CALAMOS® WEALTH MANAGEMENT

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CALAMOS WEALTH MANAGEMENT

Michael serves as CIO of Calamos Wealth Management and is a member of the Investment Committee, which oversees all aspects of investment strategy, asset allocation, and manager due diligence. In his role, he is responsible for identifying and analyzing economic trends, as well as strategic and tactical investment opportunities. Michael has more than 20 years of industry experience.

Key Upcoming Dates

May 3
Federal Open Market Committee (FOMC) Decision

May 7
French Presidential Election Final Round

May 25
OPEC Summit

Back on Track?

Just a few short weeks ago, the President's game plan was simple: push a "Repeal and Replace" health care plan through Congress, declare victory, and move on to those "massive" tax cuts. But as we all know by now, nothing is simple when it comes to getting things done in Washington.

The first attempt at passing a health care bill failed, and with that, any hope of enacting serious tax reform by August became even more far-fetched than when that timeline was first floated. As a result, the equity markets – which had previously moved higher on the hopes of a big tax reduction – started to drift lower.

That all changed this week, when talk of "phenomenal" tax cuts once again resurfaced. This news, along with a market-friendly outcome in the French elections, helped push the S&P 500 back near all-time highs. There are now also renewed efforts to bring the American Health Care Act across the finish line. Suddenly, all seems well again.

Whether or not this latest health care bill squeaks by Congress, one thing seems certain – getting a historic tax cut through will be even more of a challenge. This is a President, though, who rarely backs down from a good fight, and he is certainly not afraid to make bold proclamations.

These traits were on full display Wednesday, as President Trump unveiled the cornerstones of his tax plan. The highlights include dropping the top rate on individuals from 39.6% to 35%; eliminating the 3.8% Obamacare surcharge; doubling the standard deduction; repealing both the Alternative Minimum Tax and so-called "death tax"; and, last but not least, slashing the federal corporate tax rate from 35% to 15%.

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The proposal is certainly heavy on ambition, but light on details – particularly with regard to its price tag. The President's economic team would argue that ensuing economic growth will cover much of the cost, but others would contend that this plan will put an enormous dent in the federal deficit, absent significant revenue offsets.

The debate over how to fund the tax cuts could prove to be a real stumbling block. Under current rules, any bill that adds to the federal deficit outside of a 10-year budget window must gain 60 votes in the Senate, not just a simple majority. That's precisely why President Bush's 2001 tax cuts had sunset provisions that required them to expire at the end of 2010.

Given the mood in Washington, we doubt enough Democrats would jump onboard and hand President Trump a victory. In truth, it will be hard just getting "deficit hawks" in the Republican Party to agree to such aggressive rate cuts without a corresponding way to pay for them. The bottom line is any permanent tax package likely needs to be revenue-neutral to get enacted.

So where does that leave us? In one sense, exactly where we have been all along – in "wait and see" mode. While we applaud the President's effort to jumpstart the tax reform debate, investors need more than a one-page outline to determine how big an impact the tax package will ultimately have on corporate earnings.

Arguably, what the markets care about most is the corporate tax rate, as this would have the most direct impact on corporate profits, and hence, stock prices. A drop to 15% or 20% would result in a sizable boost to earnings – unless, of course, the rate reduction comes in lieu of a company's ability to deduct interest expense or some other offset that negatively affects the bottom line.

We will not have answers to all the questions for some time, but in the interim, there is ample reason for investors to remain optimistic. Companies have logged another quarter of strong earnings growth, and recent data both here and abroad still point towards a strong economic backdrop, despite a weak first quarter GDP headline.

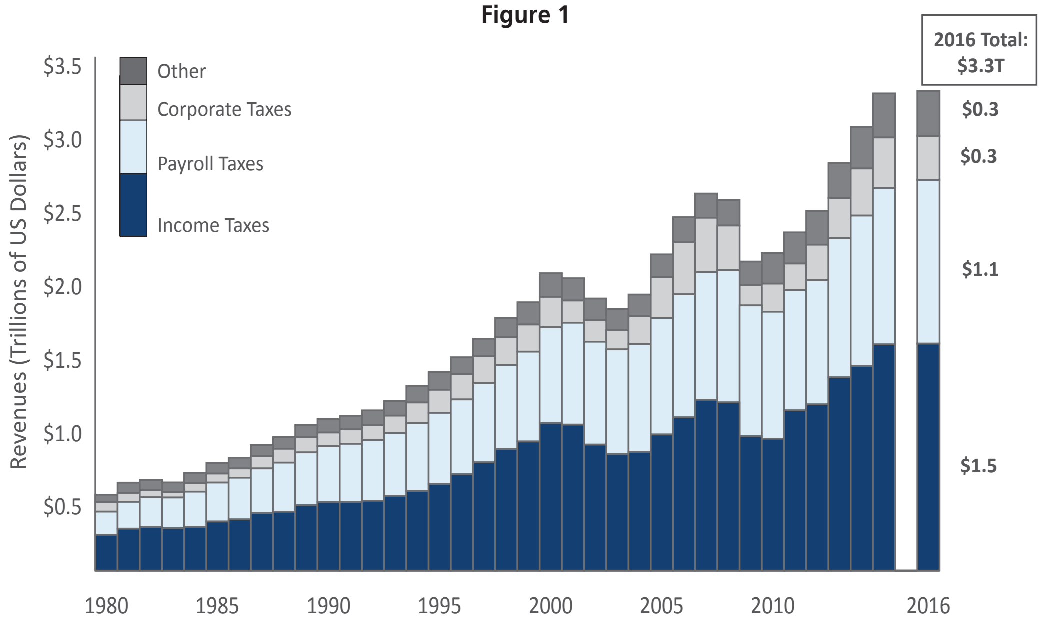
For now, as long as a favorable tax reform outcome remains a possibility, investors should try their best to wait patiently for more details – even if the legislative process extends out to the end of 2017. After all, it is important to remember that Washington, D.C. works on its own timetable, not ours.

Key Numbers

$3.3 TRILLION This is the total revenue the federal government collected in fiscal 2016. The largest component of federal revenues is from individual income taxes, which amounted to more than $1.5 trillion. The next largest component is payroll taxes, which are paid by both employees and employers. This totaled more than $1.1 trillion.

Corporate taxes, which are a focal point for equity investors, account for a smaller slice of federal revenues at approximately $300 billion.

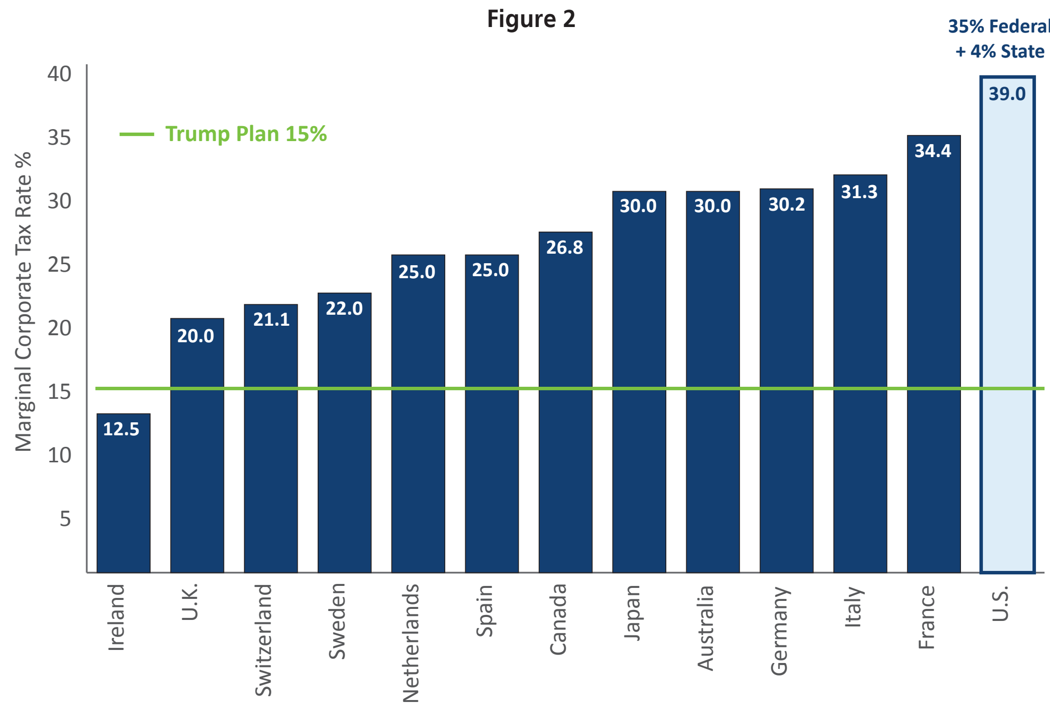
Figure 1



Source: Office of Management and Budget, Factset.

15% This is the corporate tax rate that President Trump proposed in his outline. Currently, the federal tax rate for corporate income is 35%. When combined with an average state tax rate of 4%, companies pay up to a combined 39% rate on their profits.

Relative to other developed countries, the U.S. currently imposes the highest combined rate to corporate income. A reduction in the federal rate down to 15% would likely be a significant boost to corporate earnings in future years.



Source: Organization of Economic Co-operation and Development, Bloomberg.

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Figure 1: Source: Office of Management and Budget, Factset. Data as of 12/31/2016. Based upon federal government receipts from 1980 through 2016.
Figure 2: Source: Organization of Economic Co-operation and Development, Bloomberg. Data as of 12/31/2016. Based upon marginal corporate income tax rates per country.

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