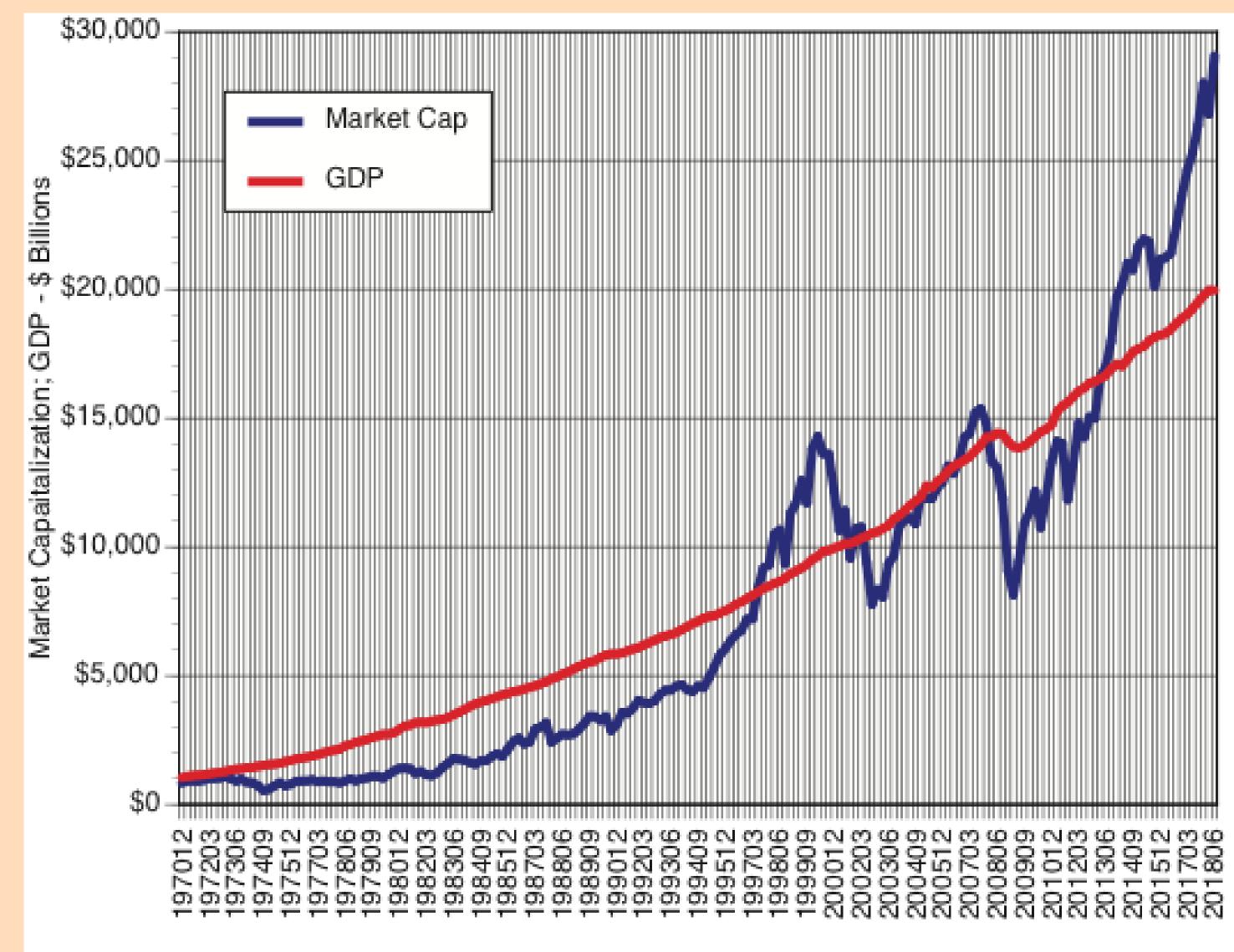
## **Politics Trumps Economics**

New Canaan Men Investment Club

Lapham Community Center, 10:00 AM, July 9, 2018

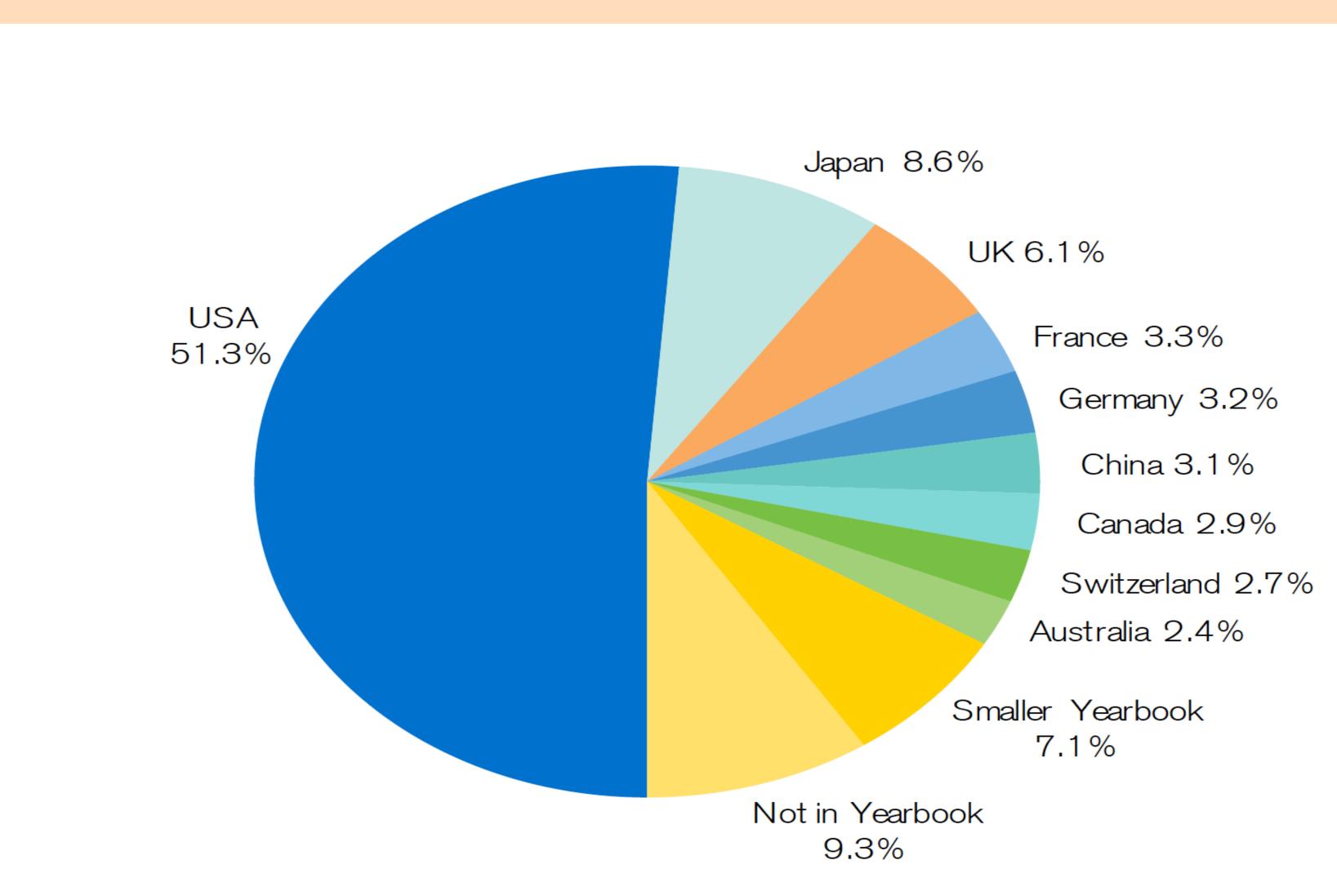
#### Market Capitalization Exceeds GDP



http://www.GuruFocus.com on 2018-06-18

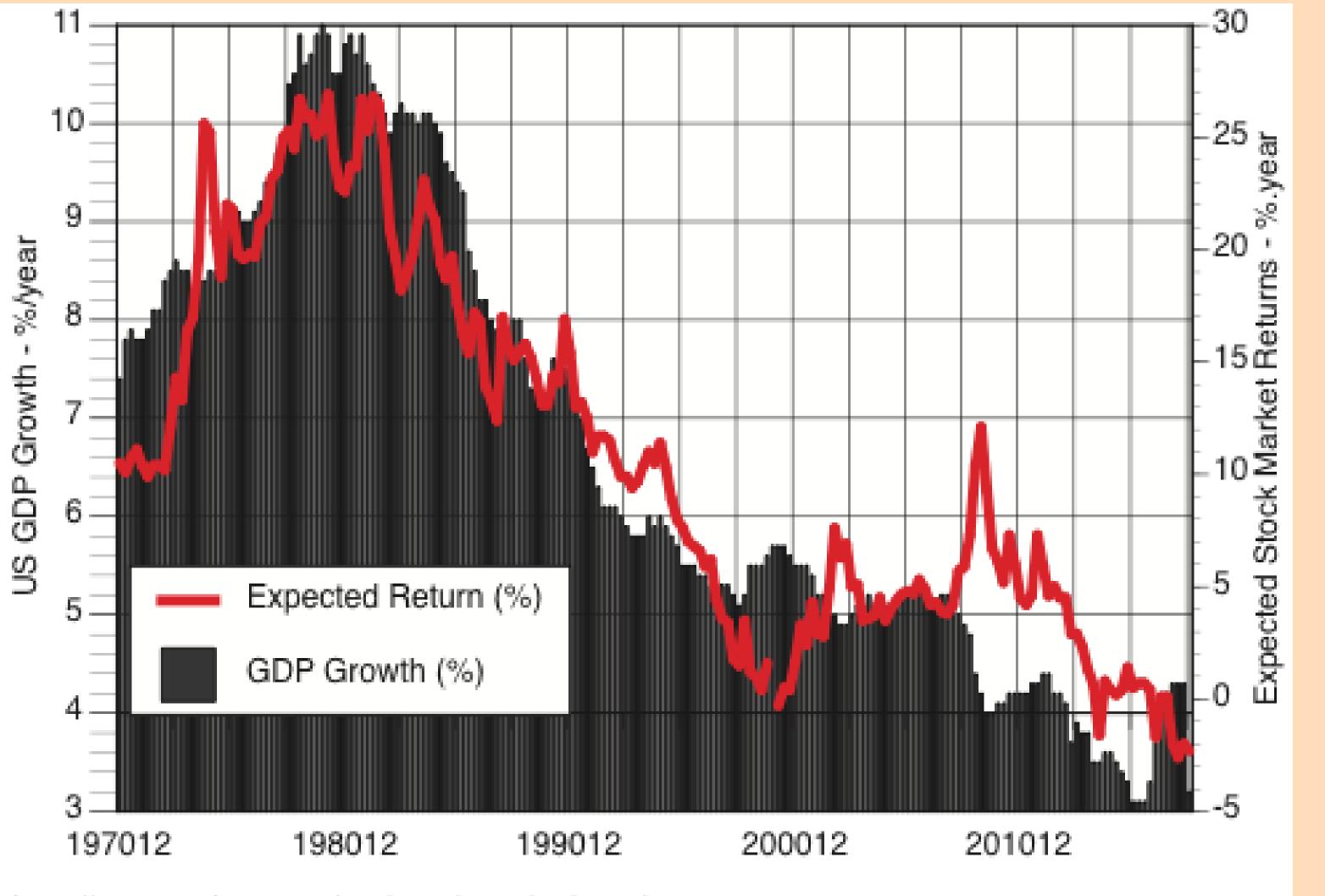


#### **US Politics Influences Clobal Market Capitalization**



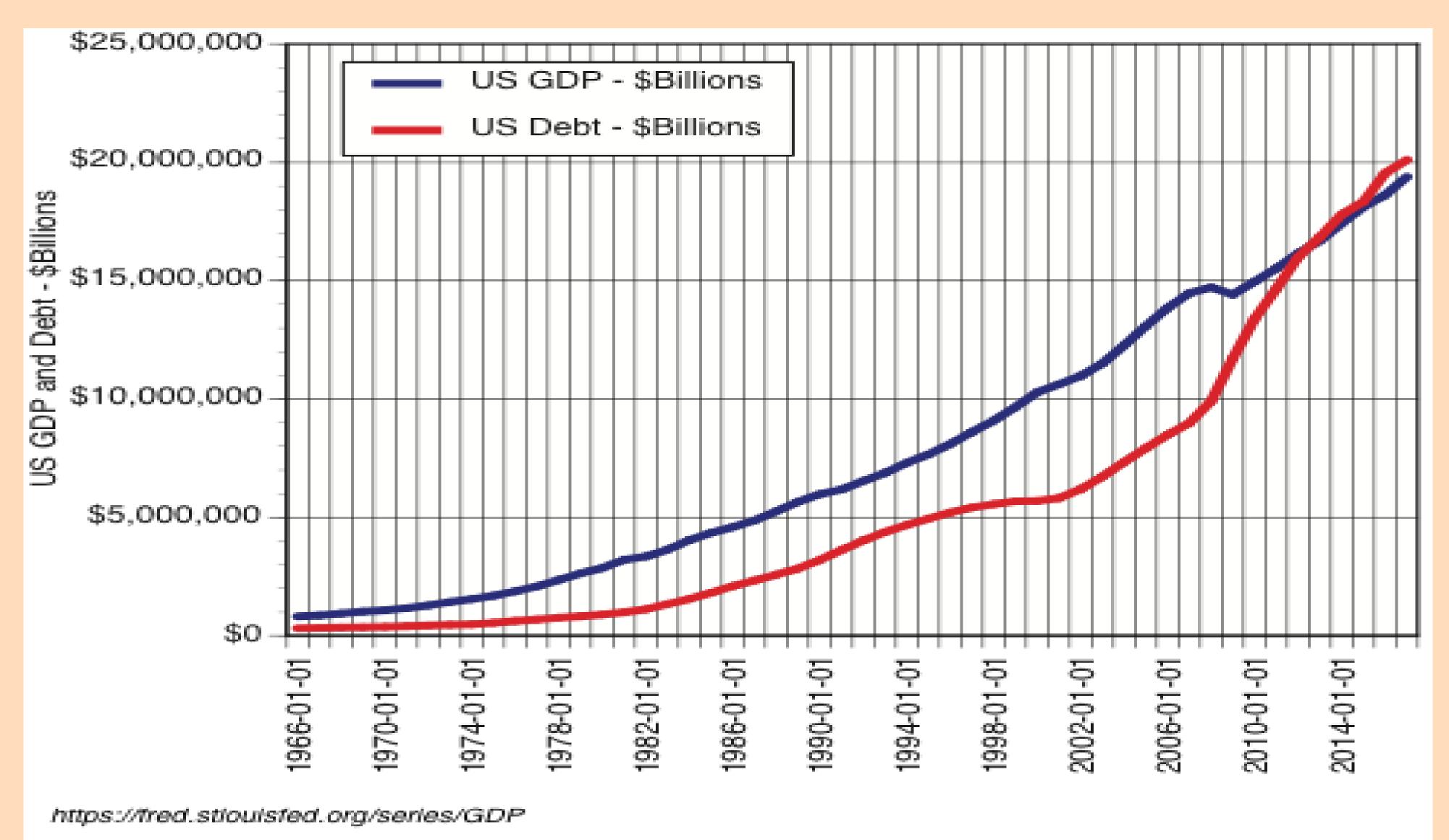
Source: FTSE Analytics FTSE All-World Index Series, December 2017

#### **Expected Investment Returns and GDP Growth Decline**

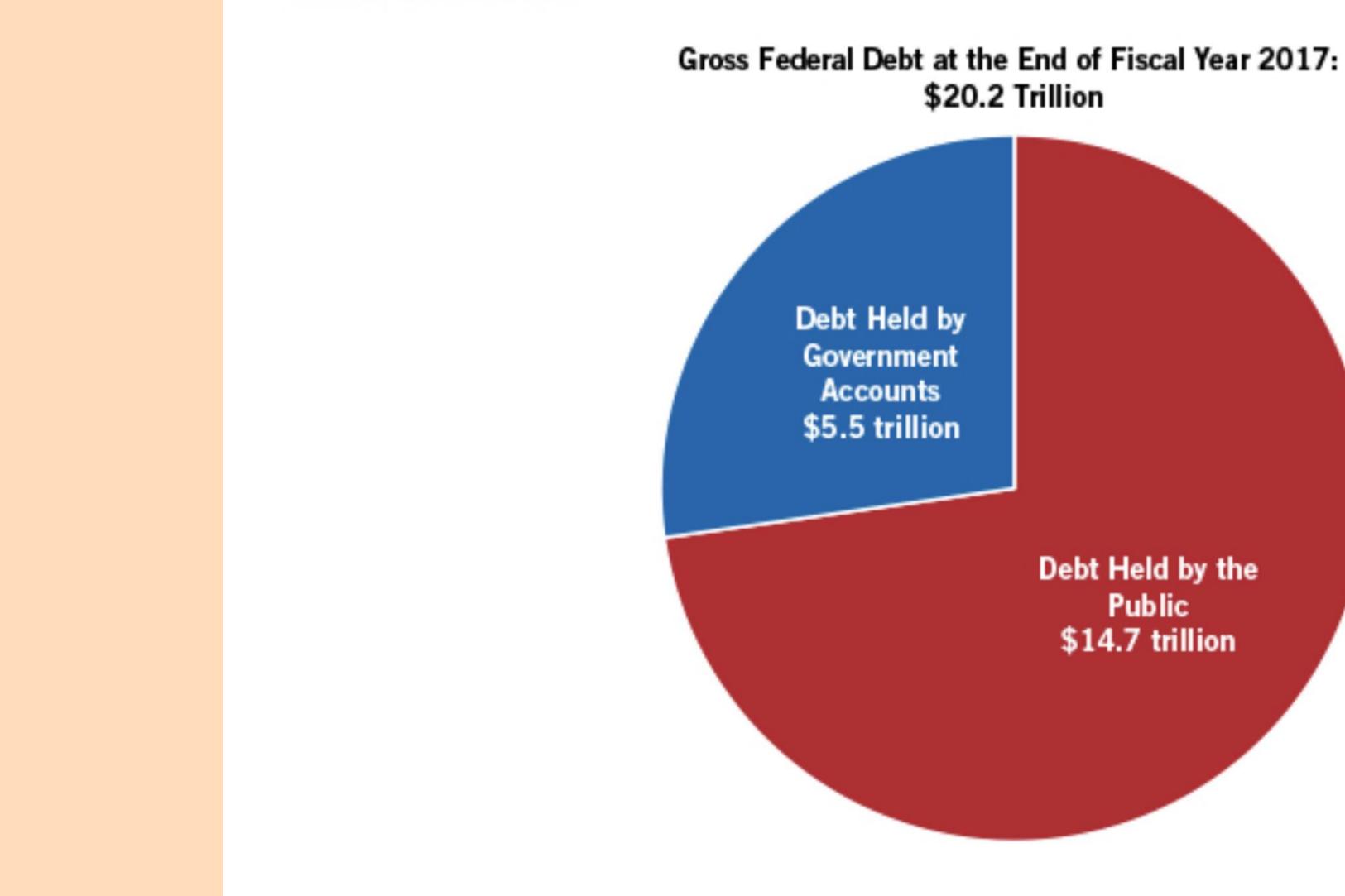


https://www.gurufocus.com/stock-market-valuations.php

#### US Debt Now Exceeds US GDP



#### <u>Gross Federal Debt = \$20.2 Trillion +Unfunded Liabilities = \$40 Trillion</u>

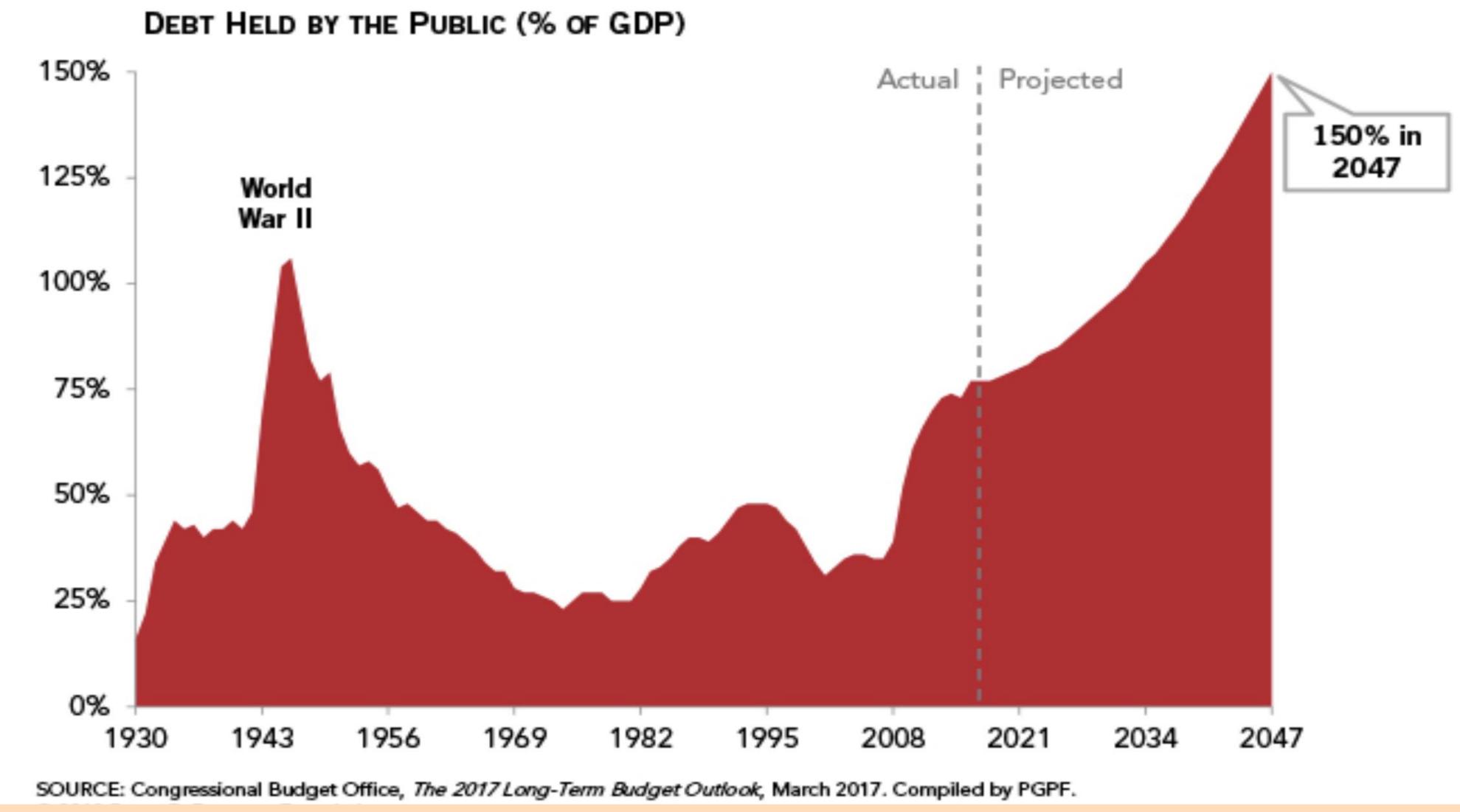


SOURCE: Office of Management and Budget, Budget of United States Government, Fiscal Year 2019, February 2018. Compiled by PGPF.



#### Public Debt is Unsustainable

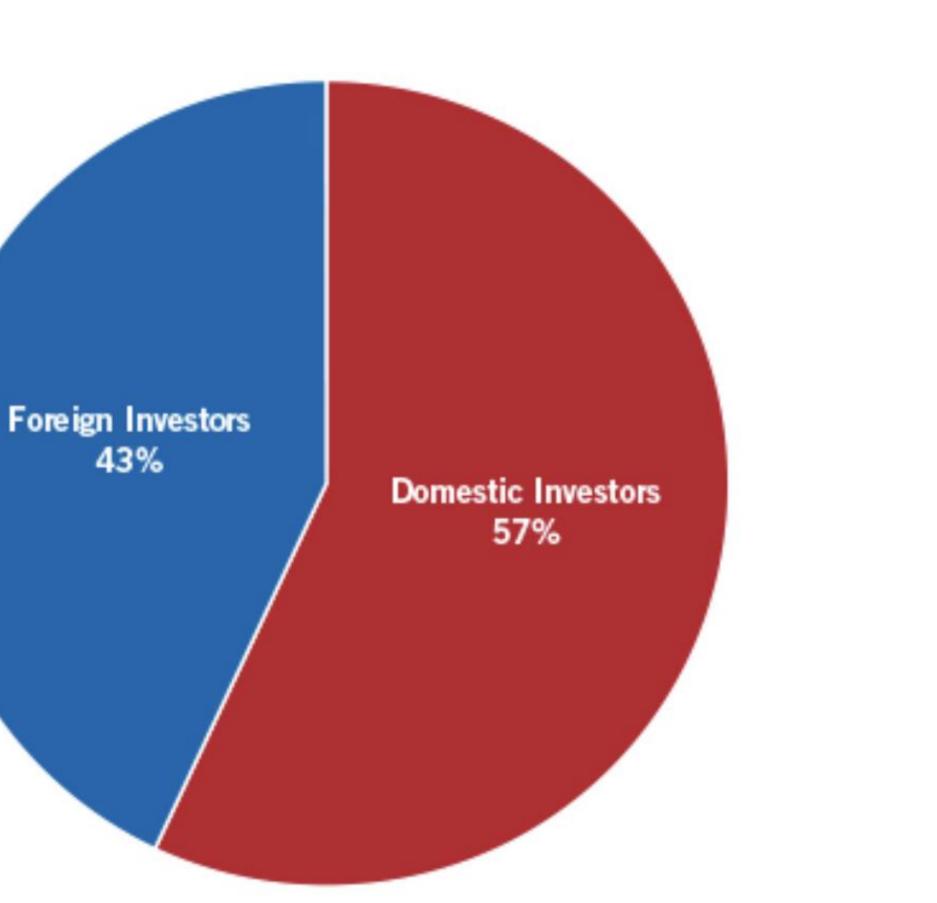
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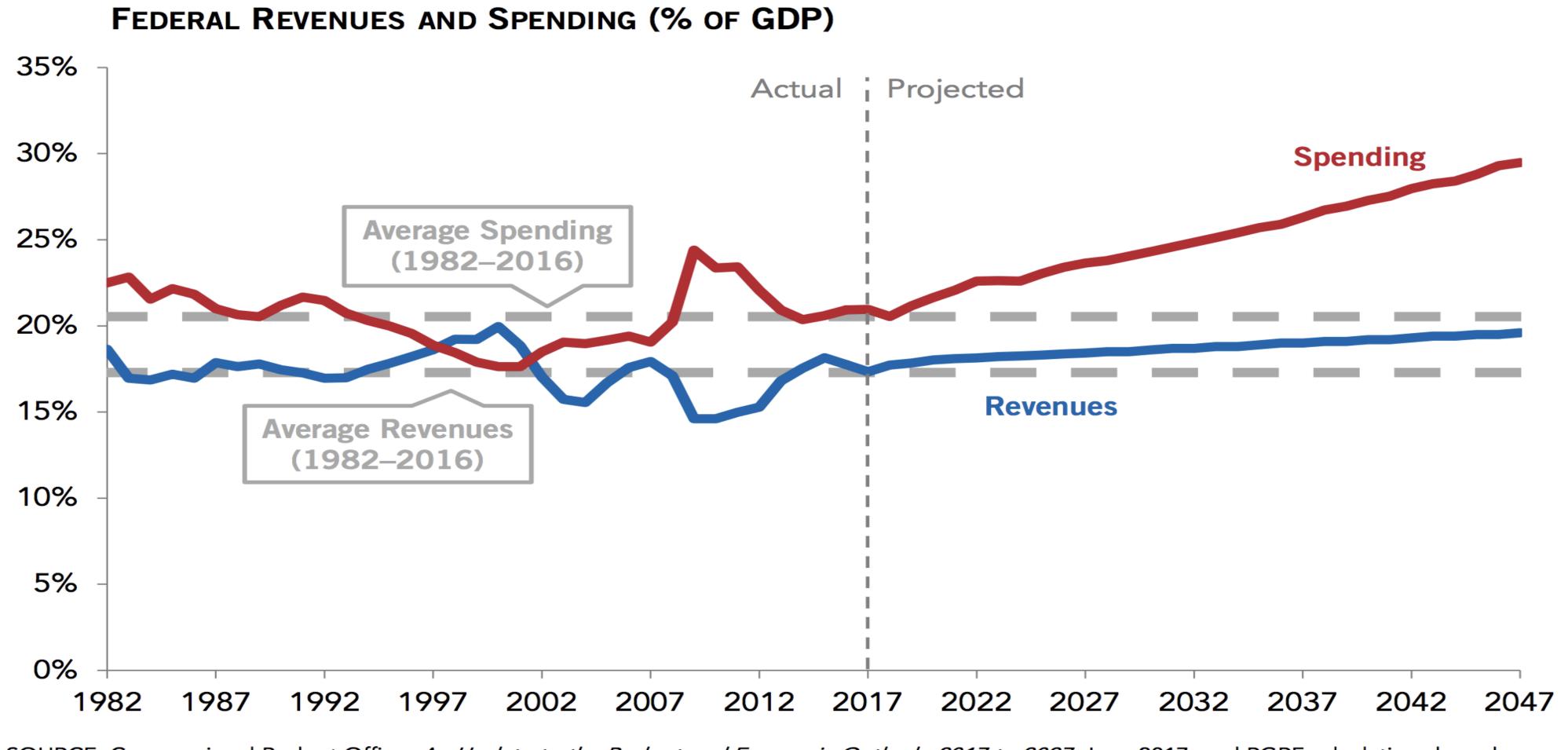


#### Large Share of US Debt Subject to Foreign Politics

SOURCE: U.S. Department of the Treasury, Treasury Bulletin, March 2018. Compiled by PGPF. © 2018 Peter G. Peterson Foundation

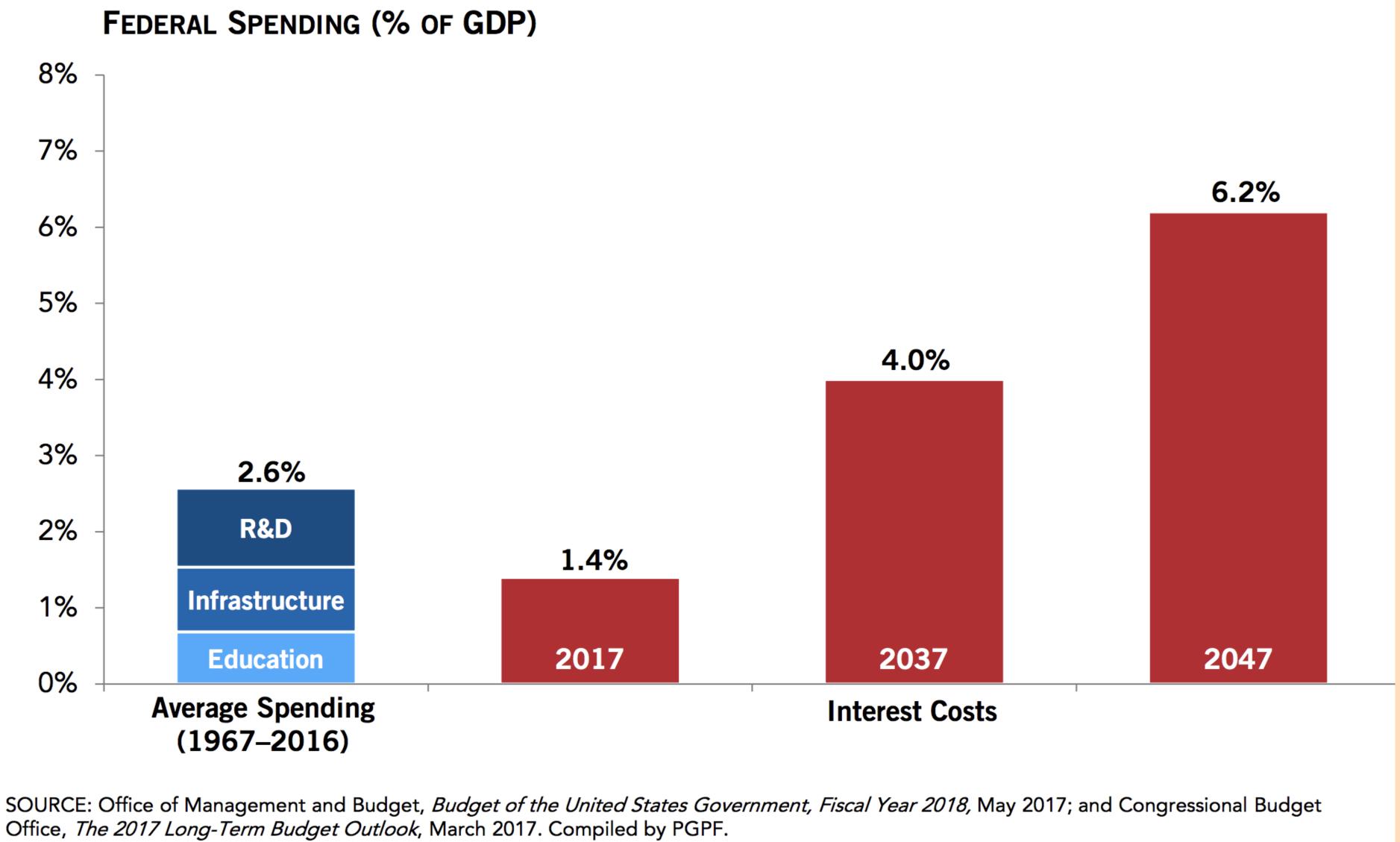


#### <u>How Debt Accumulates – History of Deficit Spending</u>



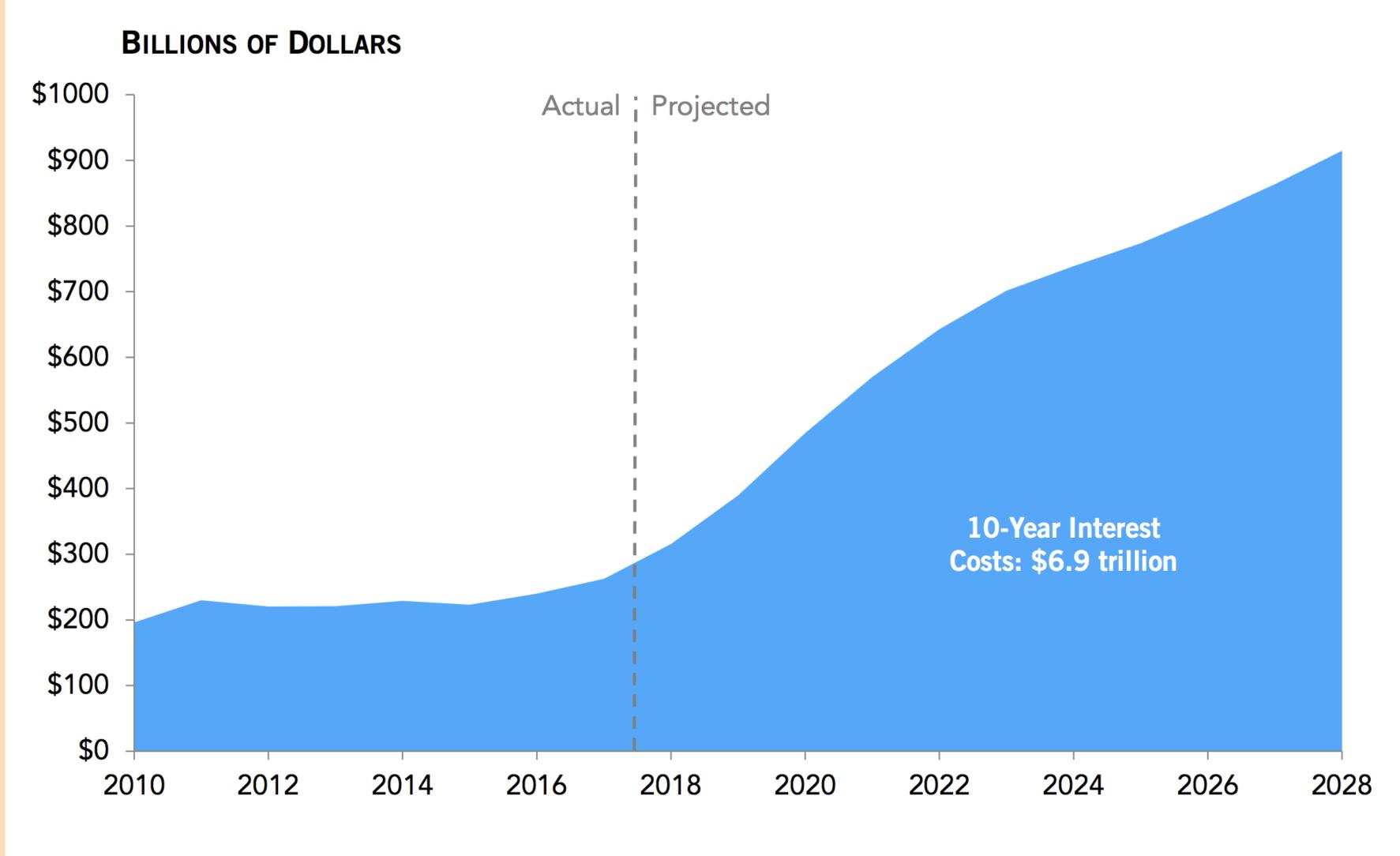
SOURCE: Congressional Budget Office, An Update to the Budget and Economic Outlook: 2017 to 2027, June 2017; and PGPF calculations based on CBO data. Compiled by PGPF.

#### Interest Costs Exceed R&D, Infrastructure and Education



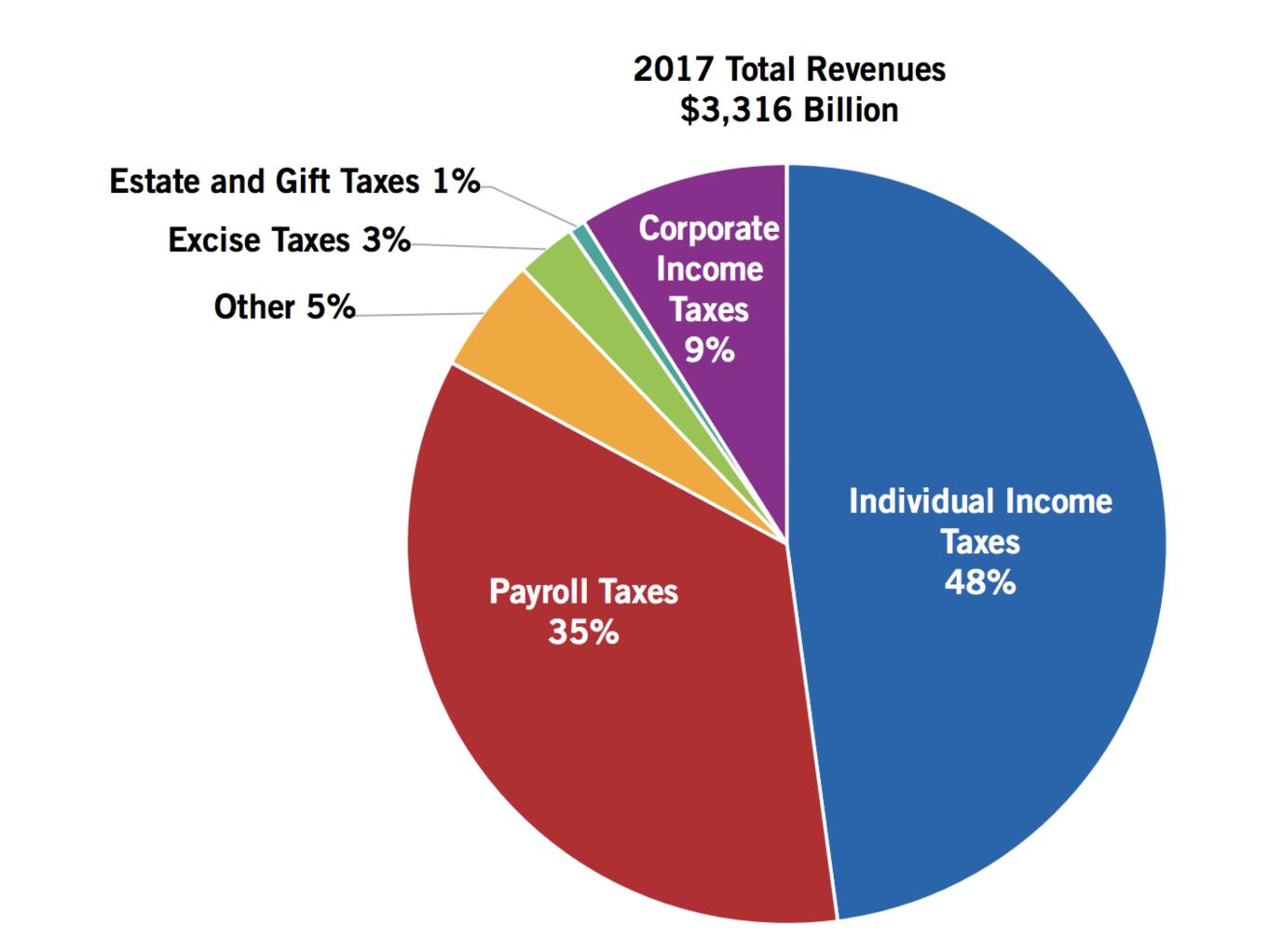
NOTE: Infrastructure excludes defense.

#### Projected Interest Costs Become Largest Budget Item



SOURCE: Congressional Budget Office, The Budget and Economic Outlook: 2018 to 2028, April 2018. Compiled by PGPF.

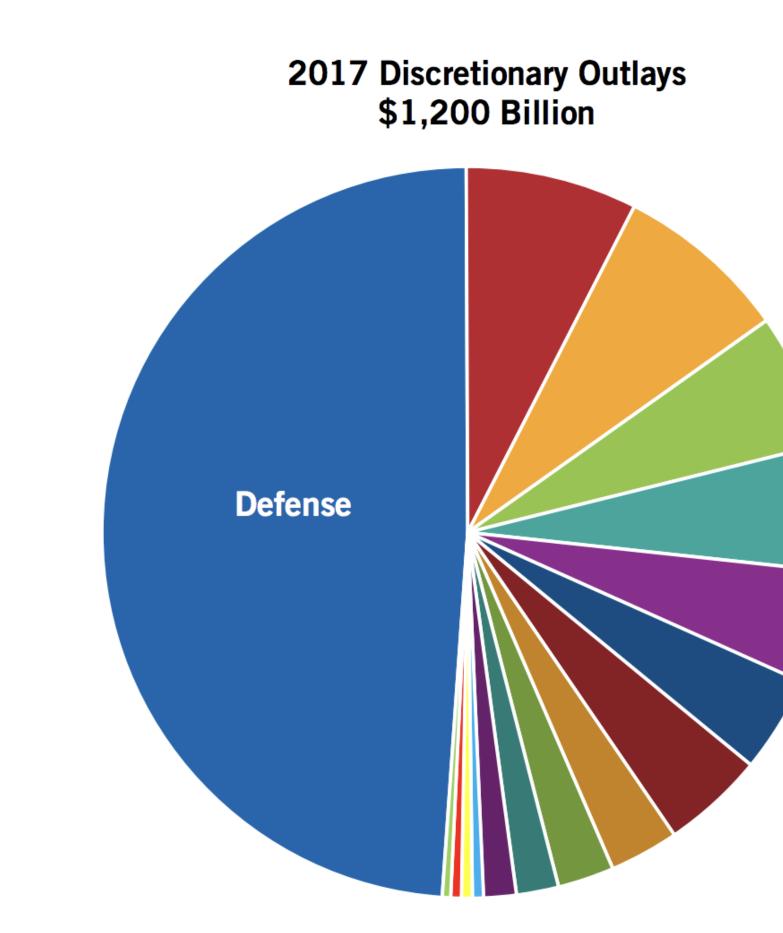
#### Politics of Taxation: Use Corporate Taxes to Influence Market Cap



SOURCE: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2019, February 2018. Compiled by PGPF. NOTE: Other includes customs duties and miscellaneous sources. Numbers may not sum to 100% due to rounding.



### **Politicaly Managed Defense Dominates Discretionary Spending**



SOURCE: Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019,* February 2018. Compiled by PGPF. NOTE: Data excludes allowances and functions with negative outlays. Health (discretionary only) includes National Institutes of Health, the Centers for Disease Control and Prevention, veterans healthcare, and administrative costs for Medicaid.

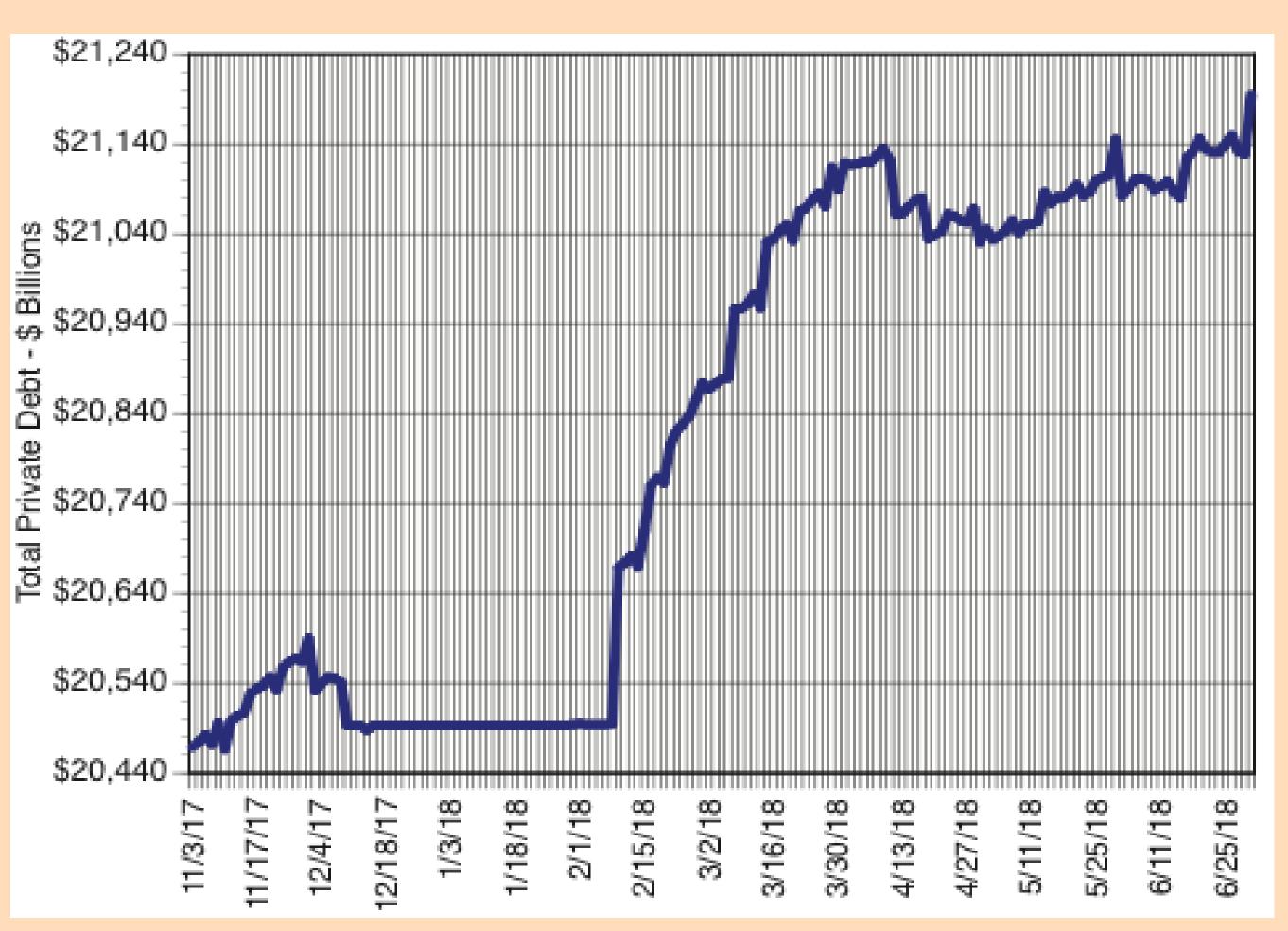
- Defense
- Education
- Transportation
- Veterans Benefits and Services
- Income Security
- Health (Discretionary Only)
- International Affairs
- Administration of Justice
- Natural Resources and Environment
- General Science, Space and Technology
- Community and Regional Development
- General Government
- Medicare Administrative Costs
- Agriculture
- Social Security Administrative Costs
- Energy

## <u>Present Administration Adopts Policy to Keep Increasing Debt</u>

#### **Revised Taxes Add \$7.5 Trillion to DebtDeficit in 7 Months Adds \$0.73 Trillion to Debt**

New Taxation Policy	Debt Impact - \$ Trillions
Change rate structure to 10%, 25%, 35%	1.5
Repeal individual AMT	0.4
Double the standard deduction	1.5
Repeal estate tax	0.2
Reduce corporate tax rate to 15%	2.2
Reduce pass-through business tax rate to 15%	1.5
Repeal the net investment income surtax	0.2
Total Cost - Projected through 2027	7.5

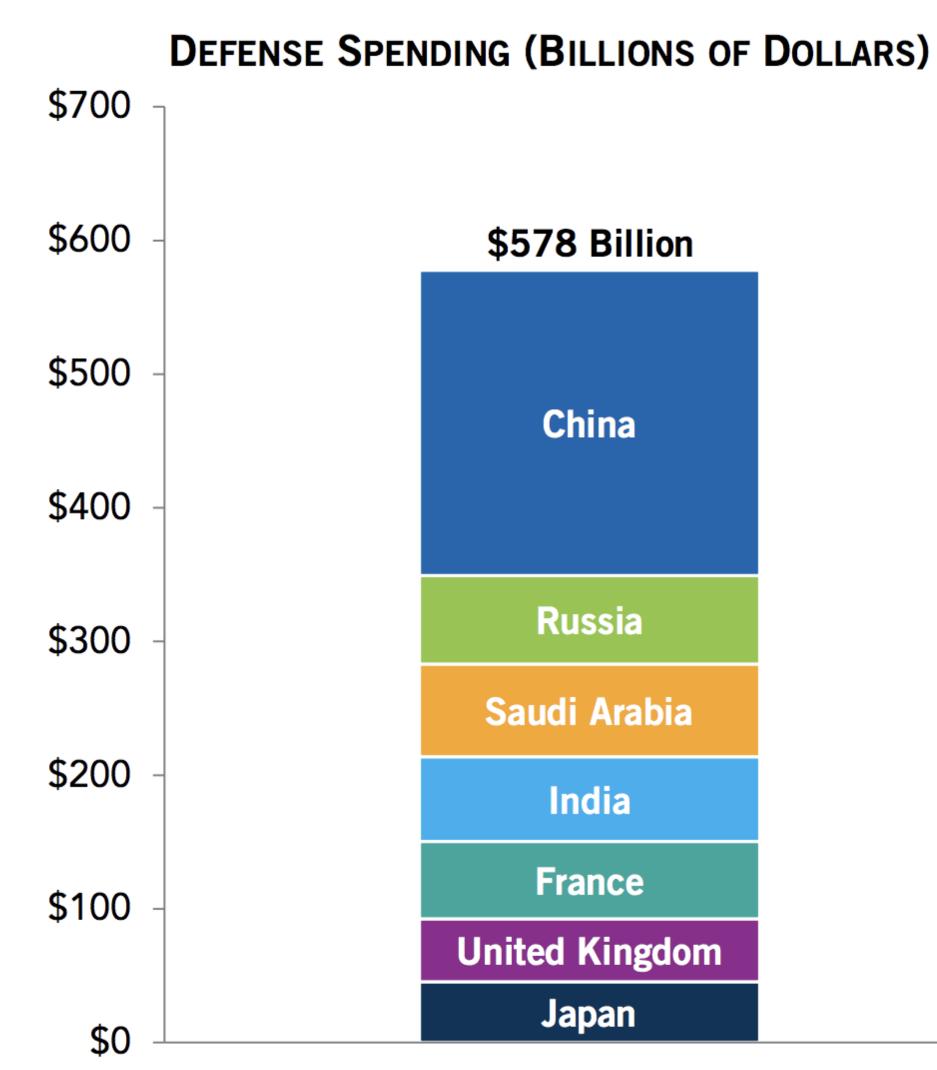
http://www.crfb.org/



https://www.treasurydirect.gov/NP/debt/current



#### Inefficient US Defense Spending Dominates Global Defense Costs

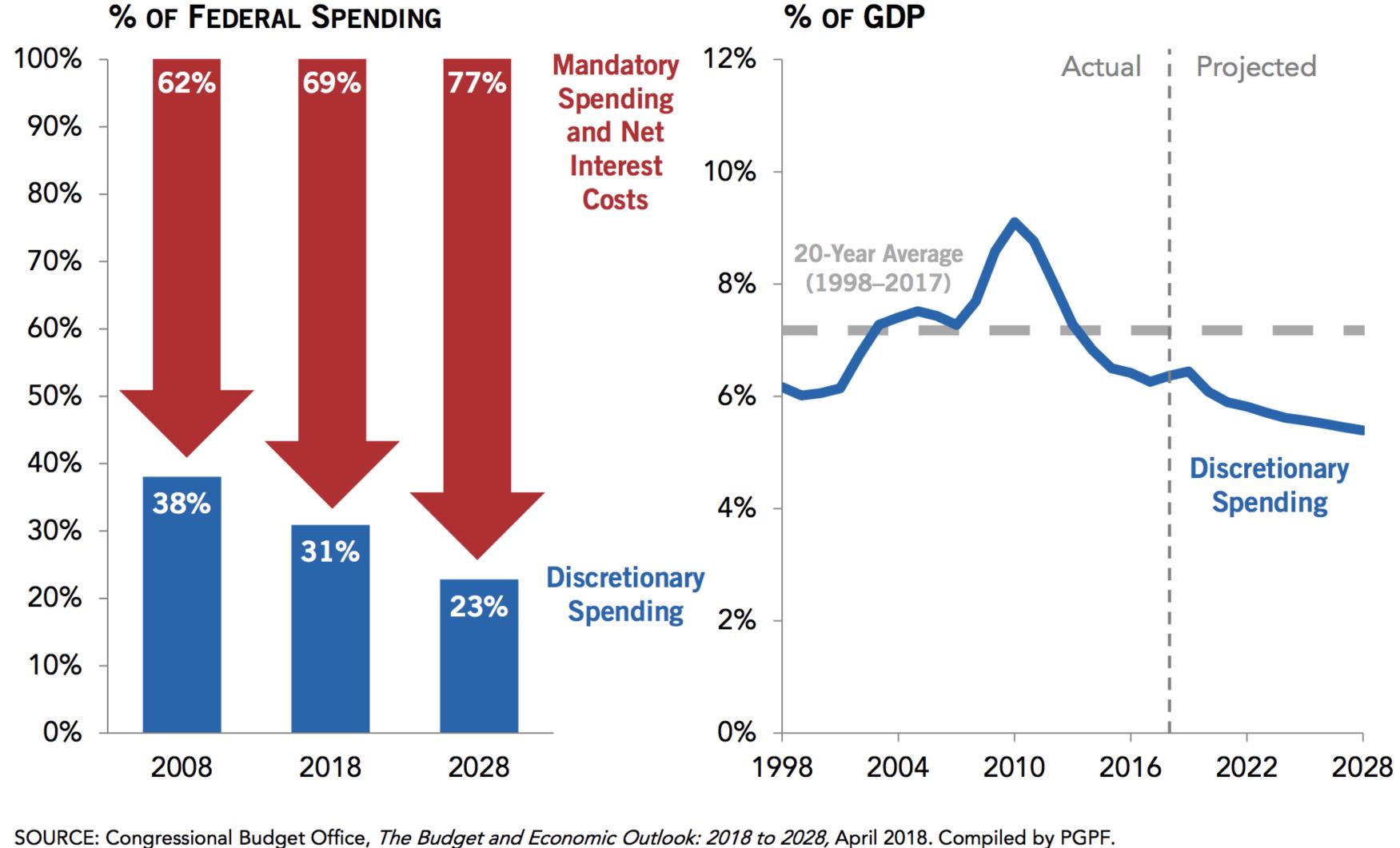


SOURCE: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, May 2018. Data are for 2017. Compiled by PGPF. NOTE: Figures are in U.S. dollars, converted from local currencies using market exchange rates.

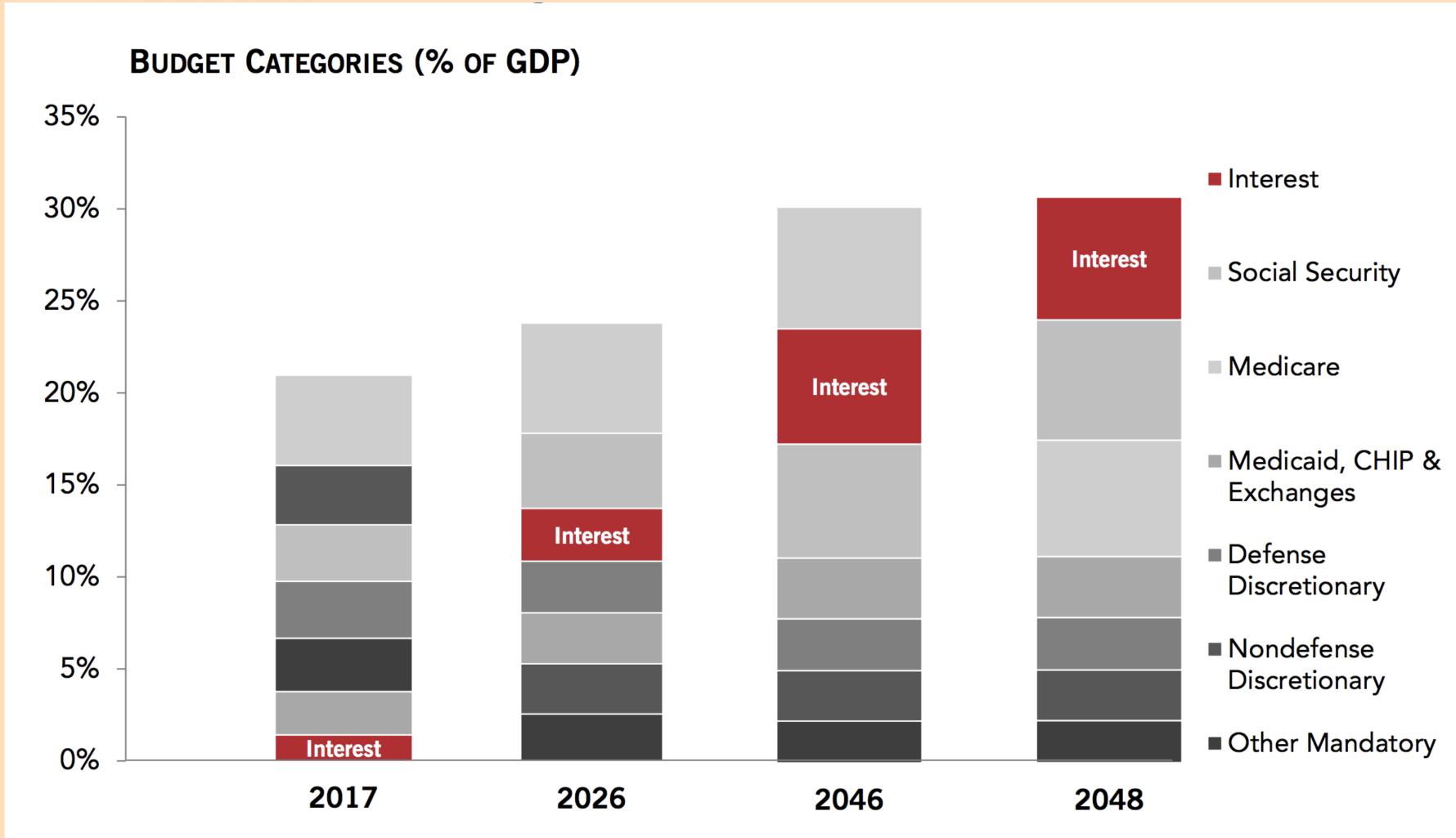




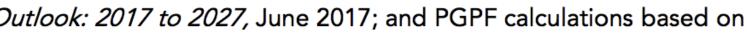
### <u>As Mandatory Spending Rises, Discretionary Spending Declines</u>



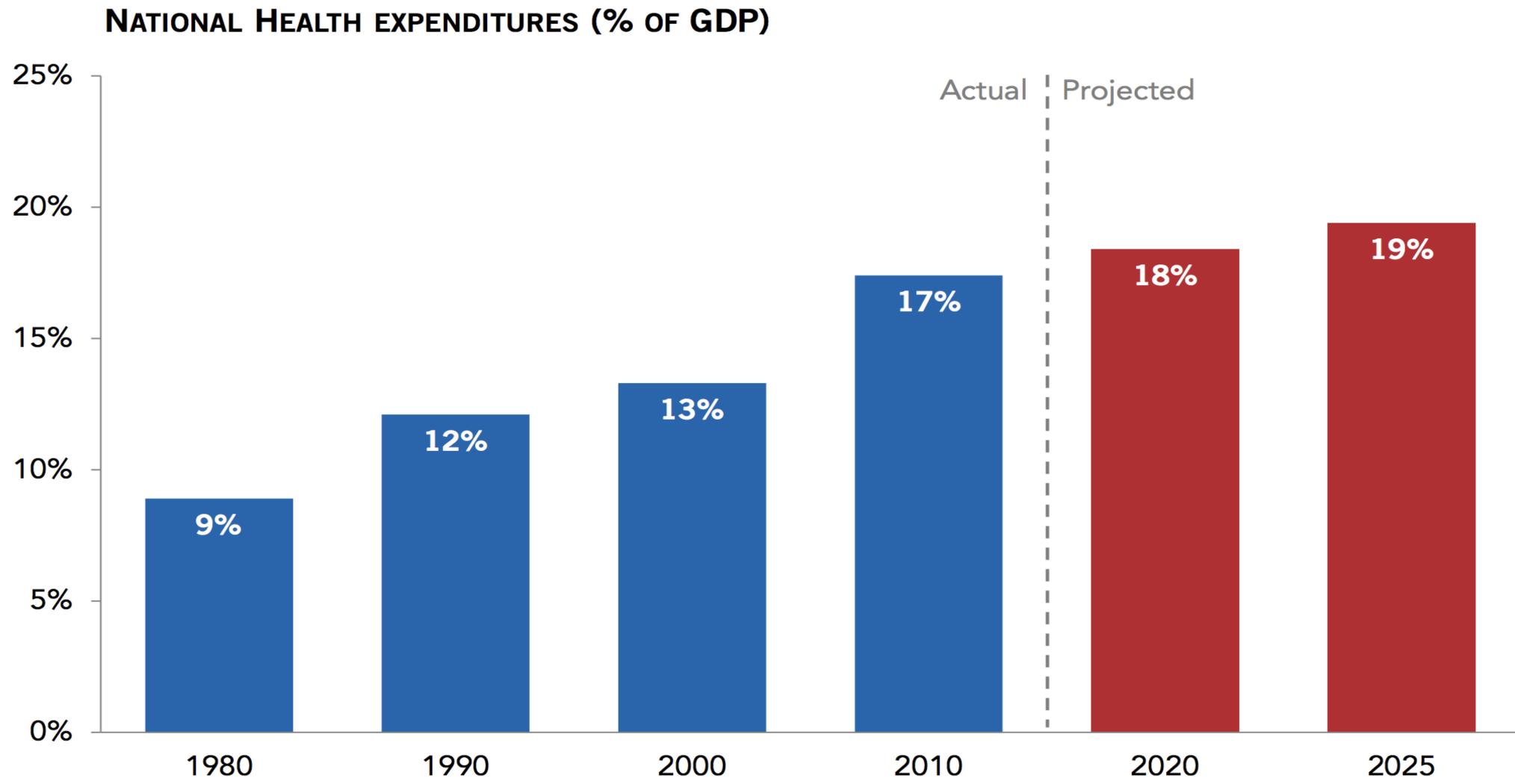
#### Projected Interest Costs Will Overwhelm Budget



SOURCE: Congressional Budget Office, An Update to the Budget and Economic Outlook: 2017 to 2027, June 2017; and PGPF calculations based on CBO data. Compiled by PGPF. NOTE: Medicare spending is net of premiums and payments from the states.

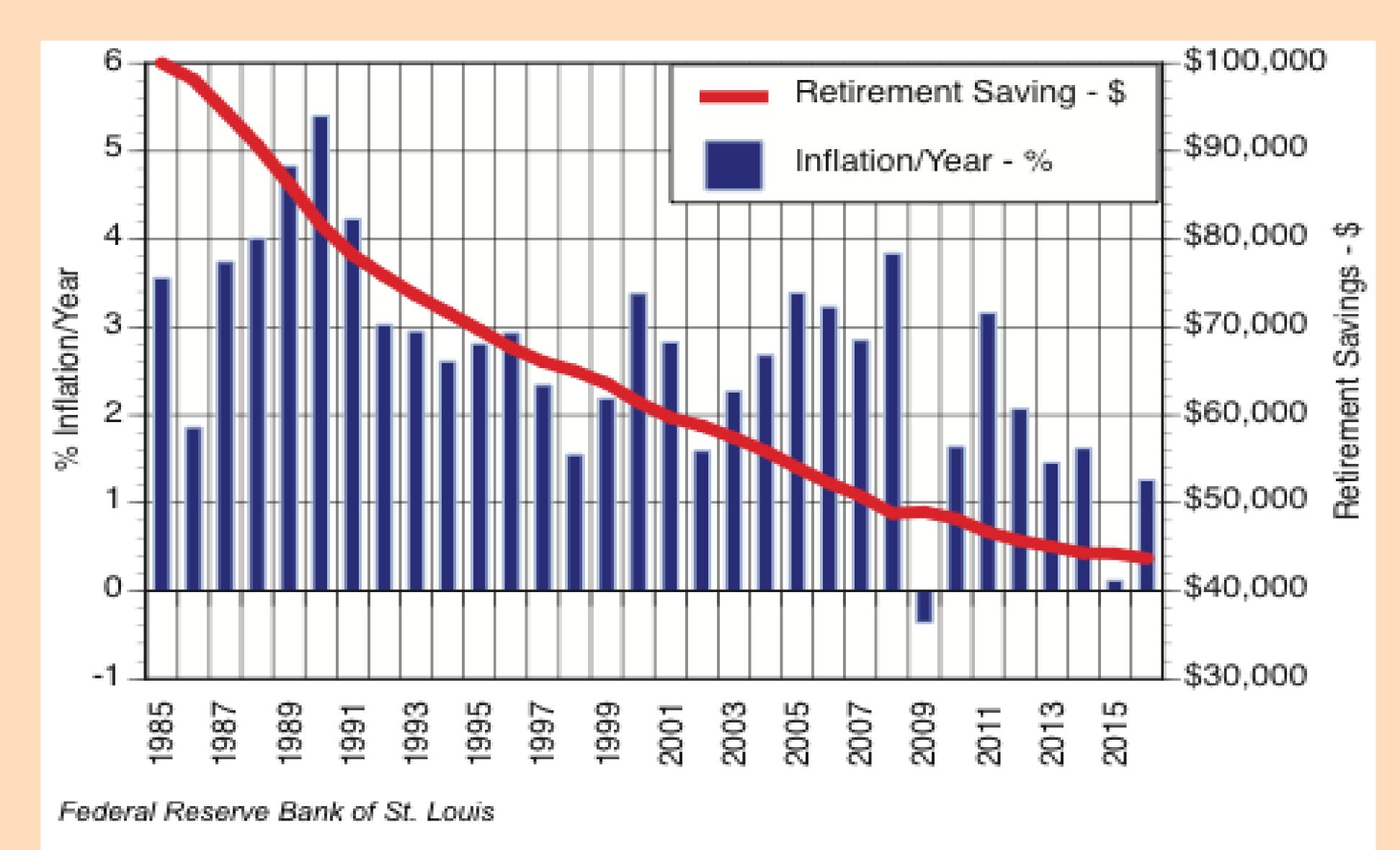


#### Health Expenditures Take Increasing Share of GDP

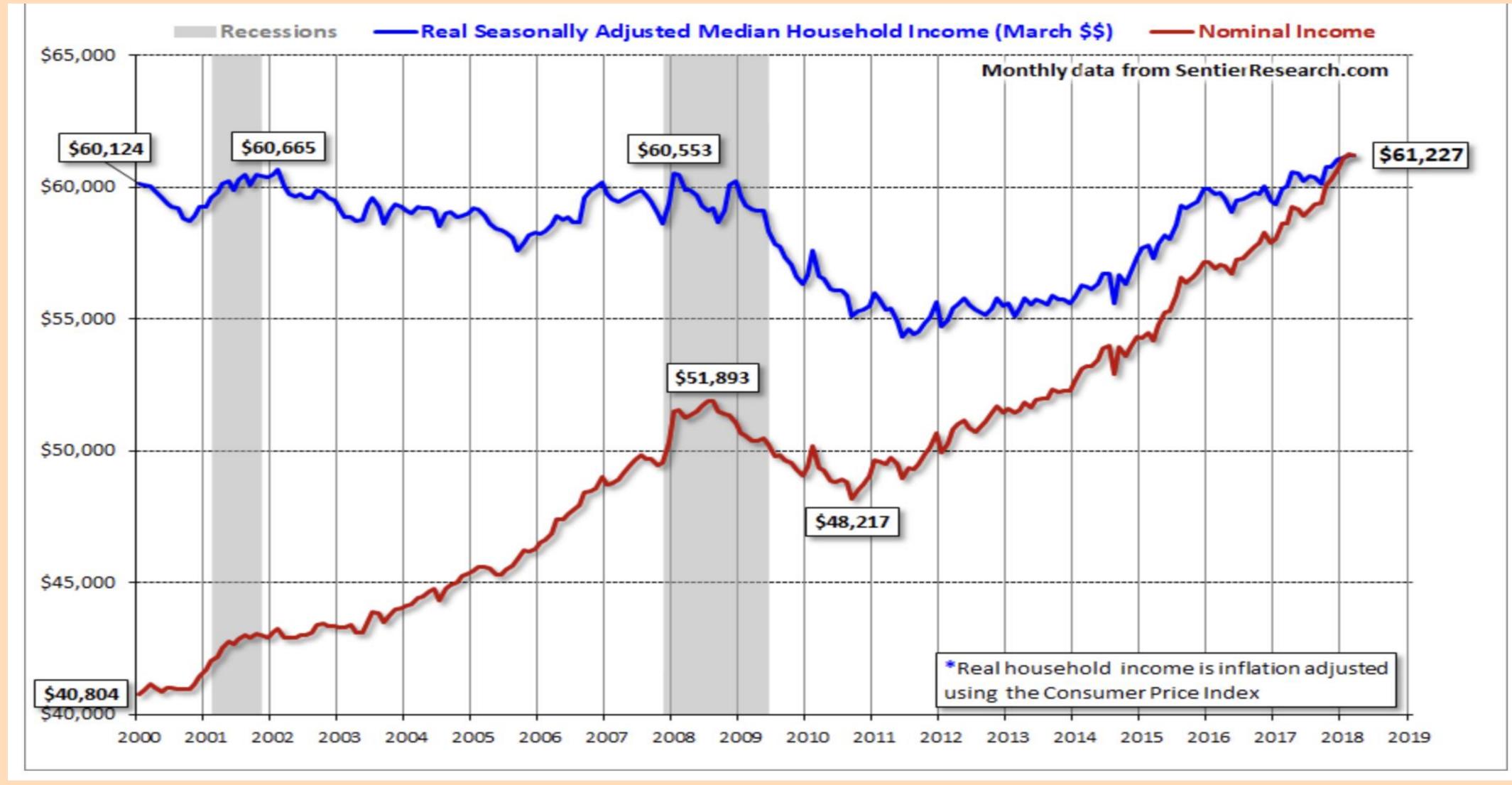


SOURCE: Centers for Medicare and Medicaid Services, National Health Expenditures, January 2018. Compiled by PGPF.

#### Inflation Since 1985 Takes 57% From Retirement Savings



#### <u>Real Median Household Income Has Not Changed</u>



https://www.advisorperspectives.com/dshort/updates/2018/05/02/real-median-household-income-reintroduction-march-at-61-227



# US economy increasingly depends on debt. Debt used for trading, not for investment.