

Can Last Year's Tax Cuts Rescue the Flagging Retail Sector?

As the first quarter of 2018 comes to a close, investors and economists alike are weighing the effects of recent tax cuts on capital markets. The Tax Cuts and Jobs Act of 2017 presented a number of business-friendly initiatives. Chief among these are heavily discounted tax rates for repatriated cash currently held abroad as well as an extension of the period during which corporations can fully expense capital investments. This most-recent tax reform effort aims to spur a currently lukewarm capital investment climate by combining an estimated 1% GDP boost due to short-term fiscal stimulus with persuasive incentives for longer-term corporate investment.

Comparisons between Historical evidence from both Regan- and Bush-era tax reform does suggest an increase in capital investment and a certain degree of immediate financial market stimulus. What's can really make a difference, however, is the fact that the market has reduced the weight of U.S. small-cap, value and growth assets as well as emerging markets and commodities to a more reasonable load. Similarly, U.S. government bonds have received more deserved attention while U.S. large-cap and mortgage-backed securities have held their positions. This points to less volatility across the board, providing a solid backdrop for a continued bull market in 2018.

This is welcome news in light of what experts are calling the "Retail Apocalypse," an unprecedented market shift that led to 6,800 stores announcing that they were closing shop in 2017, compared to only 3,000 celebrating their grand opening.

All of these factors can help boost the effects of the Trump administration's tax cuts, raising after-tax earnings and encouraging business investment that may not have been as cost-effective before. This is particularly important for sectors that have suffered from the harshest effects of the last decade's sluggish economy, including retailers. These companies will not only benefit from more affordable capital investments but the boost in consumption growth that often follows these reforms.

Sources:

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