RESOLUTE FINANCIAL

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# Resolute Connections

In this month's newsletter our first article, *Stealthy Bears* reviews the current bull market we are experiencing, and whether we really are due for a bear market as the pundits and other experts expect. *Behind the Turkish Meltdown* explains the current drop in the Turkish economy and the worldwide impact it is having on other emerging market economies.

*Goodbye Marriage Penalty* reviews one of the unexpected gifts from the recent tax bill, and finally *Are Automation Fears Overblown* touches on a timely topic that seems to be in the news a lot these days – whether robots are coming for your job.

If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, [www.ResoluteFinancial.com](http://www.ResoluteFinancial.com).

## *Stealthy Bears*

You've no doubt read that we are experiencing the second-longest bull market since World War II, which started in March of 2009 and has continued without a bear market (defined as a decline of 20%) since. But is that true?

Several recent articles have pointed out that we did, indeed, experience a "stealth" bear market during the period from May to October 2011. In that 6-month downturn, the S&P 500 index fell 21.6%, breaching bear market territory. But there's a catch: based on closing prices rather than intraday moves, the decline was 19.4%, barely missing the strictest bear market definition. However, in the same interval, the Russell 2000 index of large-cap stocks fell 30.7%.

And the markets actually experienced a similar market decline from mid-2015 to early 2016. During that time, the S&P 500 index fell 15%, but the median stock in the index was down 25%, the Russell 2000 fell 27%, and the Dow Jones Transportation Average fell 32%. At the same time, emerging-market stocks were down 40%, Chinese stocks fell 49% and Japanese stocks dropped 29%.

The point here is that the popular definition of a bear market (a 20% decline in one particular index) is kind of narrow, and misses a lot of the turbulence that might help us better define whether the markets are on an uninterrupted rise or merely recovering from the last downturn. The next time you read somebody writing about the length of this or that bull market, you might inquire as to their definitions and methodology. And if you think the current bull market is getting long in the tooth, well, maybe it isn't actually as old as people are saying.

## *Behind the Turkish Meltdown*

What the heck is going on in Turkey? Whatever it is, it's having a visible effect on the markets. After the Turkish stock market index fell more than 24% since the start of August, Eurozone bank stocks fell 24% and emerging markets stocks overall (a category which includes Turkish stocks) dropped 9.9% for the year. A number of non-major currencies, including the South African Rand, Argentine peso, Russian ruble, Hungarian forint, Polish zloty, Brazilian real, and Mexican peso were also down sharply, as was one major currency: the euro.

The crisis was triggered when Turkish officials detained, and ultimately imprisoned, an American evangelical pastor named Andrew Brunson, accusing him of being a spy who was attempting to overthrow the Turkish government. Before being detained, Brunson had been working as a pastor at the Izmir Resurrection Church, as a 23-year resident of the country. His trial is set for October.

American diplomats have been pushing for Bruson's release, saying that he is basically on trial for his faith, not for any nefarious spying activities. When the negotiations failed, the Trump Administration surprised Turkey and the rest of the world by imposing economic sanctions against what most would consider to be an allied government—a fellow NATO member whose Incirlik air base was a crucial staging ground for the air war against the Islamic state.

The sanctions were clearly the trigger event for the collapse of Turkish stocks and the Turkish lira, but some analysts say the country was long overdue for some kind of negative event in the Turkish economy for some time. In recent years, Turkey has been compared to Greece for having amassed one of the largest foreign debts in the world, as its banks and large companies have borrowed heavily to maintain activity in the economy. Foreign investment has dramatically slowed, in part because the country's authoritarian government seems often inclined to meddle in monetary decisions. Those concerns were not exactly allayed when, in response to the crisis, Turkish president Recep Tayyip Erdogen squeezed central bank liquidity and doubled the interest rate cost in his country, in a single day, and then, by fiat, changed the rules so that speculators were no longer allowed to sell their for dollars or euros in what are known as currency swaps. Banks were forced to stop lending lira or renew any existing contracts.

In addition, Erdogen lashed out by doubling Turkish import tariffs on passenger cars to 120% of their value, plus a 140% tariff on alcoholic drinks, and significant tariffs on tobacco, cosmetics, rice and even coal. In a subsequent speech, the Turkish president called for a citizen boycott of U.S. electronic products, including the iPhone.

Is there any way out of this mess? It seems clear that the Turkish government is backed into a corner, not wanting to look foolish or weak by releasing its American pastor. We may see some kind of quiet prisoner swap involving persons detained by the Israelis, but that could be months or years down the road.

In the meantime, the Turkish lira stopped its precipitous slide only when the oil-rich nation of Qatar stepped in to offer financial assistance in the form of a $15 billion loan. This mess is going to blow over, but not without a few more scary headlines to come.

## *Goodbye Marriage Penalty - Almost*

One of the unexpected gifts from the Tax Cuts and Jobs Act of 2017 was the virtual elimination of the so-called "marriage penalty." But at the same time, the new tax regime imposes a new "stealth" marriage penalty which will show up for taxpayers in higher-tax states.

The marriage penalty is roughly defined as assessing higher federal taxes on married couples with two incomes than would be assessed on the same couple if they had filed individually. For example, under the old regime, two single filers making $50,000 would each pay at a 25% tax rate. But a couple who each earned $50,000 ($100,000 total household income) would have been assessed at a 28% marginal rate.

Obviously there was no penalty if the family had only one income; in fact, for those increasingly rare households, there would be a marriage bonus. If the sole breadwinner, under the old tax regime, were single, and that person was making $50,000, he or she would still have been subject to a 25% tax. But if the breadwinner happened to be married, and moved into the "married filing jointly" category, his or her income would then have been taxed at a 15% rate.

So how has this changed? As you can see from the chart, now the tax brackets for "married filing jointly" are exactly twice as high as the "single" brackets—up to the very highest brackets, when a marriage penalty finally kicks in. A couple earning $50,000 each, under our current tax regime, would pay income taxes at a 22% rate, whether they were married or filing individually.

It gets a bit interesting at the highest two brackets, however, as you can see from the chart if two individuals were to make, say, $350,000 in any tax year, they would each fall comfortably into the 35% bracket. However, if they get married, suddenly they must pay tax at a 2% higher rate (37%) for the first combined $100,000 they make over the $600,000 threshold. It's not a lot of difference, but there is clearly a penalty involved.

What about the stealth marriage penalty? The new tax law sets a hard $10,000 limit on the amount that you can deduct for state and local taxes—including state income or sales taxes and property taxes. That applies to individuals, and the same limit applies to households. Single persons would get to deduct up to $10,000 for these various taxes, each, but when they get married, their deduction gets cut in half: only $10,000 for the household as a whole.

Of course, this only applies to people who would have significant state and local tax obligations—some states impose zero state taxes—so for some, there is no stealth marriage penalty at all. To get up to where they have to worry about the marriage penalty, they would also have to join the 1%.

| **2018 Personal Income Tax Rates** | | |
|---|---|---|
| **Rate** | **Married Filing Jointly** | **Single** |
| 10% | $0 - $19,050 | $0 - $9,525 |
| 12% | $19,050- $77,400 | $9,525 - $38,700 |
| 22% | $77,400 - $165,000 | $38,700 - $82,500 |
| 24% | $165,000 - $315,000 | $82,500 - $157,500 |
| 32% | $315,000 - $400,000 | $157,500 - $200,000 |
| 35% | $400,000 - $600,000 | $200,000 - $500,000 |
| 37% | over $600,000 | over $500,000 |

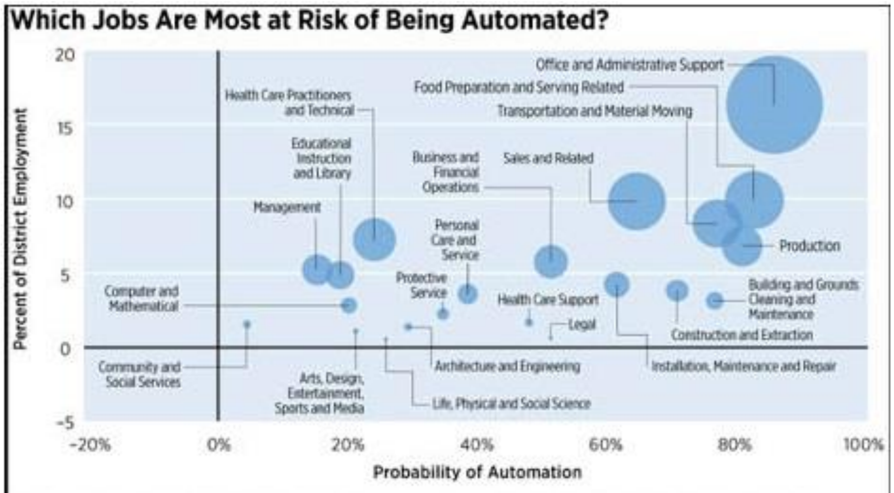
## *Are Automation Fears Overblown*

The robots are coming for your job, and eventually they're going to get it.  Right?

Maybe not.  A new report by the OECD (the Organization of Economic Cooperation and Development)—an intergovernmental economic organization with 36 member countries—has concluded that only 14% of jobs in developed countries are "highly automatable."  This would translate to about 13 million members of the U.S. workforce—far fewer than predicted by other, more sensationalistic studies, but still a significant bite out of employment.  The impact will be particularly damaging to groups already under threat in today's labor markets: low-skilled workers and the young.  Particularly at risk: employment in sales and personal services, which provide jobs for 34% of workers age 20 and below.

The graphic shows which jobs are most, and least, susceptible to automation, and the size of the circle shows the rough number of the people affected.  Computer and mathematical whizzes, corporate managers and sports stars are least likely to be replaced by a machine.  But people in office administration and support might consider getting some additional training—sooner rather than later.

**Which Jobs Are Most at Risk of Being Automated?**




SOURCES: Census Bureau's Occupational Employment Statistics, Frey and Osborne, authors' calculations.

NOTE: The figure shows a positive correlation between probability of automation and percentage of employment for occupations in the Eighth District. Probability of automation is on the horizontal axis, while percentage of employment is on the vertical axis. The size of the bubbles represents the number of jobs in each occupation.

■ FEDERAL RESERVE BANK OF ST. LOUIS

Source:
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*For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.*

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