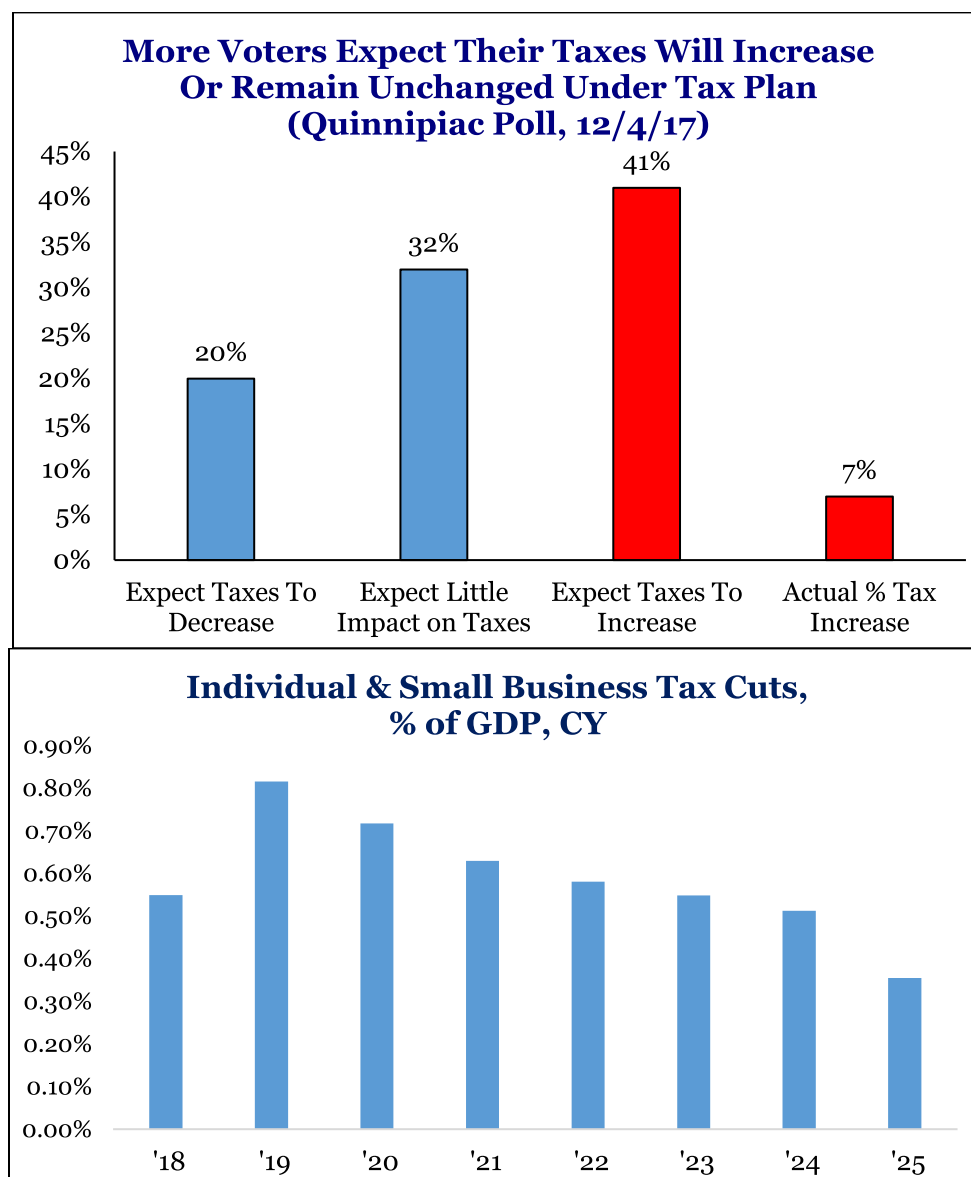
HANDICAPPING THE WINNERS AND LOSERS OF THE PROPOSED TAX REFORM LEGISLATION

Handicapping Winners & Losers In Tax Reform		
Winners	Mixed	Losers
Small Caps, Mid Caps High Tax Large Caps Financials Retail Cap Good Order Industrials Cash Overseas % of Mark. Cap US Co. w/ High Foreign Sales Low Tax States Small Businesses Alaska Oil Production	US Dollar Technology REITs & MLPs Insurance Utilities	Inverted Companies Non-US Multinationals Intangible Income Overseas High Yield Bonds Indebted Companies Private Equity Treasuries High Tax States Low Tax Companies

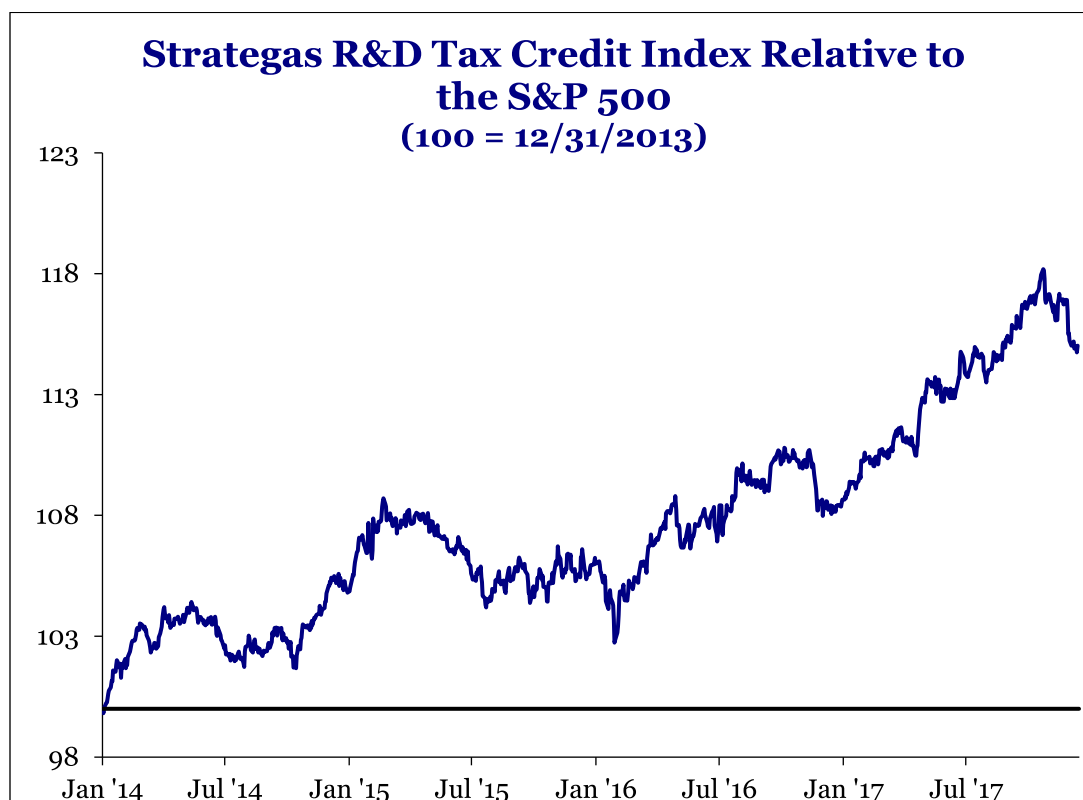


CONSUMER EXPECTATIONS ARE LOW WHICH COULD LEAD TO AN UPSIDE SURPRISE WHEN PAYCHECKS ADJUST

Democrats are blasting the tax changes and continue to stress that this legislation is a middle class tax increase. Nearly all of the tax increase data is based on 2027 data when the individual income tax cuts expire due to budget reconciliation rules. In fact, the Senate bill provides a net \$100bn of tax cuts for individuals in CY 2018. That number will be even higher with the new income tax changes. Our guess is that less than 3 percent of taxpayers will see a tax increase in 2018. Yet, recent polling suggests that 75 percent of votes believe they are getting a tax increase or the legislation will have no impact on their taxes. Democratic messaging may have been a good political move in the short run, but within two to four weeks of the legislation passing, all federal income taxpayers are going to see an increase in their after-tax income from the lower withholding of income taxes. This could be a nice upside surprise for consumers.



CORPORATE AMT IS REPEALED WHICH ALLOWS THE R&D TAX CREDIT TO CONTINUE

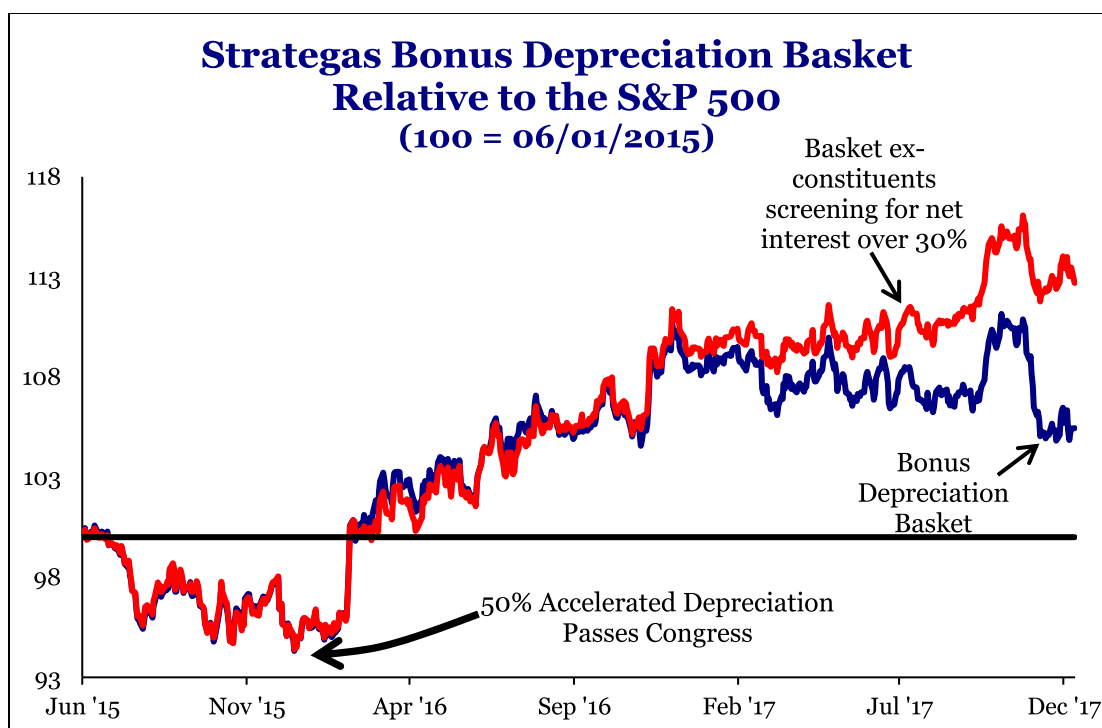
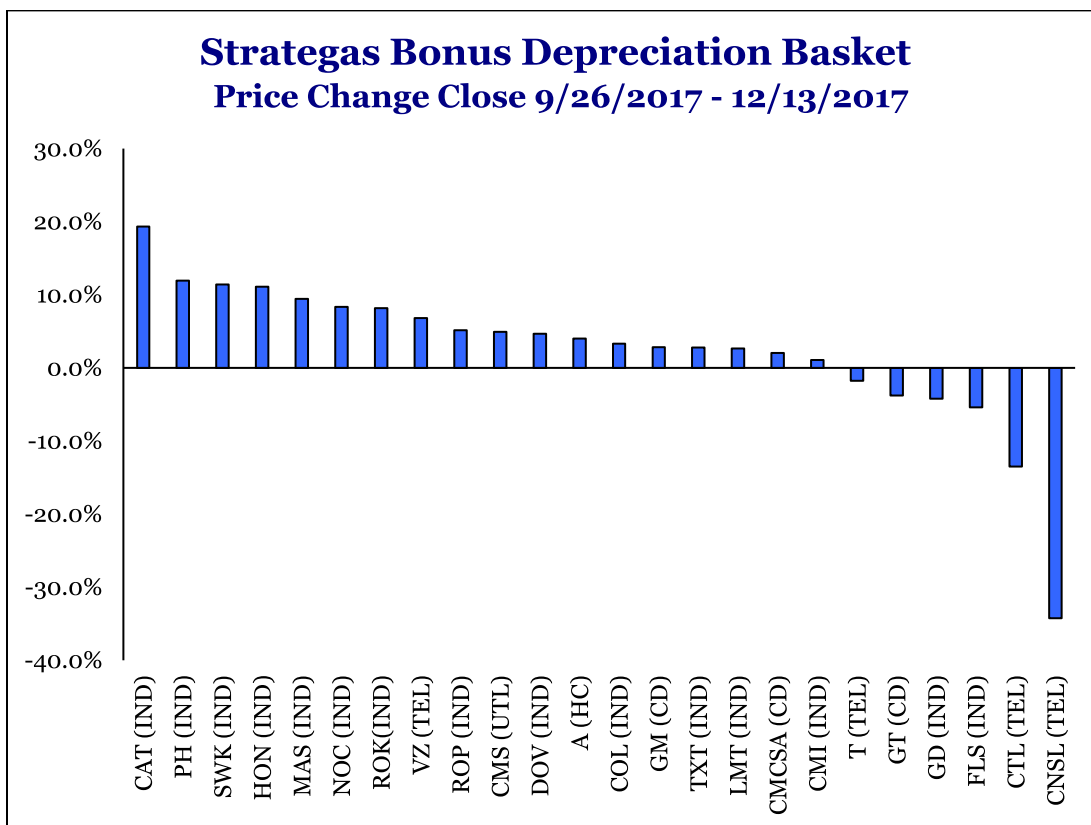


Strategas' R&D Tax Credit Index

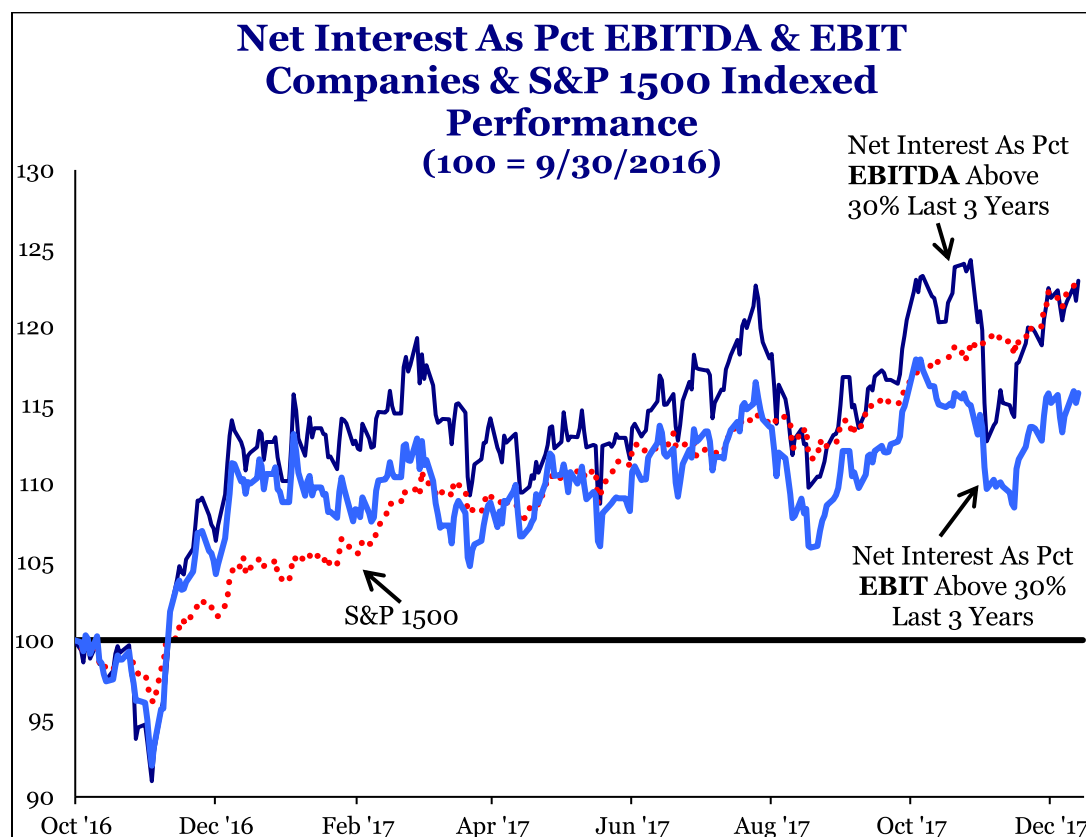
AMGN	Amgen	LLY	Eli Lilly & Co	NVS	Novartis
AAPL	Apple	XOM	Exxon Mobil Corp	NVO	Novo Nordisk
ADSK	Autodesk	HOG	Harley Davidson	ORCL	Oracle
BLL	Ball Corporation	HPQ	Hewlett-Packard	COL	Rockwell Collins
BA	Boeing	HON	Honeywell International	SNY	Sanofi
BSX	Boston Scientific	HSP	Hospira*	SEE	Sealed Air Corporation
BC	Brunswick Corp	INTC	Intel	TXN	Texas Instruments
BCR	C.R. Bard	IGT	International Game Tech	UTX	United Technologies
GLW	Corning Inc	JNJ	Johnson & Johnson		
CMI	Cummins	LMT	Lockheed Martin		
DWDP	DowDuPont**	MSFT	Microsoft		

*no longer trading
**previously DOW and DD included

100% EXPENSING SHOULD BOOST CAPITAL GOOD ORDER FIRMS



THE PLAN ALLOWS COMPANIES TO DEDUCT INTEREST COSTS UP TO 30% OF EBITDA



S&P 1500 Companies With Net Interest As Pct EBITDA Above 30% For Last 3 Years

KBH	KB Home	MGM	MGM Resorts International
WLH	William Lyon Homes Class A	BGC	General Cable Corporation
JCP	J. C. Penney Company, Inc.	AKS	AK Steel Holding Corporation
SGMS	Scientific Games Corporation Class A	IRDM	Iridium Communications Inc.
TWI	Titan International, Inc.	CLD	Cloud Peak Energy Inc.
LNTH	Lantheus Holdings Inc	CYH	Community Health Systems, Inc.
QHC	Quorum Health Corp.	CCOI	Cogent Communications Holdings Inc
KEM	KEMET Corporation	EPAY	Bottomline Technologies (de), Inc.
MDC	M.D.C. Holdings, Inc.	FTR	Frontier Communications Corporation
POST	Post Holdings, Inc.	WMB	Williams Companies, Inc.
BYD	Boyd Gaming Corporation	TDG	TransDigm Group Incorporated
BH	Biglari Holdings Inc.	MHO	M/I Homes, Inc.
ICON	Iconix Brand Group, Inc.	GFF	Griffon Corporation
THC	Tenet Healthcare Corporation		

CONGRESS IS MAKING REPATRIATION A PIGGY BANK TO FUND OTHER TAX CUTS

