eQInsight

Clinton vs. Trump

What does the US election mean for investors?

The US presidential race has already offered plenty of surprises with the remarkable rise of Donald Trump to Republican nominee and Hilary Clinton struck down with pneumonia. With the elections taking place in November, this paper discusses the stated policy-intentions of the respective candidates, what it could mean for markets, and ultimately the impact on your financial wealth.

US economy

The US economy has seen the strongest recovery in the developed world since the global financial crisis of 2008. In recent years, the services sector has been strong, unemployment has fallen and house prices have risen. But the US economy remains unbalanced. Manufacturing has lagged services, hurt by the strong dollar and weak oil & gas industry and, while there are signs that it may be building, headline inflation remains elusive. Consequently, the Fed has only been able to raise interest rates by 0.25%, leaving little room for manoeuvre if the economy does weaken.

Clinton vs. Trump: contrasting views

US Congress, which is made up of the House of Representatives and the Senate, is responsible for passing laws and the budget. Consequently, if the new President does not have the support of Congress, it will be very difficult to make significant changes.

Currently, the Republicans have control of both the House and the Senate. However, 34 Senate seats are up for re-election, 20 of which are Republican. The Democrats only need to win 5 more seats to gain control of the Senate so a Democrat victory is very possible. The outcome of this vote will have a significant impact on how much control in changing policy will be at the disposal of the new President.

Despite the possibility of political deadlock, it is useful to look at what could change if either candidate is able to enact their intended policy.

FISCAL PACKAGE

- **Clinton:** Plans to spend $275bn on infrastructure, fully financed over 10 years by increased taxation focused on those with incomes in excess of $1m and corporates. This is fiscally neutral overall but front loaded so is likely to initially act as a stimulus. Her focuses include internet connectivity, road and bridge repairs and public transport expansion.

- **Trump:** Fiscal stimulus through tax cuts, both personal and corporate, and increased infrastructure spending. Corporate tax could be cut to a max of 15% presenting an attractive opportunity for US corporates to repatriate foreign earnings. Infrastructure spending would focus on defense, energy and construction.

Our verdict:

Both candidates support fiscal stimulus so construction and industrials look to benefit in both cases.

ENERGY

- **Clinton:** Move towards green energy and away from fossil fuels. She wants to support the solar industry by increasing current installed capacity of solar panels by $0.5bn, around 700%, by 2020.

- **Trump:** Overtly pro-energy. Trump plans to relax rules on carbon emissions and reduce red tape on fracking. This would provide a boost to the oil, gas and coal industries.

Our verdict:

The outcomes from the Clinton/Trump election couldn't be further apart. A Clinton victory would be favorable for green energy and bad for the oil, gas and coal industries, whilst a Trump victory would be the opposite.

HEALTHCARE

- **Clinton:** Likes Obamacare and wants to expand Medicare and Medicaid. In addition, she plans to reduce drug prices. A Clinton election would be positive for hospitals, who have profited handsomely from Obamacare, but negative for biotech and pharmaceutical firms who may be forced to sell drugs at lower prices.

- **Trump:** Plans to repeal Obamacare, which would damage hospital profits. Interestingly, Trump does not take a pro-pharmaceuticals stance. Like Clinton, he supports allowing Medicare to negotiate with drug companies and also wants to allow cheaper pharmaceuticals manufactured abroad to be sold in the US.

Our verdict:

Both parties look set to take battle against pharmaceutical companies. However, this goes against the standard Republican Party view so, irrespective of who wins, health legislation may still face challenges if Congress is Republican.

TRADE

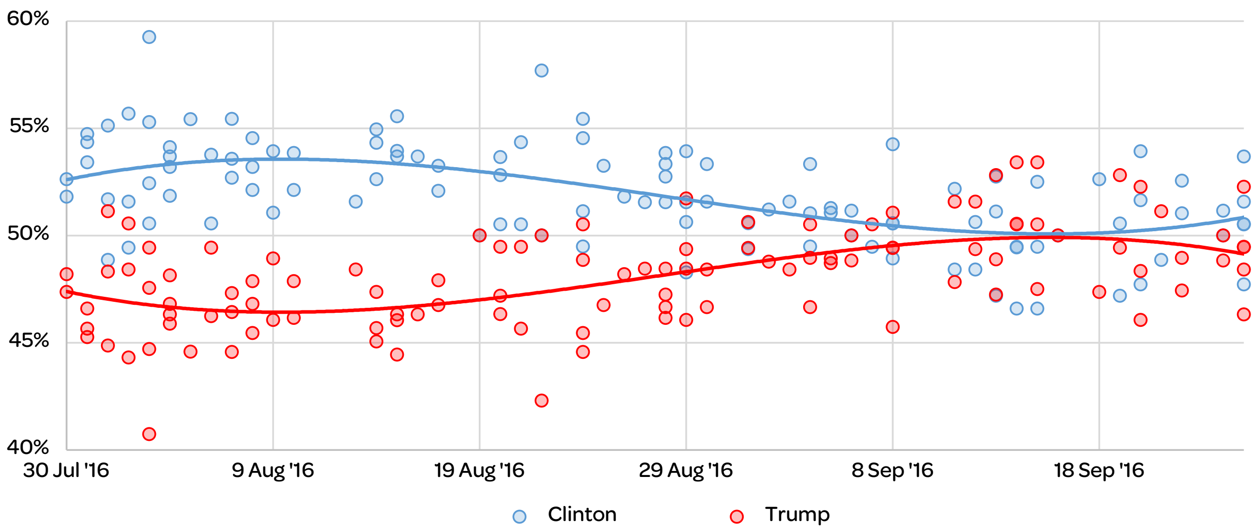
- **Clinton:** Has publicly stated that she is opposed to the Trans-Pacific Partnership (TPP) and would renegotiate parts of the North American Free Trade Agreement (NAFTA).

- **Trump:** Also opposes the TPP and would renegotiate NAFTA. He could impose tariffs on Mexico and China (which account for 35% of imported goods). Trade restrictions could have a temporary negative impact on sentiment and increase inflation.

Our verdict:

This is an unusual election race in that both candidates are at odds with the White House on the subject of globalisation. Clinton and Trump both oppose the TPP. Asian manufacturing countries involved in the deal like Malaysia and Vietnam are the obvious losers if it opposed. However, countries not involved in the deal like South Korea and Thailand alongside US manufacturers are likely to benefit.

Figure 1. Summary of two-way poll results, 30 July - 25 September 2016. Source: Wikipedia



Latest polling

In the first week of polling, directly after each party's candidate was officially named, Clinton enjoyed a comfortable lead with momentum on her side. Over recent months, momentum has swung back and forth with Clinton clinging to a narrow lead in recent polls (**Figure 1**).

Following the first TV debate the media consensus is that Clinton prevailed, with Trump looking unprepared and losing his cool. However, it's also clear that the US electorate aren't judging him by traditional standards. There has been a rise of populist sentiment and widespread frustration that establishment politicians have over-promised and under-delivered for too long. This makes the debate far less about the detail of policy, and the outcome much more difficult to predict. With less than two months to go, it's all to play for in the race for the White House.

Market implications

If there's one thing markets hate, its uncertainty.

- **US equities:** We favour domestic-focused funds due to probable infrastructure spend and both candidates' negative views on globalisation. Initially, markets may react more positively to a Clinton administration as it is deemed to be a continuation of the status quo. In the medium term, however, a Trump win could be initially positive for equities due to lower corporate tax and a GDP boost from his proposed stimulus package. We expect that this would likely fade as excessive stimulus creates overcapacity and inflation, requiring fiscal and monetary tightening, and the effects of deportation on the workforce become apparent.
- **Fixed income:** Likely to be negative for government bonds due to increased issuance and widening fiscal deficit. This is contingent on either candidate being able to enact their proposed fiscal plans which is only likely if we have a united President and Congress. High yield could initially benefit from a Trump victory due to the high concentration of energy issuers and Trump's pro-oil stance.

How we are positioning portfolios

While we cannot predict the outcome of the election, we have contingency plans in place:

WINNER: HILARY CLINTON

We believe this would result in a continuation of the status quo, so our current long term views will remain unchanged. In addition, the market is unlikely to have a major reaction to this event in the short term, so we do not anticipate an attractive buying opportunity. As a result we do not expect to change our current US equity position.

WINNER: DONALD TRUMP

We believe markets will react negatively in the immediate aftermath. However, given the structure of the US political system, Trump is likely to find it very difficult to make significant changes even if he is elected President. Consequently, we will take advantage of any market dip to deploy cash.

Conclusion

As the battle for the White House approaches its final few months and the rhetoric is cranked up, some market volatility is to be expected. As ever, the best way to prepared for this is to take a long term view and stay focused on the big picture.

In this two horse race, and especially reflecting on the UK's own recent referendum result, a Trump victory should not be discounted or even considered a huge surprise.

Which candidate is better for the markets? A Trump presidency will likely leave financial markets scrambling to separate his campaign catchphrases from his actual policy. As a result, a Clinton presidency may be more palatable to markets – the first time that has been said of a Democrat over a Republican in decades.

Please remember that past performance is not a guide to future returns. The value of investments and income derived from them can fall as well as rise, and investors may get back lass than they originally invested.

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