US Election Brief

With a little bit less than three weeks until Election Day, the campaign for the 2016 United States presidential election has entered the home straight. In the following article, we shed some light on recent trends and explain what can be expected on Election Day. Moreover, we discuss some sectors that should profit in a Clinton-presidency, others that should benefit from a Trump-presidency, as well as those sectors that should profit irrespective of who becomes the next president.

Recent Trends

After some scandalous weeks, Donald Trump seems almost certain to lose against Hillary Clinton, though, to be clear, neither of the candidates has a clear lead yet according to the polls.

Let us take a look at the two most popular types of indicators – polls and predictions:

Polls
- **Poll of Polls – Huffington Post**: According to a poll of polls published by the Huffington Post, Hillary Clinton can expect around 48.8% of the popular vote, and Donald Trump around 41.1%.
- **Electoral Trend – RealClear Politics**: The President of the United States is not elected via the popular vote – instead, the candidate needs to win a sufficient number of states. When people cast their votes, they are actually voting for a group of people known as electors. The winner within a state receives all of the so-called electoral votes, of which there are 538 in total. The candidate who collects more than half of the votes (270 or more) wins. According to the polls of RealClear Politics, Clinton is leading with 252, while Trump could collect 126 (160 too close to call). However, 112 electoral votes are still too close to call.

Given the peculiarities of the US election system, it is not the national support that counts for a candidate, but the accumulation of his or her support in the individual states. As a result, a national opinion poll is not the most effective indicator of outcomes, which is why one should pay more attention to predictions that factor in some of the peculiarities.

Predictions
- **Polls-plus – FiveThirtyEight**: The chance of winning, according to the Poll-plus model of FiveThirtyEight, is 83.8% for Hillary Clinton and 16.2% for Donald Trump. This model does not only consider polls, but also economic and historical data. Additionally, it takes respect to forecast error, which is – for example – that forecast errors in one state are correlated to other states. So if a candidate beats the polls to win in one state, there is a good chance he or she will do so in another state too.
- **TheUpshot – The New York Times**: The Upshot's election model currently suggests that Hillary Clinton is favoured to win the presidency, with a probability of 91%, while Donald Trump's chances are 9%. The New York Times uses statewide and nationwide polls, as well as historical election outcomes for its model.
- **PredictWise – David Rothschild**: According to David Rothschild's PredictWise, chances are 89% that the next president will be a Democrat. The backbone of his model is market-based predictions, generated from real money markets, like bookmakers.

Regardless of the rigour of the models, some might have doubts and may refer to this year's vote in the UK to leave the European Union, arguing that the Brexit polls missed the final outcome. However, this is only partially true. Pre-election polls indicated that

around 10% of voters were still undecided. This lesson can be applied to the US election. According to the Huffington Post Poll of Polls, 10% of voters are still undecided, despite the recent trend of a strong lead by Hillary Clinton. One should always bear in mind that a very high probability for one scenario does not mean that the other scenario is impossible.

What Election Day will look like

What we do know, however, is what Election Day will look like. Strictly speaking, November 8, often considered Election Day, will not produce the final result. Officially, on that date, voters only elect the Electoral College – the body that will elect the President of the United States on 19 December, 2016. These votes will be counted in January 2017, and on 20 January, 2017, the new President will officially be inaugurated.

Despite these complexities, the vote on the 8th of November is usually considered final. As soon as polls close, opinion polls will be published. At around 11pm in Washington D.C., it should be clear which candidate has prevailed. During the time around election night, we typically see heightened volatility in the financial markets. The SP500 lost roughly 3% in November 2012, for example, but gained around the same amount in November 2004.

How to position

Overall, we see little systematic influence on the financial markets from the US presidential elections. Numerous studies have concluded that the role of a US president is negligible with respect to financial market performance. Betting on the outcome of the US presidential election should be regarded more as a gamble than as a long-term investment. For long-term investors, we advise to uphold their strategic weights in their robust, diversified portfolios, which means not taking too much active risk For those who would still like to have some financial exposure to the election, we have analysed two sectors that should benefit in the event that Hillary Clinton wins, and one sector that should profit in the event of a (currently unexpected) victory going to Donald Trump. Regardless of how hard they battle each other during the debates and how strongly they

emphasize that they are different from the other candidate, there are some overlaps in their election programmes. As a result, we have analysed two sectors that should profit regardless of which of the two candidates wins the race. For specific ideas – be it a stock or a sector-ETF that is more diversified – your client advisor is at your disposal.

Consumer Discretionary – Both candidates are likely to increase government spending, cut taxes and increase the minimum salary

It's likely that under the new presidency, the focus will shift from monetary stimulus to fiscal stimulus. Experts predict that under a Hillary Clinton presidency, the government debt will increase by $200 billion, and under Trump, by $5.3 trillion. This is due to increased spending (e.g. for infrastructure and defence) and a reduced tax rate for individuals and corporations. This is likely to boost the economy but to increase the debt level and interest rates. Consumer discretionary stocks have one of the highest correlations with the growth of the economy, and are only modestly impacted by interest rate hikes.

Infrastructure – Both candidates want to boost infrastructure spending

No matter who wins the US presidency, one agenda both candidates have in common is to boost infrastructure spending. Hillary Clinton's proposal is a five-year $275 billion plan consisting of $250 billion in infrastructure loans and $25 billion to fund an infrastructure bank. Additional loan guarantees will result in a total infrastructure spending of $500 billion, which will create 200,000 jobs. Although Donald Trump's plan is less detailed, the candidate has promised to "double" Hillary's infrastructure proposals. Morgan Stanley estimated that $1 trillion of infrastructure spending will create 400,000 jobs and boost the GDP by 0.2% in the first year.[1] Companies that would profit from this spending include those that either produce construction materials or engage in physical construction or engineering. Some home builders or home construction materials producers, as well as

industrial and heavy lifting holdings, should also benefit from either of the candidates' policies.

Solar Energy for Hillary's ambitious Clean Power Plan

Hillary Clinton unveiled her green power plan, calling for a 700% increase in installed solar capacity in the United States to around 140 gigawatts by 2020 (the end of the presidential term). The goal is to generate a third of the nation's electricity from non-hydro, renewable sources such as wind and solar by 2027, up from 7% today. Since Clinton intends to install nearly half a billion solar panels, a direct exposure to this sector could benefit from a Clinton presidency. Components of solar indices usually include panel markers, raw material suppliers, installers and operators of solar farms.

The Healthcare Play, if Hillary wins

Hillary Clinton has continued to push for major healthcare reforms and her campaign policies reflect that. Aside from vowing to keep the Affordable Care Act (ACA), Hillary Clinton has looked to expand coverage under the bill. Finally, Clinton's policies include a healthy dose of helping the poor and expanding on other often-ignored health services. Expanded coverage of primary care for America's poorest citizens, as well as supporting mental health and women's healthcare, are all on her docket. The crux of her healthcare plan involves making sure the ACA remains intact and isn't vetoed/removed by rival lawmakers. If Hillary is successful, the continued rise in the number of insured citizens will undoubtedly benefit insurance stocks. We've already seen that effect since the ACA's introduction. Therefore, companies that would benefit from a Clinton presidency include healthcare insurers, hospital administrators, laboratory outsourcing firms and other health care service providers. While insurance companies like to complain about Obamacare losses on the private side, the bulk of their revenues actually come from Medicare/Medicaid. Both of those roles have been expanded in the wake of the ACA.

The Big Play in Aerospace and Defence, if Trump Wins

In a speech to the Union League of Philadelphia, Trump pledged to reverse cuts on defence spending which were implemented during the 2013 budget sequester. Freed from those limitations, Trump would boost defence spending by over $500 billion during the next ten years. America already spends more than $600 billion on defence spending, which is roughly equivalent to the next top nine nations combined. Trump has also expressed that he wants nations in which the U.S. has bases to pay for that protection. Given that Trump is all about boosting military spending to new highs, the firms that provide defence contracting or military hardware should continue to see some big profits, if he is elected. A sector that would profit from a Trump presidency might be the S&P Aerospace and Defence, which is made up of all the largest U.S. firms that build military aircraft and other defence equipment.

If you have any questions, your client advisor is at your disposal.

References
[1]Morgan Stanley Research, 2016/10/10, titled "US Election 2016 – Fiscal Action, Market Reaction".