

ElectionWatch

Perspectives on the 2016 US elections from UBS CIO Wealth Management Research

20 September 2016



Debate prep

As the two leading candidates prepare to face each other in their first debate, the presidential race has tightened dramatically. Hillary Clinton's lead in national polls has diminished to within the 'margin of error' as concerns regarding her physical health have dominated the headlines. State-specific polls, which tend to be a better barometer of a candidate's probability of winning, also suggest a closer election. Donald Trump gained ground in two critical swing states, Ohio and Florida, during Clinton's absence from the campaign trail.

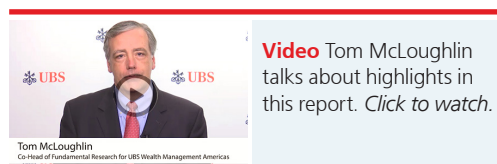
The candidates' personalities, and the strong feelings they elicit among the voting public, make this election unique in many respects. Both Clinton and Trump have exceptionally low 'net favorability' ratings. While both have ardent supporters, a greater number of voters view one or the other with distaste. And two other candidates who will not appear on the debate stage, Gary Johnson and Jill Stein, will garner enough votes to ensure that the next president is elected with far less than 50% of the popular vote.

Presidential debates have the ability to nudge undecided voters in one direction or another, but we do not expect them to alter the views of most Americans. However, they do offer a glimpse of the candidates' governing philosophy and the degree to which they are adequately prepared for the duties of the office. We expect two public policy priorities to dominate the debates once again this year, namely national security and economic growth, which will be front and center in voters' minds, as they have been so often in the past.

The two explosions in New York and New Jersey this past weekend, and the attack by a knife-wielding assailant in Minnesota, have reinforced the issue of national security as an

important campaign theme. In a recent poll, the Pew Research Center asked voters to identify which subjects would be allocated the most amount of time if they served as a moderator of this year's presidential debates. The respondents said they would devote the most amount of time to the subject of terrorism and homeland security. We expect they will get their wish.

In this month's edition of *ElectionWatch*, we place this year's presidential debates in an historical context, offering a viewer's guide to assess the likely success of the candidates' policies, and to discuss the impact of the election on monetary policy. We also include the first of two interviews with the Head of our US Office of Public Policy, John Savercool. This month's interview focuses on domestic policy options for the next president. A second interview on foreign policy will appear in next month's edition.



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Inside the beltway



Tom McLoughlin sits down with the Head of the UBS US Office of Public Policy **John Savercool** to discuss domestic policy options for the next president.

The general election is less than two months away and many states allow their citizens to vote early. How has this affected each candidate's campaign strategy?

Savercool: Nearly 40 states now offer early voting, including the swing states of Florida, North Carolina, and Ohio. Donald Trump has been trending upward for the last two weeks, so timing may be in his favor for those who are voting now. However, Clinton's massive organizational advantage in most states will provide her with a better ground game and turn-out-the-vote effort. In 2008, John McCain was unable to overcome Barack Obama's big early voting advantage in four battleground states (Colorado, Florida, Iowa, and North Carolina) despite winning the Election Day voters in all four. Clinton's team is working off the Obama model and will likely win the early vote.

Will Congress pass a continuing resolution to keep the government operating by the end of the month?

Savercool: Yes, most certainly. Current funding for the government is set to expire on September 30, and a funding extension is the one "must pass" item for Congress this month. The GOP doesn't want to be blamed for shutting down the government in advance of the election, so an extension will get done, one way or another. The resolution will also address the Zika crisis and recent flooding in Louisiana and other states. Of course there will be partisan bickering over various provisions of the bill, but the Senate and the House will pass a measure

that extends government funding into December. After the election, Congress will return and extend the funding either through March or September 2017.

Mr. Trump supports the repeal of the Affordable Care Act. Secretary Clinton promises to prevent its repeal. Is any substantive action on Obamacare a realistic scenario in 2017?

Savercool: It depends on who wins the election. With a narrow majority in the Senate, Republicans were able to get a repeal bill to President Obama's desk this year using an expedited legislative process known as budget reconciliation. If Trump is elected, they would likely try the same maneuver again if they continue to hold a majority in the Senate. This would be no slam dunk as every Senate Republican would have to agree. A Trump presidency would also employ various executive actions to tinker with or slow down the law, though these would be limited. A Clinton victory will protect and preserve Obamacare, but expansion is unlikely as Republicans should maintain control of the House. Clinton may sign off on select changes to the program if she gets something attractive in return.

Both candidates have expressed support for corporate tax reform in general but otherwise differ on many details. Does a more limited legislative package have a better chance of enactment?

Savercool: If Trump wins, he will likely have a GOP House and Senate. Speaker Paul Ryan has tax reform at the top of his wish list and would push a President Trump to make it a top priority. A Trump presidency and a willing Congress makes comprehensive tax reform a 50-50 possibility to advance in some way, despite its complexity. If Trump and Congress opt for a scaled down version, perhaps to focus only on corporate tax reform, the chances only increase. A Clinton presidency does not shut the door on tax reform, but the legislation would be narrower in scope. She has indicated that she would be amenable to some tax changes as a means of paying for infrastructure. I believe

Inside the Beltway

many on the Hill would make such a deal. While the devil is in the details, the pent-up frustration with inversions and high corporate tax rates may be enough to get Democrats and Republicans to agree on a scaled down version of tax reform.

Secretary Clinton supports the current Administration's Clean Power Plan. Mr. Trump opposes it. How might a divided Congress affect either candidate's ability to implement their energy policies?

Savercool: A divided Congress would mean that neither candidate would be able to move legislation that aligns with their own energy policy. That scenario benefits Clinton since the Obama energy program (mostly new regulations on the fossil fuel industry), which she largely supports, would continue. The Senate passed an energy bill earlier this year that largely side-stepped the most contentious energy policy issues, though it did include provisions to speed up the export of natural gas and improved cybersecurity for power plants. Congress is not likely to pass a more expansive energy bill in the next administration, regardless of who is elected. This leaves most energy policy developments to the whim of executive orders, which would be plenty under Trump (reversing many of Obama's efforts) and minimal under Clinton in order to preserve the Obama program.

Both candidates have expressed support for greater investment in the nation's physical infrastructure. And yet Congress often struggles with funding mechanisms. Is this an area where political compromise is possible?

Savercool: Federal funding for infrastructure is a perennial problem. Transportation spending has traditionally been funded by the gas tax, but spending far exceeds tax receipts. It has not been politically feasible to either raise the gas tax or to diversify funding sources into a broader array of user fees. Congress instead used a grab bag of extraneous funding sources last year when it extended transportation spending authorization until 2020.

While both presidential candidates have a strong interest in improving the nation's physical infrastructure - a rare source of agreement - neither one has a detailed plan to finance the improvements. Hillary Clinton would rely on "business tax reform" to finance \$275 billion of investment in infrastructure. I expect we'll see continued efforts to link infrastructure spending with tax reform. The lowest hanging fruit may be a reduced tax to bring home the estimated \$2 trillion in profits held by U.S. companies overseas, but even this will be a challenge.

Probabilities of the six plausible election outcomes

The UBS US Office of Public Policy has updated its probability matrix for the upcoming election. The GOP now has a higher probability of retaining its Senate majority even in the event of a Clinton election. Meanwhile, the presidential race has tightened with the two candidates in a virtual dead heat in a number of swing states.

Scenario	Probability	President	Senate	House
1	45%	Clinton	D	R
2	30%	Trump	R	R
3	5%	Clinton	D	D
4	19%	Clinton	R	R
5	1%	Trump	D	R
6	0%	Trump	D	D

Managing expectations

Debate success is often determined by perception more than performance

By **Justin Waring**, Strategist



Compared to the “gridlock” of Washington governance, elections are a high-speed chase and the debates are a head-on collision. This season’s highly anticipated presidential debates are poised to eclipse all previous viewership records.

Ostensibly, the goal of the debates is to learn more about the candidates and hear a spirited deliberation of ideas and ideologies. For the campaigns, the goal is to churn out sound bites, force their opponent into gaffes, and grab control of the all-important news cycle.

It is hardly a secret that, in politics, appearance often matters more than reality. Presidential campaigns deploy a bevy of tactics to tilt the odds in their favor, beginning weeks before the candidates step into the debate hall and lasting beyond the debate’s end.

From condemnation to commendation

In the weeks leading up to debate season, the campaigns execute a shift designed to lower expectations. The message shifts from boosting their candidate to lowering expectations, and from lampooning their opponent to lauding their formidable debate skills.

Both campaigns will engage in the election pastime of false modesty and backhanded compliments. We expect that Clinton’s staff will point to Trump’s media savvy and TV experience, while his entourage will point to her seasoned career of political campaigning and debating.

Spin it to win it

After the debate, news networks turn their cameras to a room filled to the brim with reporters and campaign representatives engaged in the second half of the expectations game: spinning. This is the “spin room,” and it is the embodiment of the modern three-ring political circus: hundreds of reporters gather around party acolytes, who play up their candidate’s best moments and their opponent’s gaffes in order to gain an advantage in the news cycle.

It is unclear whether the mythical “Undecided Voter” is swayed by debates; there is some evidence that the first presidential debate provides an opportunity for the candidates to reframe their images, but that later debates – including the vice presidential debate – don’t tend to represent inflection points.

Moderately difficult

Debate moderators are charged with the unenviable task of acting as proxy and representative of the voting public. They must foster a balanced environment for the discussion while challenging the candidates’ efforts to evade and distort. And they must try to do this while staying out of the fray themselves. During the 2012 election, moderator Candy Crowley famously injected herself into an exchange regarding Benghazi, directly contradicting Governor Mitt Romney.

In the aftermath of that debate, the controversy over this jarring moment captured nearly as much attention as the substance of the debate. And while Crowley faced charges that she was too aggressive in her real-time fact-checking role, Matt Lauer recently faced the opposite complaint over his performance as moderator of the Commander-in-Chief forum.

As with sports referees, the moderator’s role as a neutral party is constantly questioned, and the reaction to their decisions is instantly polarizing. Unlike officials in sports, however, debate moderators can be dragged into the fray by the “players.” This was a common theme in the Republican primary debates, where the GOP candidates charged the moderators with bias and criticized them for encouraging conflict. This came to a head when Donald Trump boycotted a primary debate over a feud with Fox News debate moderator Megyn Kelly.

Reality bites

By **Tom McLoughlin**, Co-head of Fundamental Research



When Donald Trump and Hillary Clinton take the stage on Monday evening, they will do so on the 56th anniversary of the inaugural presidential debate between Vice President Richard Nixon and Senator John F. Kennedy. The 1960 debate has been described as dueling press conferences, with each candidate responding to questions but refraining from challenging each other directly. The three debates between the presidential candidates this year will be far more contentious. The race has narrowed and both individuals are struggling to connect with independent voters.

As we describe in our “Viewer’s Guide” on page 9, the candidates will do their best to avoid a major gaffe while launching the occasional verbal jab at their opponent. Hillary Clinton arguably has more to lose in the first debate where expectations regarding her performance are higher. By contrast, Mr. Trump has been graded on a curve, so avoiding any self-inflicted damage is likely to be viewed as a positive outcome.

The debates will cover a variety of issues, ranging from domestic policy prescriptions for economic growth to redefining America’s place in the world after 15 years of overseas conflict. Moderators are likely to choose subjects that have received substantial news coverage. Three subjects, in particular, are relevant: 1) Pharmaceutical drug pricing has received a great deal of media attention for the past year as one company after another has been cited for raising drug prices beyond the reach of many Americans; 2) energy independence remains a contentious subject with the construction of new pipelines challenged in the courts and at picket lines; and 3) financial regulation is back in the news after the disclosure of fraudulent sales practices at a major financial institution.

Presidential debates offer the candidates an opportunity to sketch out a world view free from the practical realities of politics in Washington. What we hear and what follows in the next administration may bear little resemblance.

Pharmaceuticals

The United States has less than 5% of the global population, but accounts for 33% of aggregate spending on pharmaceuticals.¹ Company valuations within the pharmaceutical and biotechnology sector soared in recent years, but have been under pressure ever since Hillary Clinton famously tweeted in September 2015 that “price gouging like this in the specialty drug market is

Both candidates are struggling to connect with independents.

outrageous.” Mylan’s decision to raise the price of its epinephrine auto-injector, or EpiPen, by 15% on two occasions within the space of a year has set off a fresh round of criticism of the industry among lawmakers.

Mylan’s chief executive officer is scheduled to appear before the House Oversight Committee on 21 September, where members are likely to express outrage and call for greater controls over drug pricing. The presidential debates will provide ample opportunity for both candidates to express their own displeasure with drug pricing policies and the cost of pharmaceuticals generally.

What we expect to hear: Secretary Clinton will refer to the pharmaceutical companies as profiteering enterprises in need of tighter regulation. We expect her to call for greater competition among companies to produce generic brands and to ban direct advertising of pharmaceuticals to consumers. Mr. Trump, along with Clinton, will embrace the idea that Medicare should be allowed to negotiate drug prices directly with pharmaceutical companies. This is one of the few areas where the subject of federal regulation does not divide the two candidates.

What we expect to happen: We expect headline risk associated with pharmaceutical stocks to persist until after the election. Controversy over high drug prices lends itself to heated rhetoric.

Reality bites

While few lawmakers will publicly defend drug manufacturers from criticism over high prices, bipartisan legislation is likely to prove far more challenging. We expect that competitive market forces alone will limit big price increases for most drugs. We also believe that the current weakness in this sector has created a buying opportunity for patient investors willing to ride out the election cycle.

Energy

Energy regulation is a contentious topic, and one that often provokes a robust debate between those who desire unfettered access to America's energy resources and those who support more stringent environmental regulations. This year is no different. We expect the debates to return again and again to the subject of energy production, environmental protection, and climate change. The candidates' divergent views should make for a spirited debate and a popular subject for debate moderators.

What we expect to hear: In a major speech before the New York Economic Club on 15 September, Trump promised to scrap the Obama Administration's Clean Power Plan and to lift restrictions on all sources of domestic energy production. Clinton will adopt a much different stance, focusing on the development of renewable energy and limiting subsidies to companies that produce fossil fuels in the US.

What we expect to happen: In the near term, we do not expect the election to trigger dramatic changes. With consumers benefitting from low energy prices, energy policy has moved down the priority list. Major legislation or regulation, such as restrictions on fracking, are unlikely regardless of who is elected to the presidency. The activity is more effectively regulated at the state level, and domestic energy production offers benefits to the US from an economic and geopolitical perspective. Policies in support of renewables and environmental regulation are likely to evolve slowly. While oil and gas fundamentals are poor at the moment, we believe the outlook for the industry remains good. We recommend that investors accumulate positions in select high-quality energy equities.

Financial Services

The Senate Banking Committee scheduled a hearing for the morning of 20 September to discuss the controversy surrounding Wells Fargo's creation of unauthorized customer accounts by employees intent on meeting sales targets. The bank agreed to pay a total of \$185 million in fines to three separate agencies and has agreed

We expect partisan disagreement over regulation to persist.

to review its sales practices. The disclosure of fraudulent accounts, and the storm of criticism that followed, will reignite debate over the degree to which financial institutions should be regulated.

What we expect to hear: Clinton will argue that the US banking system is far too complex and subject to systemic risk. We expect her to focus on the need to grant more authority to regulators and to hold bank officers personally responsible for the misconduct of subordinates. Trump is likely to offer his own criticism but will reaffirm his plan to reduce the scope of regulation within the financial services sector. He is unlikely to defend the banking industry and will instead pivot the conversation to broader topics.

What we expect to happen: The sector has been subjected to headline risk from both candidates as they position their campaigns for a more populist message. We expect partisan disagreements over the scope of federal regulation to persist. A Trump administration will favor less regulation, but the GOP may encounter more difficulty in passing legislation that radically reduces bank's regulatory burden. A Clinton administration is more likely to increase regulatory scrutiny incrementally. We retain a neutral view on the banking sector and prefer consumer-focused banks and diversified financial companies over larger money center banks.

¹ David Crow, "Clinton pledge on drug prices knocks \$15bn off biotech," *Financial Times*, 21 September 2015.

Lessons learned

The candidates will take their cues from past debates

Tom McLoughlin, Co-head of Fundamental Research



With just seven weeks remaining until Election Day, the two leading presidential candidates have another opportunity to garner the support of undecided voters. For almost half a century, the televised presidential debates have provided Americans with an opportunity to listen to each candidate directly. On three different occasions between now and 8 November, Clinton and Trump will use the opportunity to set forth their views on a variety of topics and try to convince voters that they are prepared to shoulder the heavy burden of the office. They will do so without the intercession of a newspaper reporter, television correspondent, or social media filter.

Based on the results of a Pew Research Center survey conducted four years ago, voters place a high value on the performance of each candidate during these presidential debates. According to Pew, two-thirds of likely voters have said that the debate performance was either 'helpful' or 'very helpful' in making the decision to cast a vote in favor of one individual or another. By contrast, less than one-third placed any real value on broadcast commercials.¹ Of course, like so much else in this campaign, the dynamics are unusual. Both Clinton and Trump suffer from high negative ratings among likely voters. So they are left with the challenging task of convincing a relatively small percentage of undecided voters that they are more likable – at least by comparison with their opponent.

Both parties expect the audience for this debate to be larger than usual. And the audience is expecting some fireworks on stage as two competing world views are promoted. Clinton and

Trump will prepare for the debates by anticipating questions, and preparing the occasional verbal assault on their opponent's policy platform.

The history of presidential debates is also full of examples of mistakes that must be avoided. The mistakes may be amusing for some in the audience, but they can also nudge voters in one direction or another when they enter the voting booth.

September 26

1960

First televised debate
Kennedy vs. Nixon

**"That night,
image replaced
the printed word
as the natural
language of
politics."**

Journalist
Russell Baker

**Keep your eye on the camera.
And find a tailor.**

The debate between Senator John Kennedy and Richard Nixon has become a touchstone for both academics and political junkies. In September 1960, the two candidates squared off on a sound stage in Chicago for the first presidential debate ever broadcast on television. Both candidates were respectful, even deferential, to each other as they discussed recent world events.

Their policy prescriptions were not all that different. However, Kennedy was far better prepared for the new medium of television. He was well-rested and responded to questions by looking directly at the camera. Nixon, pale and underweight from a recent hospitalization, rarely made eye contact with the camera and appeared distinctly uncomfortable as he cast sidelong glances at Kennedy.

Understand the question you are being asked.

After a 16-year hiatus, televised presidential debates were held again in 1976. In his second debate with Governor Jimmy Carter, Congressman Gerald Ford made a critical mistake when he failed to understand a follow-up question. Ford's assertion that the Poles did not consider themselves "dominated by the Soviet Union" was ludicrous on its face. The president certainly understood the dynamics of Cold War geopolitics, which only made the gaffe more

Lessons learned

confusing. In fact, he was rejecting the idea that the US no longer recognized the territorial integrity of Poland and other Warsaw Bloc countries as independent nations. It didn't matter; the sound bite was replayed repeatedly to his detriment.

A little humor can go a long way. President Jimmy Carter and Governor Ronald Reagan debated only once in 1980, but the challenger made the most of it. After Carter alleged that Reagan opposed the expansion of Medicare, Reagan responded with the phrase, "There you go again." The response was disarming and undercut the incumbent without appearing disrespectful. Reagan proved himself adept at delivering memorable lines in debates. In the second presidential debate against former Vice President Walter Mondale, he batted away criticism that he was too old for a second term. When challenged about his age, Reagan said that he wouldn't exploit, for political purposes, Mondale's "youth and inexperience." Even Mondale, who was 56 at the time, broke out laughing.

Expect your opponent to have read the transcripts of prior speeches. Vice presidential debates, when they occur at all, are usually forgotten. The 1988 debate in Omaha between Senators Lloyd Bentsen and Dan Quayle is among the exceptions. In preparing for the debate, Bentsen reviewed the transcripts of speeches in which Quayle compared his experience as a member of Congress with that of Jack Kennedy. So, when Quayle rolled out the comparison again during the debate, Bentsen responded by saying, "I served with Jack Kennedy. I knew Jack Kennedy. Jack Kennedy was a friend of mine. Senator, you're no Jack Kennedy." The clip was replayed often, but had little impact on the election. The Bush/Quayle ticket won.

Body language can work against you. Four years later, Bush 41 made a tactical error by glancing at his watch during a presidential debate. The event was structured as a "town hall" and featured three candidates. Independent Ross Perot was included on the debate stage, which probably boosted the prospects of Bill Clinton who was both younger than the other candidates and far more comfortable answering questions from the audience.

But Bush 43 probably benefitted from the body language exhibited by Vice President Al Gore in 2000. Gore's repetitive sighing during the younger Bush's answers undermined his own performance. His apparent condescension became the target of late night comedians.

Reagan proved adept at delivering memorable lines...

If a recent CNN poll is any indication, Clinton may have the most to lose in this election season's first debate, now scheduled for 26 September. The media outlet surveyed 1,001 adults in early September and asked which candidate was expected to perform better.² A clear majority (53%) anticipates that the former Secretary of State will do better. Only 43% expect Trump to win. Both candidates have a lot riding on the first debate next week, where they will each make first impressions about their command of the issues to a diminishing number of undecided voters.

¹ Pew Research Center, "Most Say Presidential Debates Influence Their Vote," 11 September 2012.

² Jennifer Agiesta, "High expectations for Clinton ahead of first debate," CNN, 8 September 2016.

Why were presidential debates skipped in 1964, 1968, and 1972?

Prior to his assassination, President Kennedy expressed interest in participating in another debate with the Republican Party nominee in 1964. Lyndon Johnson, having succeeded Kennedy in office and ahead in the polls, believed that he had more to lose by sharing the stage with Senator Barry Goldwater. He declined to participate. Four years later, still smarting from the results of his first debate in 1960, Richard Nixon rebuffed Hubert Humphrey's invitation to participate. And with polls suggesting that he would be re-elected in a landslide, Nixon dismissed the notion of debating Senator George McGovern in 1972.

A viewer's guide

During the debates, keep an eye out for these tactics, tendencies, and rhetorical quirks

Justin Waring, Strategist



The gift of gaffe

Political campaigns are fueled and fouled by sound-bites. Debates are fertile ground for these unforgettable quips and irreversible blunders, which are played over and over again on the news, shaping and solidifying public perception of the candidates. Although the individual moments are impossible to predict, the candidates will employ a number of strategies to avoid unforced errors and trip up their opponents.

The tactic	What to listen for
The pivot. Answer the question they want, instead of the one that was asked.	"The real question is..." "Let me first say..."
Ad hominem. Attack the person instead of the idea.	"If Hillary Clinton were a man, I don't think she'd get 5 percent of the vote." ¹ <i>Trump</i>
The sound bite. Those speechwriters worked hard! Bring out some of the stump speech.	"Only by changing to new leadership, and new solutions, will we get new results." ² - Trump "Slogans aren't a strategy. Loose cannons tend to misfire." ³ <i>Secretary Clinton</i>
The zinger. An 'unscripted' comeback.	"This isn't reality television – this is actual reality." ³ <i>Secretary Clinton</i>
The follow-Up. Use the debate rules to get more time.	"Don't I get a chance to rebut?"
Attack the moderator. Play the "media bias" card.	"This is not a cage match. [In] the Democratic debate... every question from the media was, 'which of you is more handsome and wise?'" ⁴ <i>Senator Ted Cruz</i>
Wonk this way. Burnish policy credentials by showing off using specifics.	"I'd like to start by offering you a deal, Jack. If you won't use any football stories, I won't tell any of my warm and humorous stories about chlorofluorocarbon abatement." ⁵ <i>Vice President Al Gore</i>
Insinuation. Plant a seed of doubt by leaving the conclusion unspoken.	"There's something going on."
Keep it practical. Push back against unrealistic proposals.	"We won't just make promises we can't keep. We'll deliver results." ⁶ <i>Secretary Clinton</i>
Punctuation. Bring the point home with a declaration.	"We are going to get rid of the criminals, and it's going to happen within one hour after I take office... Believe me." ² <i>Trump</i>
Go negative. When civil discourse fails...	"Lying crooked Hillary" ² <i>Trump</i> "You can put half of Trump supporters into what I call the basket of deplorables." ⁷ <i>Secretary Clinton</i>

¹Barrow, Bill. Trump's mention of 'woman's card' draws backlash. 2016. ²Donald J Trump for President. 2016. Retrieved from www.donaldjtrump.com/. ³Hillary Clinton for President. 2016. Retrieved from www.hillaryclinton.com/. ⁴CNBC Full Transcript: CNBC's "Your Money, Your Vote: The Republican Presidential Debate". 2015. ⁵Pellegrini, Frank. 2000. The Great Debates of Al Gore. ⁶Krieg, Gregory. 2016. The most memorable lines from the Democratic debate in Brooklyn. ⁷Mehta, Seema. 2016. Transcript: Clinton's full remarks as she called half of Trump supporters 'deplorables'.

Putting promises into practice

Justin Waring, Strategist



Listening to the candidates' policy prescriptions during the debate, we should bear in mind that, even if a candidate is successful in securing the presidency, their promises will still need to travel a long road of practicality and compromise. Here is a matrix for translating the candidates' rhetoric into reality, through the lens of the scenario analysis that we detailed in *ElectionWatch: After the campaigns*.

Issues – Rhetoric vs. Reality

Subject	Rhetoric		Reality	
	Trump	Clinton	UBS scenario analysis <i>Underlying issue</i>	<i>Likelihood</i>
Fiscal stimulus	"We will build the next generation of roads, bridges, railways, tunnels, sea ports, and airports that our country deserves... [we will] reduce non-defense, non-safety net spending by one percent of the previous year's total each year."	"The heart of my plan will be the biggest investment in American infrastructure in decades, including establishing an infrastructure bank that will bring private sector dollars off the sidelines and put them to work there."	Increased public infrastructure spending	Base case (<i>most likely outcome</i>)
			Discretionary spending cuts; limited entitlement reform	Only in a Republican sweep
Healthcare reform	"On day one of the Trump Administration, we will ask Congress to immediately deliver a full repeal of Obamacare."	"We do have to make improvements in the Affordable Care Act, but we're going to continue our march toward universal healthcare coverage in America."	Preserve Obamacare	Base case
			Expand Obamacare	Only in a Democratic sweep
			Rollback/repeal of Obamacare	Only in a Republican sweep
Tax policy	"I am proposing an across-the-board income tax reduction, especially for middle-income Americans. This will lead to millions of new good-paying jobs. The rich will pay their fair share, but no one will pay so much that it destroys jobs, or undermines our ability to compete."	"It's outrageous that multi-millionaires and billionaires are allowed to play by a different set of rules than hardworking families, especially when it comes to paying their fair share of taxes."	Middle class tax cut	Base case
			Broad-based tax cuts	Only in a Republican sweep
			Increased top marginal tax rate	Only in a Democratic sweep
			Corporate tax reform	Base case, with more progress if Trump is President


Putting promises into practice

Subject	Rhetoric		Reality	
	Trump	Clinton	UBS scenario analysis <i>Underlying issue</i>	<i>Likelihood</i>
Trade policy	"A vote for Hillary Clinton is a vote for TPP – and it's also a vote for NAFTA... Trade has big benefits, and I am in favor of trade. But I want great trade deals for our country that create more jobs and higher wages for American workers. Isolation is not an option, only great and well-crafted trade deals are."	"I will stop any trade deal that kills jobs or holds down wages, including the Trans-Pacific Partnership."	Retain current trade agreements	Clinton Presidency
			Potential repudiation of trade agreements; tariffs and import restrictions	Only in a Republican sweep
			Focus on "fair trade"	Trump Presidency with Democratic Senate
Immigration	"I'm going to stop illegal immigration and drugs coming into our country, and yes, we will build the wall [Mexico will pay]."	"The American people support comprehensive immigration reform not just because it's the right thing to do – and it is – but because they know it strengthens families, strengthens our economy, and strengthens our country... We can't wait any longer for a path to full and equal citizenship."	Stricter enforcement of immigration laws	Trump Presidency
			Aggressive legal action against illegal immigrants	Only in a Republican sweep
			Lax enforcement and/or rollback of immigration laws; path to citizenship	Only in a Democratic sweep
			Status quo	Base case
National security	"I will make our Military so big, powerful and strong that no one will mess with us."	"We will defeat those who threaten us. We will keep our country safe and strong, free and tolerant. And we will always defend our friends and allies."	Substantial increase in defense spending	Only in a Republican sweep
			Moderate increase	Base case

Source: All quotes from the candidates' campaign websites, hillaryclinton.com and donaldjtrump.com

Monetary policy in the context of close elections

Brian Rose, PhD, US Economist; Tom McLoughlin, Co-head of Fundamental Research

 President Woodrow Wilson signed the Federal Reserve Act into law on 23 December 1913. The legislation established the Federal Reserve Banks to supervise and regulate commercial banks and other important financial institutions. The “Fed,” as it came to be called, was also entrusted with maintaining the stability of the financial system by exercising control over monetary policy. Independence from political interference in the conduct of monetary policy was an important consideration, but by no means guaranteed by the Act that created the Fed.

Almost forty years after its creation, in 1951, the Federal Reserve and the United States Treasury Department signed an accord that laid the foundation for greater independence by the central bank. The Fed would no longer be bound to support government bond prices and instead would focus on price stability. Congress, of course, reserved the right to alter the Fed’s mandate, as it did in 1978 by adding the promotion of economic growth to a long list of other responsibilities. And yet, political interference in the operation of the US central bank has been relatively modest for more than half a century.

The Fed, for its part, professes to have little interest in the outcome of presidential elections. Its conduct of monetary policy is supposed to be free from political considerations. And even a cursory review of US monetary policy would suggest that elections have had little impact on the Fed’s decision making. For example, the Fed did raise rates in September 2004, just weeks before a presidential election. But that is about as close as the Fed has come to changing an interest rate as voters prepare to go to the polls.

If the Fed decides to leave rates unchanged at the 20-21 September meeting, we would blame it on the recent soft economic data rather than worries about any political fallout. On the other hand, a rate hike at the FOMC meeting on 1-2 November, just six days ahead of the election, is

highly unlikely. The Fed has never moved rates so close to Election Day, and, after all, it has another opportunity to raise rates a month later once the election is decided. Economic data would have to be extremely robust for the Fed to act so close to Election Day.

Political interference has been relatively modest for more than a half a century.

Beyond the short-term outlook for Fed policy, there are more important political threats to monitor post-election. The Fed has been under political pressure in recent years, mainly, but by no means exclusively, from the Republican side of the aisle. Some politicians have spoken in favor of requiring the Fed to follow a strict formula when setting interest rates. Any move in this direction would be interpreted by the market as a blatant example of interference in the Fed’s independence and could have an enormous impact on global markets. We believe the adoption of a strict formula is unlikely.

There have also been complaints from the GOP about the Fed in its role as bank regulator, with “excessive regulation” being blamed for slower growth. The Fed’s role as a regulator is well established, but has increased over the past decade. Democrats often take the opposite view – accusing the Fed of failing to regulate commercial banks enough.

Even if Congress cannot agree, the incoming president will have some influence on policy by choosing whom to appoint to the Board of Governors. Donald Trump has already said that he would replace Yellen as Fed Chair when her term expires in early 2018. The dynamic tension between America’s central bank and its elected representatives is destined to continue.

IN CASE YOU WERE WONDERING

Are the networks required to provide 'equal time' to all candidates, including independents and third party candidates?

The Radio Act of 1927 mandated that broadcasters provide an equal opportunity for all candidates for political office to express their views. That law, which was amended by the Communications Act of 1934, effectively constrained the ability of radio and television networks from hosting debates between just the two major party candidates. Congress suspended the law temporarily in 1959 to allow the networks to broadcast the inaugural presidential debate between Kennedy and Nixon.

The Federal Communications Commission promulgated new rules in 1975 that allowed the broadcasting of bona fide news events, which included debates, provided that an independent organization sponsored the event. The League of Women Voters volunteered to do so in 1976. The Commission on Presidential Debates, a nonprofit and nonpartisan organization, assumed responsibility for organizing the events in 1988.

Will Governor Gary Johnson (Libertarian) or Dr. Jill Stein (Green) be allowed to participate?

In October 2015, the Commission on Presidential Debates established criteria for the inclusion of candidates on the debate stage. First, the candidate's name has to be on enough ballots to have a mathematical chance of winning a majority of votes in the Electoral College. Second, the Commission requires that each candidate demonstrate that he or she has a level of support equal to at least 15% of the national electorate. This threshold would be determined by the results of five national polls selected by the Commission in advance of the first debate.

Governor Johnson and Dr. Stein did not meet that threshold. Johnson made the argument that the manner in which national polls are conducted underestimates his support among voters seeking a third alternative to the two leading candidates. The commission announced on 16 September that only two candidates, Hillary Clinton and Donald Trump, would be invited to participate in the first debate.

Debate schedule (All debates 9:30 to 11pm ET)

Date	Location	
Sept. 26 – Presidential	Hofstra University	Hempstead, NY
Oct. 4 – Vice presidential	Longwood University	Farmville, VA
Oct. 9 – Presidential	Washington University	St. Louis, MO
Oct. 19 – Presidential	University of Nevada	Las Vegas, NV

Source: Commission on Presidential Debates

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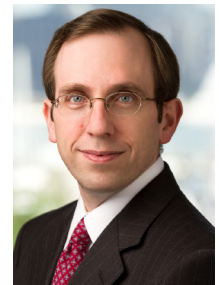
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