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Did The Tax Cuts And Jobs Act Make Treasuries More Attractive Than Munis?

It seems we can't go a single day without a story about the effects of The Tax Cuts and Jobs Act. And right now, as the GOP takes credit for lower unemployment, a surge in consumer confidence and increased optimism among small businesses and manufacturing, we think it's important to look a little deeper to figure out what the resulting trade is. Whenever an equation is changed substantially in economics, one must always ask, "And then what?"

Every change in the macroeconomic composition of the United States has knock-on effects, and those effects have effects. For example, whenever there's a major change in the tax code, one constituency benefits from a cut, while another constituency picks up the slack to fund the government. In turn, those constituencies who are affected have certain knock-on effects, which get reflected in the real economy, as well as the financial markets.

When The Tax Cuts and Jobs Act was enacted in late 2017, corporate tax rates dropped to 21% at the highest marginal rate. Politics aside, lower rates mean fiercer price competition for goods — this benefit gets passed directly on to consumers. Major companies like AT&T and others announced one-time cash bonuses for their workers as a direct result of this. It is hard to deny that the economy has shown stronger signs of growth since this legislation was passed; corporates have reported strong earnings through Q1 and leading indicators for Q2 look very positive. We would still caution — correlation does not always equal causation.

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Forbes

by Bob Haber

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