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# TRUMP vs CLINTON: investment challenges and strategies

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**More important than the outcome of the presidential elections per se, attention should be paid to the configuration of the new congress: the economic impact of the elections will depend substantially on its color.**

**The American elections on November 8 will pit Hillary Rodham Clinton (Democrat - New York) against Donald Trump (Republican - New York), Gary Johnson (Libertarian - New Mexico), and Jill Stein (Green Party - Massachusetts). The next President will take office on January 20, 2017.**

For some weeks now, Clinton has had a clear lead in the polls. Howerver, it would be premature to call the election decided (because embarrassing leaks, a health incident, and the Brexit referendum's precedent remind us that the outcome of an election is never a certainty), but there are many who already think Trump has practically no chance of being elected, because he will be incapable of getting the 270 electoral college votes he needs to get to the White House. There are five key reasons for this:

- The electoral map strongly favours Clinton;
- No minority (Hispanic or African-American) has been spared during Trump's campaign, and we know how important minority votes are;
- His remarks about women will leave scars;
- Geographically, his electoral base is not diverse enough;
- His positions are seen as so excessive that more and more Republican representatives are disavowing his campaign.

Currently, the Republicans control the House of Representatives (246 seats out of 435) and the Senate (54 seats out of 100). On November 8, elections will be held for all seats in the House (H) and 34 seats in the Senate (S), and the Democrats could regain control of the Senate (of the 34 seats to be filled, 24 are now held by Republicans).

In terms of electoral programs, Donald Trump's has probably drawn the most coverage (because of a shifting plan that catches even his own camp off-balance). For Hillary Clinton, the proposals are more in line with the consensus and spark less debate: there are the broad Democratic guidelines, with a few concessions to her party's left wing (like the inheritance tax).

In Europe and around the world, the protectionist risk and the migratory policy are clearly getting the most attention in Donald Trump's plan. Domestically, what counts most is the budget deficit (the type and the extent of the tax cuts for households and businesses) and how it will be paid for. However, it's very difficult to assess the impact, because the candidate has been vague, but also because the proposed measures will certainly not be accepted by Congress as they are, even if it is overwhelmingly Republican.

## The candidates' proposals are - not surprisingly - very different in their ideology.

First, on immigration and trade agreements, the two parties are polar opposites. Though it is hard to imagine that he would follow through on his comments, Trump has taken an aggressive stance toward Europe, China, Mexico, and Islam (i.e. the proposal to expel immigrants and build a wall along the Mexican border; sharp criticism of trade agreements; raising customs duties, etc.). These measures would result in a more isolated US economy. Cross-border trade and immigration would be considerably reduced, and with less trade and immigration, foreign direct investment would also decline. On the other side, Clinton has positions that are far more in line with consensus on these topics, and her foreign and trade policy would probably look a lot like Barack Obama's over the past few years.

Next, even though both plans propose a budget stimulus, they differ appreciably on who would benefit from the measures in question. Trump's proposed tax cuts are aimed at the wealthiest households (affluent households would benefit significantly from lower marginal income tax rates, and measures on capital gains dividends). On the contrary, the measures proposed by Clinton would be paid for by increasing the tax pressure on the wealthiest, to protect the middle class. For companies, Hillary Clinton wants to reduce taxes on small businesses and tax the large corporations that are relocating. Finally, only on certain expenditures, Donald Trump's are close to Hillary Clinton's (infrastructure spending and the minimum wage[1]).

## Hillary Clinton's measures are funded, generally - but not Donald Trump's.

Even though there are still many grey areas[2], the tax cuts are more dramatic in the Trump plan; they fit in with Republican ideology (simplify tax codes, reduce taxes, and especially eliminate the inheritance tax). Nonetheless, Donald Trump's plan is a departure in terms of how to finance it all: far from making drastic cuts in spending to finance the tax reductions (which would require a 20% reduction in public spending), he proposes raising some of them and at the same time raising the minimum wage, to the point where his plan would very substantially increase the public deficit (ex ante). More specifically, tax revenue would fall by $5.3 trillion over the decade, while spending would fall by only $1.2 trillion net ($3.2 trillion in spending cuts, largely due to the scheduled cancellation of Obamacare-related expenditures, would be lessened by the $2 trillion in increased spending on defence, veterans, and Medicare). This budget drift would be unacceptable for the Republican rank and file (and for the Democrats, as well). Conversely, Clinton's plan would increase both spending ($1.65 trillion) and tax revenues ($1.5 trillion) in the next 10 years, ensuring the budget would be more or less balanced.

[1] *On the federal minimum wage, Donald Trump has contradicted himself throughout the campaign. His latest statements (from last summer) were in favour of increasing it.*

[2] *In particular, the tax status of pass-through businesses remains unclear, including in her most recent proposals in September 2016.*

**Ultimately, over the decade to come, debt would increase (factoring in the addition of interest) by $200 billion in the Clinton plan, and $5.3 trillion in the Trump plan.**

**That said, it is important to note that neither candidate is likely to get one of these plans approved in their current state.** The President's power is very limited in budget matters in the US, where Congress has the last word. Whatever happens, then, Congress will play a central role. Consequently, the outcome of elections in the House (which will turn over completely on November 8) and the Senate (one-third turnover) will be just as important as those of the presidential election. Indeed, according to the latest polls, Donald Trump and Hillary Clinton have about a 50% chance of having to deal with a Senate that is hostile to them[3]. The Senate's colour will affect the type of budget compromise that is possible. The impact on the economy of each of these plans will hinge on the political configuration in the two Chambers.

# What are the scenarios? What are the impacts?

**There are three scenarios:**

**Scenario #1 Hillary Clinton is elected President.**

Very likely at this stage - PROBABILITY: 80%.

While the House of Representatives would remain under Republican control, the Senate, where a third of seats will turn over, could go back to the Democrats (predictions in their favour are on the order of 60%). It is the latter scenario that we are applying here.

**Scenario #2 Donald Trump is elected and forced to amend his proposals.**

If Trump is elected, that is the most likely scenario - PROBABILITY: 19%.

**Scenario #3 Donald Trump is elected and puts the policies he announced during his campaign into practice.**

Very unlikely at present - PROBABILITY: 1%.

Whatever the majority in the two Chambers, the markets will respond more favourably to a victory by Clinton. The election of Donald Trump would result in a real "uncertainty shock."

## Scenario #1 Hillary Clinton is elected President of the United States

Very likely scenario at this stage

PROBABILITY: 80%

Ms Clinton's economic policy emphasises increased spending in the US - to support consumption and job creation - financed by higher taxes on the wealthiest households and businesses. Such a plan, if put in place, would have a substantial economic effect, even in the short term. In July, Moody's Agency quantified the potential gain at 1.7% of GDP by the end of the term in 2020, with spending targeting infrastructure and lower-income households, which would generate more activity than the increasing taxes and minimum wage would destroy (the changes made to the plan since then should not radically alter this order of magnitude).

Nonetheless, such a scenario, where all proposed measures would be rolled out, depends on the unlikely assumption that both chambers have a Democratic majority. Yet most polls seem to show that the House should remain dominated by Republicans.

[3] *The latest polls put Democrats and Republicans neck-and-neck in the Senate - with a slight edge for Democrats - while Republicans are likey to retain control of the House.*

**If the majority in the House and Senate stayed Republican (40% likely), Hillary Clinton would not be able to impose her plan.** We would have "fiscal paralysis", which would make fiscal stimulus impossible (unless there is a threat of recession[4]), and we would not alter our economic scenario. The recovery would continue, but at a slower pace, between 1.5% and 2% per year (close to the long-term potential of the US economy). Political wait-and-seeism would be called for: the economy would have to slow down significantly for pragmatism to win over Congress and for Congress to vote in stimulus measures. The markets would probably take a dim view of that situation and cause the Fed to stay conservative

**If the Democrats take over the Senate and/or House (a 60% chance), it would open up the possibility of bipartisan compromise in Congress (e.g. on infrastructure spending), enabling Clinton to carry out some or all of her economic stimulus plan.** In that case, it would be reasonable to expect fiscal policy to support economic activity (of around 0.5% of GDP, or slightly more) by the year 2018. As to the other components, such as social security and tax hikes, compromises will be much more difficult, in an environment where the Republican Party, after Trump's episode, will go through an identity crisis, with some fierce infighting. This is the scenario we are opting for in the summary table of possible scenarios (Scenario 1).

### Scenario #2 Donald Trump is elected and forced to revise his proposals. The measures are funded overall.

This is the much more realistic scenario if Donald Trump is elected. Nonetheless, it is harder to assess, because its impact will depend on the changes that Congress makes to Trump's proposals. Indeed, the vast majority of Republicans are opposed to financing tax cuts with debt, and prefer to slash spending. The changes made in September 2016 reduce the bill, but do not change the nature of the problem. Very probably, only those policies that promote domestic growth, such as cutting taxes and resuming infrastructure spending, would actually be implemented. Given their impact on the deficit, they will be reduced to the essential, or what Congress considers essential.

PROBABILITY: 19%

Congress, currently controlled by the Republicans, is not hostile to tax cuts and fiscal reform, or to savings in non-military spending, but it is generally firm in its opposition to larger deficits. It is hard to imagine Congress (whether dominated by Republicans or Democrats) agreeing to a spike in public debt. In this scenario, the next Congress would make counterproposals to Trump that would result in a more neutral impact on public deficit (closer to Clinton's plan in terms of financing). The static cost of Trump's measures would be reduced (because they would be partially funded, and also lessened). Two-thirds of the tax cuts would be left on the floor (and more focused on the lowest incomes), and the corporate income tax cuts would be smaller.

In terms of immigration, Trump's roadmap will be amended, and there will no longer be any question of sending back 11 million undocumented immigrants. Instead, the pace of deportations could go back to what it was during the Great Recession (500,000 per year). Neither is it likely that Chinese and Mexican imports to the US would be charged the tariffs initially laid out. In fact, US lawmakers are more appeased: 1) by China's continued efforts to liberalise its currency, a process that began last summer, and 2) by the progress achieved in the work to reduce illegal immigration at the Mexican border. China and Mexico would not enact any reprisals toward American products or services.

The US economy would probably be equipped to avoid a recession in this scenario. That said, the weakening of growth seen in 2016 makes this a tricky situation. Indeed, the spending cuts that would finance the fiscal stimulus would be likely to curb growth. The fiscal measures would only partially offset this effect (because the tax cuts involve higher-income households, which reduces the impact we can expect on consumption[5]). And so growth would make progress later, but only moderately. Employment remains stable in the first two years, and over his four years as President, just under three million jobs are created. In this scenario, growth in employment is not strong enough to absorb growth in the working-age population, and unemployment rises.

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[4] *If there is a marked slowdown and/or threat of recession, we can presume that pragmatism would prevail and Congress would end up approving stimulus measures.*

[5] *The marginal propensity to consume is 86% for the top quintile, while it falls below 50% for the bottom quintile.*

The efforts to liberalise China (gradual pursuit of the opening of the capital account and the removal of capital controls) would firm up the dollar. Contrary to Trump's statements, China's efforts are clear, and the yuan is not undervalued (see our Discussion Paper, "The emergence of the renminbi as an international currency: where do we stand now?" 30 September 2016).

In conclusion, there would be little impact on global growth, and a slight positive impact on American growth, with the US avoiding a recession.

### Scenario #3 Donald Trump is elected and puts into practice the policies he announced during his campaign, as is, since these measures are not paid for, and come with a rise in public debt.

This scenario, in which Donald Trump can fully carry out his plan, is improbable, given the lack of support from Congress, including from Trump's own camp. Still, it's worth lingering briefly over this scenario, which represents the real "uncertainty shock," and the terms of which would write headlines, if Trump did win.

PROBABILITY: 1%

**Higher deficits, higher debt.** First of all, the tax cuts/spending increases would stimulate activity up to 0.7 point of GDP starting in the first year[6]. Yet inflationary pressures and the increased money supply that go with this type of plan (along with its unsustainable nature) would (according to standard model simulations) cause an abrupt rise in short- and long-term interest rates that would tip the economy into a recession. In fact, in theory, if the economy is running at full capacity, budget stimulus financed by debt sets off a widespread rise in interest rates, which shunts aside private demand (consumption and investment). Moody's estimates that such a policy could raise 10Y interest rates by 200 bp in the first year and 460 bp in the second. Such a drastic change in interest rates seems very unlikely to us, in the current economic climate. First, because the output gap is still in negative territory according to the CBO's estimates (which helps explain the weakness of current inflationary pressures). Second, because the first signs of overall demand weakening came in 2016, putting the topic of the end of the cycle (investment in capital goods in the red, profits too) back at centre stage, with consumer demand as the sole support for economic activity.

If the economy goes into a recession, inflationary pressures are likely to be short-lived, and the Fed could quickly re-establish an unconventional monetary policy (either a Twist or a new QE). Both monetary policy options have been explicitly cited by Janet Yellen in case a recession looms. It is surprising to see Trump complain about the Fed[7] (which has not, he says, raised key interest rates enough), even though only intervention by the central bank could guarantee "painless financing" of the measures he proposes. Furthermore, one can wonder whether Donald Trump would again be inclined to an about-face once in office. The model simulations are useful in that they show that Trump's policy would not be sustainable without the Fed's support, i.e. without monetising the debt.

Income tax and corporate income tax cuts clearly have long-term economic advantages. More particularly, they would significantly reduce the marginal effective tax rate on investment. All things being equal, this would stimulate savings and investment. However, these advantages are more than offset by deficits and debt resulting from long-term interest rates, which, even if their increase is partly checked by the central bank's intervention, would probably be higher than in a "counterfactual" scenario.

In the end, public debt would be increased by unfunded measures and fragile growth, as well as an increase in debt-servicing charges (even if lessened by the Fed's actions).

**Worsening trade, rising prices.** The sharp increase in customs duties on Chinese and Mexican imports would create slightly more inflation. The US imports nearly USD 500 billion in merchandise per year from China, and nearly USD 300 billion from Mexico, which makes up about 35% of total goods imported, excluding petroleum products. Adopting a 45% tariff on Chinese imports and 35% on Mexican imports

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6 *Whatever happens, the first year in this case would likely be 2018, not 2017, because we must factor in the inevitable time it would take to reach a compromise with Congress and roll out these measures.*

7 *See B. Drut and R. Fortes, 2016, "What could a President Trump mean for the FOMC?", Cross Asset Investment Strategy Monthly n°10, Amundi, October.*

would increase the prices on all imported merchandise by about 15%. This increases all US consumer prices by nearly 3%, 18 months after the customs duty hike, in the Moody's Analytics model.

In addition, Donald Trump has stood out for his criticism of current trade agreements (NAFTA, WTO) and the ratification of the Trans-Pacific Partnership (TPP). This viewpoint, as well as his aggressiveness toward the outside world, would likely worsen international relations, particularly with China. It is likely that trade volumes will also decline for that reason, in a situation where - lest we forget - global trade has already decelerated a lot.

**Finally, the decision to send back more than 11 million undocumented immigrants** (3.5% of the population and 5.1% of the active population) **would reduce the size of the active population, and, all other things being equal, potential growth.**

Even if the tax cuts do have positive long-term effects on the economy and the increase in rates is limited by the Fed's intervention, uncertainty would weigh down the economic outlook once Donald Trump takes office, and the impact of these measures on debt, consumption, and investment (squeezed out by price effects and rates that are, after all, higher), global trade and employment will significantly weaken the economy.

## THE BALANCE OF POWER IN CONGRESS IS A KEY ISSUE FOR THE POLICY-MIX

| | | | Hillary CLINTON | Donald TRUMP |
|---|---|---|---|---|
| | | **Probability** | **80%** | **20%<br>(scenarios 2 and 3)** |
| **Political dominance of the two Chambers** | H (R.) and S (R.) | **40%** | - Risk of fiscal paralysis<br>- Probability = 32%<br>- No fiscal stimulus, slowdown in growth in 2018 (1.6 %)<br>- Fed: no increase in 2017 | - Trump fiscal compromise, Republican version ("Trump lite")<br>- Probability = 8%<br>- Smaller tax cuts, decreased public spending<br>- Slowdown in growth in 2018 (<1.5%)<br>- Fed: +25 bp in 2017 (Q1) |
| | H (R.) and S (D.) | **55%** | - Clinton fiscal compromise<br>- Probability = 44% (scenario 1)<br>- Some tax cuts for the middle class, infrastructure spending, raise in the minimum wage<br>- Re-acceleration of growth in 2018 (+0.4 pp) to 2 %<br>- Fed: +50 bp in 2017 | - Trump fiscal compromise, Democratic version<br>- Probability = 12%<br>- Some tax cuts for the middle class, infrastructure spending, raise in the minimum wage<br>- Stabilisation of growth<br>- Fed: +50 bp in 2017 |
| | H (D.) and S (D.) | **5%** | - Clinton "as is"<br>- Probability = 4%<br>- Re-acceleration of growth in 2018 (+0.7-1.0 pp) to 2.2-2.5%<br>- Fed: +100 bp in 2017 | |
| | H (D.) and S (R.) | **0%** | - | - |

*Note: H - House of Representatives; S -Senate*

*The aim of the above table is to illustrate the plurality of possible combinations depending on the results of the Congressional elections (which are held the same day). At a time when all the polls are giving Clinton the win, it is important to note that there are several possible configurations. Growth and monetary policy estimates are given above all for information, to illustrate the potential impact. The scope of majorities will also play a decisive role. The balance of power in Congress is likely to change the entire policy mix. Thus, the more Congress is prepared to vote for a fiscal expansion plan, the more inclined the Fed will be to raise its rates (still gradually). At this stage, we believe the most likely scenario is the scenario where (1) Clinton becomes President and (2) the Democrats regain control of the Senate.*

## H. CLINTON VS. D. TRUMP: SCENARIOS, CONSEQUENCES AND MARKET IMPACTS

| Scenario | Scenario #1<br>Hillary Clinton is elected President of the United States | Scenario #2<br>Donald Trump is elected President of the United States | Scenario #3<br>Donald Trump is elected President of the United States |
|---|---|---|---|
| Vice-President | Timothy Michael "Tim" Kaine | Michael Richard "Mike" Pence | Michael Richard "Mike" Pence |
| Plan | Clinton "Lite" Plan | Trump "Lite" Plan | Trump "Full" Plan |
| Comment | Note that Clinton will have to amend some of her proposals. She will probably have to negotiate with Congress, even if the Senate is majority Democrat.<br>A "Clinton Lite" plan is highly likely. | Trump goes to Washington to negotiate his measures and is forced to give up part of his plan (independently of the outcome in the House). His final proposals are more realistic and more neutral on deficits. | Implementation of all (or nearly all) of his intentions. |
| Probability | **80%**<br>**(not including the complete tax paralysis scenario)** | **19%** | **1%** |
| Impact on the US economy | Ms Clinton's economic policy emphasises on increased spending in the US - to support consumption and job creation - financed by higher taxes on the wealthiest households and businesses. GDP will continue to grow at a moderate pace. If Clinton is able to carry out her stimulus plan, growth might be more solid. | Slight positive impact on US growth.<br>The US avoids a recession. | US growth would both be driven downward.<br>Expect a recession. |
| Impact on deficits | A moderate impact in Clinton's case.<br>Ultimately, at a 10-year horizon, the aggregate impact on the debt would be $200 billion in Clinton's plan[8]. | Moderate impact given the inevitable concessions to Congress.<br>The impact on public debt would depend on the measures ultimately retained, but should be neutral overall, as it is for Hillary Clinton's plan. | A serious impact in Trump's case, given the scope of the tax measures and the initial negative impact on growth<br>Ultimately, at a 10-year horizon, the aggregate impact on the debt would be $5.3 trillion in Trump's plan[8]. |
| Impact on the global economy | No specific impact. | It could stay around 3%. | Global growth would probably move toward 2% (or even below). |

[8] *This is the CRFB's static estimate, not including the effects of measures on the economy and interest rates (and their second-round impact on public finances).*
*(CRFB: Commitee for a Reponsible Fiscal Budget)*

| Scenario | Scenario #1<br>Hillary Clinton is elected President of the United States | Scenario #2<br>Donald Trump is elected President of the United States | Scenario #3<br>Donald Trump is elected President of the United States |
|---|---|---|---|
| Impact on global trade | No/little change to existing trade agreements.<br>No additional boost for the US via global trade. | Trade friction between countries would be limited; no damage to global trade. | Expect strong trade friction between the relevant countries (US, China, and Mexico) and major damage to global trade.<br>Pursuit of de-globalisation inevitable. |
| Impact on inflation | Very moderate increase... inflation generally under control. | Higher inflation with, eventually, slightly stronger growth | Higher import prices given tariff measures, and impact on the overall price level |
| Impact on the labour market | Congress' support is needed to open the doors to simpler immigration laws.<br>New policies like paid family leave and early childhood support will require long negotiations. | Rising nationalism against lobbying of industries currently benefiting from cheaper immigrant labour.<br>The debate will not go away after the elections. | Rising nationalism against lobbying of industries currently benefiting from cheaper immigrant labour. |
| Impact on volatility of exchange rates and equities | No specific impact. | Count on a significant increase, at least initially | Major increase in volatility. |
| Impact on monetary policy | If Clinton wins, the Fed should maintain its accommodating monetary policy stance.<br>No special pressure on the Fed Chairman or FOMC members. | No rise in fed funds in December. The fed fund tightening cycle resumes in 2017. | No rise in fed funds in December. The Fed would interrupt its monetary tightening due to the negative impact on growth.<br>A QE4 would no doubt be considered by the financial markets later. |
| Impact on US TBonds | No specific impact over the long term. In the short term, a slight increase in long-term rates due to December's increase in fed funds. | Increase in long-term rates initially, with the expectation of high deficits. Then a downturn. | Sharp increase in long-term rates initially, with the expectation of high deficits.<br>Next, the negative impact on growth would cause the Fed to become more accommodative, which would weigh heavily on long-term rates. |

| Scenario | Scenario #1<br>Hillary Clinton is elected President of the United States | Scenario #2<br>Donald Trump is elected President of the United States | Scenario #3<br>Donald Trump is elected President of the United States |
|---|---|---|---|
| **Impact on the US Dollar** | No specific impact over the long term. In the short term, negative for the USD against the Mexican peso and the Canadian dollar. Positive against the major currencies due to December's increase in fed funds. | The impact on the dollar would without doubt be positive in the medium term if fiscal expansion plans are not blocked and/or the repatriation of benefits takes off. Completion of the Keystone XL oil pipeline, blocked by Barack Obama, should weigh down oil prices and push the dollar upward.<br>In the short term, positive for the USD against the Mexican peso and the Canadian dollar. Negative against the major currencies. | The impact on the dollar would without doubt be positive in the short and medium term if fiscal expansion plans are not blocked and/or the repatriation of benefits takes off. Completion of the Keystone XL oil pipeline, blocked by Barack Obama, would likely drag down oil prices and push the dollar upward. Less of a positive impact in the long term, especially if the United States' financial position worsens dramatically and the Fed returns to a QE policy.<br>In the short term, positive for the USD against the Mexican peso and the Canadian dollar. Negative against the major currencies. |
| **Impact on corporate bonds** | Favourable if limited short-term impact (end of uncertainties of a Trump scenario)<br>No dominant trend.<br>Positive impact on education and infrastructure.<br>**Worth watching:**<br>Tighter financial regulations on financial services.<br>Taxation in the energy sector (elimination of tax incentives on fossil fuels).<br>Change in the tax regime for cash reserves held overseas by American multinationals (essentially tech giants). These have reached record levels at $2500 billion. | Negative reaction from the credit markets. Underperformance of high-beta segments.<br>Attention needs to be paid to the US economy which is highly sensitive to an increase in rates. Corporate indebtedness is nearing all-time highs.<br>Businesses having production units in Mexico are exposed to the currency risk and the dollar's appreciation. | Negative reaction from the credit markets. Underperformance of high-beta segments.<br>Attention needs to be paid to the US economy, which is highly sensitive to an increase in rates. Corporate indebtedness is nearing historic highs. Significant increase in default rates. |

| Scenario | Scenario #1<br>Hillary Clinton is elected President of the United States | Scenario #2<br>Donald Trump is elected President of the United States | Scenario #3<br>Donald Trump is elected President of the United States |
|---|---|---|---|
| Impact on US equities | The financial markets would probably respond more favourably, given the lesser uncertainty than if Trump were elected. Nonetheless, do not count on a positive dominant trend (prospects of tax increases and stringent controls on the financial services industry)<br>**Sectoral views:** a positive impact on education and infrastructure, and a negative impact on finance. | The financial markets will probably respond unfavourably, at least initially, given the greater uncertainty and risk aversion<br>**Sectoral views:** even after negotiations with Congress, infrastructure sectors would nonetheless be likely to benefit from the spending increase. The oversold Health sector could also come out on top. Do not count on "international" strategies but instead on purely domestic strategies and small cap equities | The financial markets will probably respond unfavourably, at least initially, given the greater uncertainty and risk aversion<br>**Sectoral views:** defence and infrastructure sectors would nonetheless be likely to benefit from the spending increase. The oversold Health sector could come out on top. Do not count on "international" strategies but instead on purely domestic US strategies |
| Impact on gold | No specific impact, slightly downside trend due to disappearance of the uncertainty shock over Trump. | Purchase, at least initially. | Purchase. A safe haven in a period of economic, geopolitical, and financial stress. |
| Impact on EMGs | Fairly positive, given the Fed's relatively accommodative monetary policy, and especially the gradual improvement in EMG's fundamentals. | Weakened at first by the general uncertainty (customs duties, American diplomacy, global growth, global trade) and by the rise in risk aversion. Due to Trump's opinions on Russia, Russian assets and RUB (Russian currency) may be better preserved if US sanctions are lifted. | Weakened by the increase in protectionist measures and by risk aversion. Because of Trump's intentions and their proximity to the US, Mexico and China will be the most affected nations in terms of trade. Expect a significant depreciation of the RMB, with major consequences on the global financial markets. Due to Trump's opinions on Russia, Russian assets and RUB may be the big winners if US sanctions against Russia are lifted. |
| Impact on Europe | No specific impact. | Weakened first of all by growing fears of a return to US protectionism and risk aversion. | Weakened by the increase in protectionist measures and by risk aversion. US long-term rates are bringing European long-term rates moderately upward. |

## Conclusion

**At this stage, there are too much uncertainty to estimate the impact of fiscal policy.** Wait-and-seeism has a high chance of dominating in the first months following the election. For even if the two candidates argue for use of the budget lever, their ideologies are too distant to hope for a rapid compromise. Congressional elections are just as important as choosing a new President, and several configurations may be considered. By all appearances, the President may be dealing with a hostile Congress (at least partially). The economic impact of the fiscal policy will be weak in 2017, because budget compromises take time to negotiate, and measures can be slow to roll out.

**If Clinton is elected and/or the Senate comes under Democratic control, we can reasonably expect budgetary measures that prolong the cycle and avoid another compression of growth** by the year 2018 (growth could then re-accelerate to reach 2.0%-2.2% that year).

**If, on the other hand, all of Congress is hostile, fiscal policy could be paralysed in the short term.** Nonetheless, Representatives can be pragmatic when the situation calls for it. If the recession is a threat, a fiscal stimulus plan composed of tax cuts for the upper-middle classes and infrastructure spending could result.

**If Trump is elected, fiscal policy would very likely drag down growth,** because the drastic spending cuts required to fund the plan would have an immediate recessive impact that would not be offset (in the short term) by tax cuts.

Beyond the impact on growth, we believe this election will have significant long-term consequences for policy in the US. As showed duringthe Sanders and Trump campaigns , good many Democrat and Republican voters are expecting development of new policies - in opposite directions, but generally less liberal than in the past - to respond to what the middle class considers as being adverse effects of the globalisation.

# Annex

## COMPARISON CHART: CLINTON VS. TRUMP
## (figures from the Committee for a Responsible Federal Budget, CRFB, September 22, 2016)

Note : A negative number corresponds to an increase in public debt at a 10 year horizon.

| | Hillary CLINTON | Donald TRUMP |
|---|---|---|
| Taxes | +$1.55 trillion<br><br>**Public spending proposed by Clinton would be financed by higher taxes on the wealthiest households and on businesses.**<br><br>**Households:**<br>- 4% surtax on income above $5 million.<br>- "Buffett Rule" (30% minimum rate on income above $1 million).<br>- Elimination of tax incentives on fossil fuels.<br>- Re-establishment of high inheritance taxes on wealthy estates.<br><br>**Corporates:**<br>- Limits on the use of "inversion" (domiciling corporations abroad for tax reasons).<br>- Elimination of tax incentives on fossil fuels<br>- Creation of incentives for community development and infrastructure. | -$4.5 trillion<br><br>**Trump's plan is based on significant tax cuts (all taxes, individual and corporate).**<br><br>**Households:**<br>- Reduction in the number of income tax brackets from seven to three, and in the higher tax bracket, from 39.6% to 25%.<br>- Increase in the standard deduction of $25,000 for single and $50,000 for married filers, and indexing to inflation thereafter.<br>- Elimination of federal inheritance and gift taxes.<br>- Removal of the investment tax on high-income households (to finance the Affordable Care Act)<br>- Limits on the value of deductions, except for benevolent gifts and mortgage interest payments.<br>- Repeal of certain tax loopholes for the wealthiest.<br><br>**Corporates:**<br>- Corporate income tax cuts from 35% to 15%.<br>- Capital gains and dividend taxes at a maximum rate of 20%.<br>- Reduction in the tax on repatriating corporate profits held abroad to 10%.<br>- Foreign subsidiaries of US corporations pay their taxes in the same year the profits are actually earned.<br>- Tax interest income like ordinary corporate income.<br>- Repeal of tax deductions and the minimum corporate income tax.<br><br>**Reduction in the public deficit, not through austerity but due to regained growth.** |

| | Hillary CLINTON | Donald TRUMP |
|---|---|---|
| Public spending<br><br>(social measures, pro-education, infrastructure) | **Health Care**<br>-$0.25 trillion<br>**Spending (education, family, infrastructure, veterans)**<br>-$1.55 trillion<br><br>**Clinton's measures are focused on increasing spending in the US so as to support consumption and job creation.**<br><br>**Social measures (low wages, family):**<br>- US $12 minimum wage per hour worked, and support for local efforts to bring it up to US $15 (vs. currently $7.25 at the federal level).<br>- Development of paternity leave and facilitation of sick leave, lower-cost child care, all funded by tax revenues.<br><br>**Education:**<br>- Ensure free tuition for low-income and middle-class students in public colleges.<br>- Set up a $25 billion fund for "minority" universities.<br><br>**Others (infrastructure, financial sector)**<br>- Launch a five-year, $275 billion infrastructure plan.<br>- Make sure financial regulations push pension funds to reduce risky investments. Increase the legal liability of managers in the financial sector. | **Health Care**<br>-$0.05 trillion<br>**Spending (education, family, infrastructure, veterans)**<br>$0 trillion<br><br>**Going against Republican tradition, Donald Trump is for a "Protective State" with social security and public pensions, and interventionist:**<br>- Health care spending for veterans, no change in social security, and Medicare<br>- Stimulus for infrastructure and military spending<br>- Increased border patrols. |
| Trade | | - Greater use of customs duties (Trump has spoken of setting a 35% tariff on Mexican products, 45% on Chinese products, and 10% on the rest of the world) and non-tariff trade barriers.<br>- He has also criticised current trade agreements (NAFTA, WTO) and opposes ratifying the Trans-Pacific Partnership (TPP). Finally, he has promised the end of "regulatory harassment". He is not anti-free-trade per se, but he insists that these are mediocre trade agreements that are not in the United States' best interest (for jobs) and that should at the very least be renegotiated.<br>- He claims that the Chinese are keeping their currency artificially low against the dollar to generate a huge trade surplus with the United States. In response, he has proposed that a 45% customs duty be imposed on Chinese imports, until China decides to let its currency float freely. |

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| **Immigration** | +$0.10 trillion<br>- Reduce regulations on immigration (repealing the three-to-ten-year rule) and develop institutions to better integrate immigrants. | -$0.05 trillion<br>- Proposal to expel 11.3 million undocumented immigrants living in the US, who account for 3.5% of the population and 5.1% of the active population.<br>- Trump has called for tripling the number of Immigrations and Customs Enforcement agents from 5000 to 15,000.<br>- Trump wants to build a wall across the entire US/Mexican border to keep out new immigrants and previously deported undocumented immigrants. |
| **Net interest expenditure** | -$0.05 trillion | -$0.70 trillion |
| **Cumulated impact on public balance, at a 10 year horizon** | -$0.20 trillion | -$5.3 trillion |

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