

Election Commentary

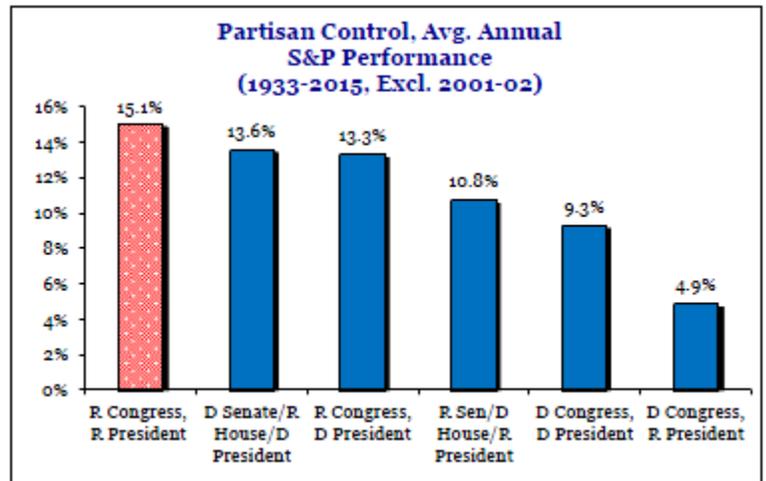
EDGE RESEARCH INSIGHTS | NOVEMBER 2016

Gaining Perspective

Once again, the people have spoken and the voices of America have decided on a new President. The results of last night's election will continue to be analyzed as it relates to the regulatory, legislative, trade, tax, and social changes that may be forthcoming. In only the few hours since the outcome has become known, financial markets have reeled in the uncertainty and then recovered much of their lost ground. The recent market action of Brexit is fresh in trader's minds. Not all sectors and geographies are equally affected.

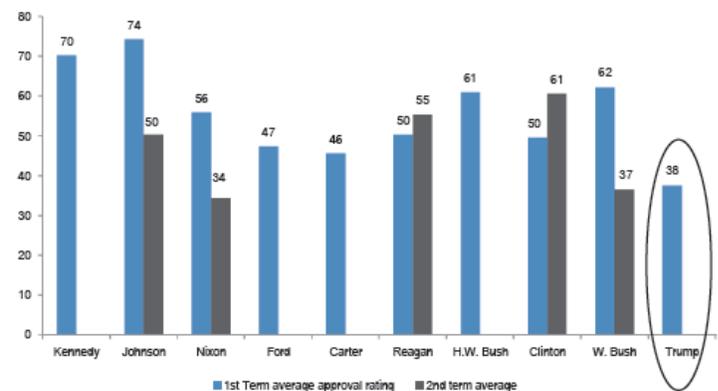
Healthcare companies may rally while companies dependent on trade may face challenges. Some emerging market currencies may weaken while some developed market currencies are bolstered as safe havens. Some geopolitical relationships may be enhanced while other alliances questioned. Not all investment assets are negatively impacted again making the case for why portfolio diversification is important.

We must remember that the election last night was not only a Presidential race, but it also determined control of the Senate and House where Republicans now have majority in both. Despite that, there remains a divisiveness.



Source: Strategas

Figure 1: Average approval rating during previous Presidents' terms vs Trump's current approval rating



Source: J.P. Morgan, Gallup

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Holding only 51 seats in the Senate, the Republicans cannot directly overcome filibuster efforts by Democrats (requiring 60 votes) and that is even if Republicans stand together after the less than enthusiastic support offered by some for their Presidential nominee. Gridlock may slow new initiatives and be welcomed by financial markets by reducing uncertainty to a point, but the responsibility of governing must be fulfilled as important issues of the nation, like the debt ceiling, must be addressed.

All of that is to say that it will take time to truly understand what changes will be forthcoming creating both risk and opportunity. Our investment approach in constructing diversified portfolios based on robust, long term factors is prepared for the market volatility that is natural in the wake of near term uncertainty, and we remain focused on evaluating new information to take portfolio action where appropriate.

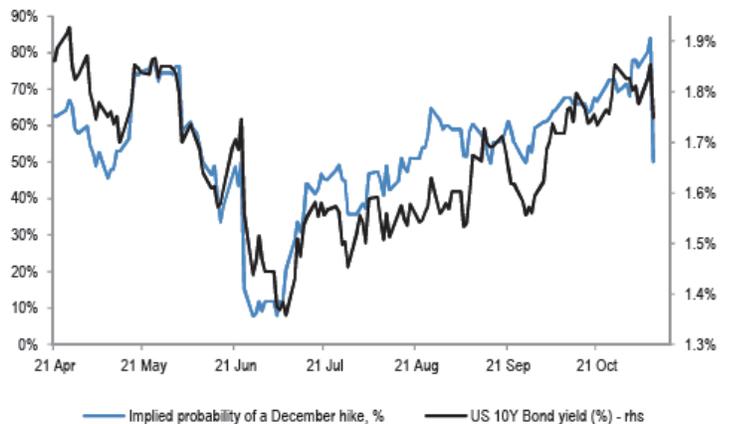
TAX REFORM ALLOWS COMPANIES TO REPATRIATE THEIR FOREIGN EARNINGS

The US is just one of six countries to double tax foreign source earnings and companies have \$2.4 trillion of earnings stored overseas. Republicans' tax reform plan is likely to impose a one-time tax on those earnings and then transition to a system that allows companies to repatriate their future foreign earnings at a lower tax rate. Companies with the most cash overseas as a % of their market cap are likely to benefit.



Source: Strategas

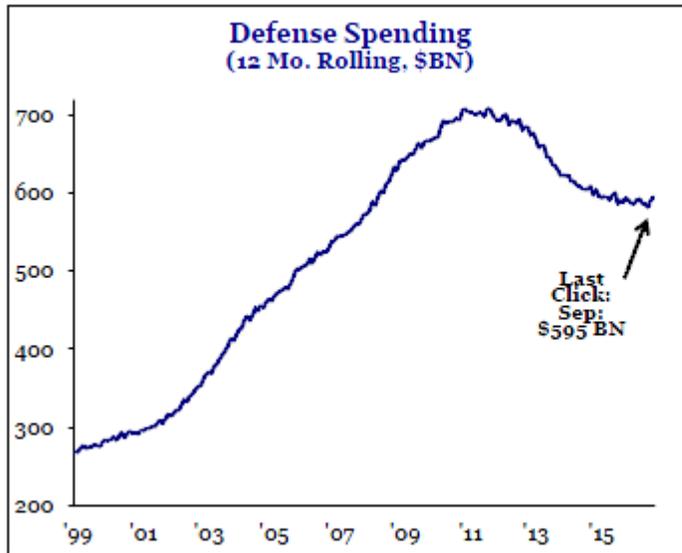
Figure 2: Market implied probability of a Fed December hike vs US 10y bond yields



Source: Bloomberg

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DEFENSE SPENDING SET TO INCREASE



Defense spending just increased for the first time on a y/y basis since 2011. An all-Republican government will lead to a sizeable increase in Defense spending as Trump is proposing a 15 percent increase.

Source: Strategas

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Winners & Losers In An All-Republican Government			
Winners		Losers	
Defense	Defense spending will go up no matter who wins, but with an all-Republican government Defense will see more of an increase. Trump is seeking to boost the Defense budget by 15% and a Republican Congress will provide the funding.	Infra-structure	Infrastructure spending will likely increase, but not as much as it would under an all-Democratic government. Republicans in Congress will likely tamp down Trump's infrastructure spending plan. We favor private infrastructure over public.
Oil & Gas/Private Infrastructure	Republicans will renew support for fossil fuel development including drilling and fracking. Most importantly, however, the 20+ stalled pipeline infrastructure projects could be restarted almost immediately.	Renewable Energy	Under an all-Republican government, the Clean Power Plan will not be implemented. Republicans will also likely relax additional environmental regulations. They also may not renew renewable energy tax credits.
Immig. Reform: Private Prisons	Trump and Republicans will be tough on immigration enforcement which should boost demand for border/cargo inspections and prisons.	Rails	Republicans will look to restart stalled energy pipeline projects which would hurt rail companies.
Pharma & Biotech	An all-Republican government would relieve the pressure on biotech and pharma companies as drug pricing changes would be unlikely.	Health Insurers & Hospitals	Under an all-Republican government, the GOP would be able to replace the Affordable Care Act with an alternative plan. The individual mandate would likely be repealed and lower subsidies or tax credits could limit the number of individuals with insurance.
Restaurants & Retail	The threat of a \$15 minimum wage under a Clinton Administration has weighed on restaurants. A Republican win will lift some of these headwinds, benefitting companies like CMG.	US Multi-nationals	Trade concerns from Trump will weigh on US multinationals immediately following the election. Trump has vowed trade enforcement and he has executive authority to impose tariffs if he wishes to do so. However, Trump's tax reform could benefit these same companies.
Financials	Republicans will not likely be able to repeal Dodd-Frank, but could make changes on the margin and water down regulations coming into place. Changes will likely include modifications to the structure of the Consumer Financial Protection Bureau, end user derivative rules, and lifting the SIFI designation for regional banks.	Export-Import Bank: BA, GE & CAT	Republicans will not renew the Export-Import Bank which would be negative for BA, GE & CAT, which represent about 85% of all Export-Import Bank financing.
For-Profit Education	Republicans are likely to relax the regulatory burden on for-profit education companies.	Municipal Bonds	If income tax rates are lowered, then municipal bonds will be hurt as they become less attractive to investors.

Source: Strategas

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ABOUT THE AUTHOR



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Will Skeeane is one of Edge Capital's Partners and co-manages our Investment Team. His responsibilities include working with the team to develop the firm's investment philosophy and outlook, identify attractive investment opportunities for clients, and allocate the resources of the firm to ensure our clients receive the highest level of service. He communicates our thinking on economic and investment matters in several local and national media outlets, including CNBC and the Wall Street Journal.

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