Guide to the 2016 US presidential election: investment implications

Ryan Boothroyd from Henderson's Multi-Asset Team provides his need-to-know guide to the 2016 US presidential election. In the Q&A section he discusses what issues are shaping the campaign, key things to watch out for, and which assets are most likely to be affected in the event of a Clinton or Trump victory.

Who are the candidates and what are their stances?

Hillary Rodham Clinton is the Democratic Party nominee. She was the First Lady of the United States to the 42nd President, Bill Clinton (1993-2001). She went on to become the US Secretary of State (2009-2013) having served as US Senator for New York (2001-2009).

Key policy stances:

- Raise federal minimum wage to $12 an hour. Maintain current tax code, with some increases for wealthier taxpayers.

- Incentivise companies to bring jobs back to the US. Now opposes the Trans-Pacific Partnership (TPP) free trade agreement, having formerly supported it.

- Immigration reform: a pathway to citizenship, and the closure of private immigrant detention centres

- Retain Obamacare and crack down on rising prescription drug prices.

Business magnate **Donald J Trump** is the Republican Party (the 'Grand Old Party', 'GOP') nominee. He is chairman and president of The Trump Organization, inherited from his father, Fred Trump. He hosted the popular US TV show "The Apprentice" from 2004-2015.

Key policy stances:

- Reform taxes by simplifying income tax brackets from seven to three. Reduce rates of income and corporation tax.

- Protect and advance US trade interests; challenge China on tariff barriers, intellectual property laws, and labour practices. Oppose TPP.

- Build a wall across the Mexican border, restrict immigration, and end birthright citizenship for the children of foreign nationals.

- Repeal Obamacare and require price transparency from all healthcare providers.

What will happen, when?

Americans will cast their ballots on **Tuesday 8 November 2016**, but between now and then the candidates will campaign across key states, appearing at events, fundraisers, and on media channels. Official televised debates will be held on:

- Monday 26 September – First presidential debate, Hempstead, New York

- Tuesday 4 October – Vice presidential debate, Farmville, Virginia

- Sunday 9 October – Second presidential debate, St Louis, Missouri

- Wednesday 19 October – Third presidential debate, Las Vegas, Nevada

Alongside the Presidential election, elections to the House of Representatives, the Senate, and many state and local elections will also be held on 8 November. Thirty four of the 100 seats in the US Senate will be contested and Representatives from all 435 congressional districts will be elected across 50 states.

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Current composition of US Congress

House of Representatives (lower house)

Seats are apportioned per state, according to population. Currently the Republicans have a 60-member majority. House political power is more fluid than the Senate, given all Representatives are re-elected on a two-yearly cycle.

246   3   186

435
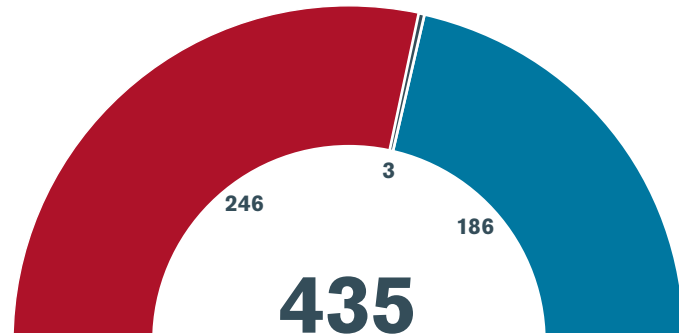
Key:
● = Democrats   ● = Republicans   ● = vacant

Senate (upper house)

Two seats each are allocated to 50 states. The Senate tends to exhibit greater political latency than the House as one-third of candidates are elected every two years (they serve six-year terms).

54   2   44

100
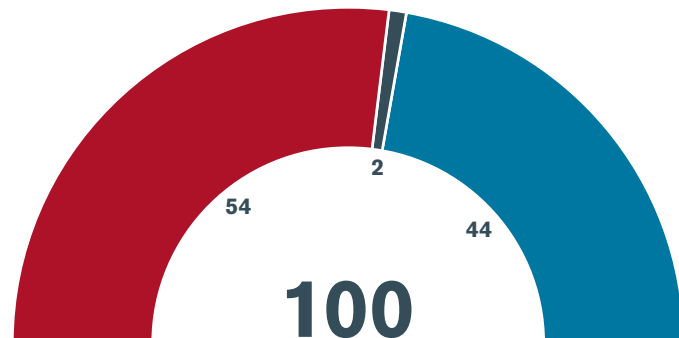
Key:
● = Democrats   ● = Republicans   ● = Independent

The Electoral College

US citizens do not directly elect the president and vice president, instead they vote for a panel of state 'electors' (state-elected officials, party leaders or those with a strong affiliation to a candidate), who are pledged to vote for particular candidates. Each state's entitled allotment of electors equals the number of members in its Congressional delegation: one for each member in the House of Representatives, plus two for each Senator. Most states operate a winner-takes-all system, which awards all the state's votes to the winning presidential candidate – the exceptions being Maine and Nebraska, which operate a proportional system. The Electoral College currently consists of 538 electors. A majority of 270 electoral votes is required to elect the president and vice president, who take the oath of office, with ceremonial inauguration on 20 January.

Q&A with Ryan Boothroyd, Henderson Multi-Asset Team

Q. How can each candidate's differing domestic policy platforms be viewed?

At the start of the campaign, Clinton's policy stance was viewed as a continuation of the Obama administration. However, the unexpected popularity of left-wing Senator Bernie Sanders in the primary campaign has led to a more socially oriented philosophy. Clinton has committed to a range of welfare policies, such as raising the minimum wage and has taken a tough stance on the regulation of large corporates such as Wall Street banks and major pharmaceuticals firms.

Donald Trump has also pledged to take a looser fiscal stance. The key difference is that while the Democrats have focused on increases in welfare spending, Trump is more concerned with tax cuts. This could have a material impact on domestic firms, given the relatively high level of corporate taxation in the US relative to other developed economies. Specifically, his call for a one-time discount on the repatriation of overseas cash (such as that held by Apple's Irish subsidiary) would free-up an important source of dormant funds for US firms. Outside of tax cuts and infrastructure spending, we find the Trump platform harder to predict as it lacks clarity or a strong ideological base. We expect policy uncertainty to increase under both candidates.

Q. What other themes have defined the election so far?

Aside from the general backlash against political insiders, trade has been an important theme on the campaign trail. Both Trump and Clinton voters have expressed scepticism that globalisation and international trade are positive economic influences on the lives of everyday Americans. As a result, many analysts expect a more protectionist stance from the US going forwards. Flagship trade deals such as the TPP (Asia) and the Transatlantic Trade and Investment Partnership (Europe) are under significant pressure and Trump's anti-immigration rhetoric may have negative implications for foreign workers and the flexibility of the US labour market.

Q. What do the polls look like?

Polling data indicates that Hillary Clinton has a 1-2% point lead over Donald Trump. This translates into around a 60% chance of victory based on state-level data and previous elections[1]. The recent momentum has been against Clinton, and her current lead is below her pre-convention average, implying a margin of victory of approximately 45 electoral college votes – around 80 fewer than Barack Obama achieved in 2012. While Trump is gaining momentum, he appears to have a ceiling of around 44% of the popular vote, most likely due to demographics (see chart).

RealClearPolitics 10-poll average
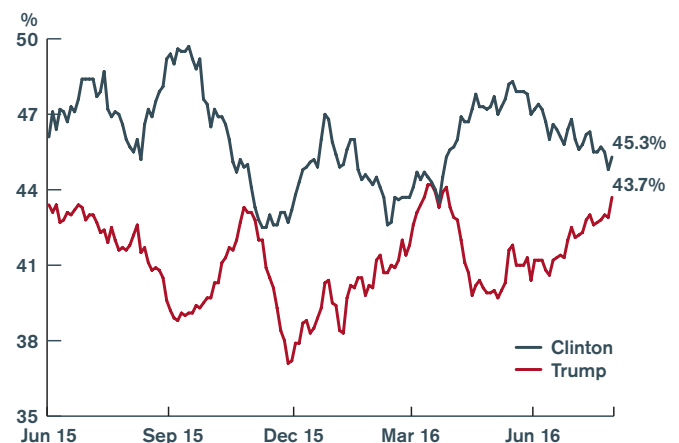
Source: RealClearPolitics, as at September 2016.
[1] Source: FiveThirtyEight.com, as at 19 September 2016.

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Q. What are the key things to watch in the run-up to the election?

1. Demographics

Demographics are usually the most reliable predictive factor in determining voting intentions. However, as Trump is not a typical Republican, the Trump demographic is somewhat different to the classic Republican voter.

According to various polling data, Trump is popular among lower-educated, white, male voters. However, his rhetoric has seemingly alienated many women and ethnic minority voters. For example, in a recent poll by Economist/YouGov (August 27-29) only 26% of women and 5% of African-American voters expressed support for Trump. Without gaining more support from these pivotal demographic groups it is extremely hard for Trump to win the Presidency.

2. Swing states

The 2016 campaign has been divisive for both the Democrats and Republicans. Party loyalty has been weakened and some historically red (Republican) or blue (Democrat) states look likely to switch allegiances. A recent Washington Post poll suggests that traditionally-Republican Texas is now a potential vulnerability for Trump and he continues to underperform Mitt Romney's 2012 results in highly religious states such as Utah.

Despite the frictions, polling analysts believe that ultimately the traditional swing states of Florida, Ohio and Pennsylvania have the greatest chance of tipping the election. While currently all three states are leaning towards the Democrats, the polls are extremely tight. Florida is critical, carrying 2-3 times as many Electoral College votes as the other major swing states.

3. The down-ballot elections (to Congress)

With the media focused on the Presidential race, it is often easy to forget that US voters will also be electing members of Congress in November. This is extremely important as it determines the ability of the President to enact his or her mandate. At present, both houses of Congress are controlled by the Republicans and this has hampered President Obama's ability to implement key items of legislation.

Polling suggests that the outcome of the Senate election will be too close to call and that a slim Republican majority in the House of Representatives is probable. Whoever is elected, it is likely that Congress will reduce his or her ability to achieve certain policy objectives – fiscal stimulus included. Investors may wish to temper their expectations for major expansionary policy if a split Congress continues to look likely.

4. Third-party candidates

Trump and Clinton have the highest disapproval ratings of any two Presidential candidates on record. This has contributed to an above-average level of undecided voters and those opting to support third-party candidates. While polling evidence is mixed, it currently appears that third-party candidates are drawing more support away from Hillary Clinton than Donald Trump. With Libertarian Gary Johnson polling as high as 25% in some states and the national balance of undecided voters at around 10%, a substantial number of votes are still up for grabs.

5. 'Known unknowns'

Plenty of stumbling blocks remain between now and November. The Presidential debates, unforeseen geo-political events and further news on any of the plethora of scandals involving both candidates could still change the course of the election.

Q. Which assets look likely to be most affected by the election?

Historically, the political uncertainty created by the election of a non-incumbent President tends to lead to a weakening of the US dollar in the short-term. Many analysts argue that this will be particularly pronounced in the event of a Trump victory as he represents the largest departure from the status quo. Moreover, his rhetoric is the most anti-trade and his policy platform is relatively unknown. That said, we believe the outcome is less certain as the proposed fiscal stimulus and potential mass repatriation of corporate cash make the aggregate outlook less clear. What is more certain is the impact of a Trump victory on the price of gold, which is likely to increase given its status as a safe-haven in times of uncertainty.

If the new President succeeds in passing major fiscal policies, bonds are likely to suffer, as the increased stimulus gives the Federal Reserve greater license to raise interest rates. Moreover, any subsequent increase in the US budget deficit could command a higher risk premium for US government assets. The distributional aspects of any fiscal expansion would also be important. For example, low-wage industries such as hotels and restaurants are likely to be disproportionality affected by an increase in the minimum wage.

Finally, the regulatory stance of the President will also affect asset prices. Clinton has already pledged to crack down on pricing power in the pharmaceuticals industry and her stance on large banks is unlikely to be lenient. This may cloud the earnings outlook for both industries in the event of a Democratic victory.

All of the impacts outlined above are likely to be dependent on the margin of victory. If either candidate wins a landslide victory and delivers a unified Congress they are likely to have significantly more power and market impact than a closer result.