

Election Update

EDGE RESEARCH INSIGHTS | November 2016

Last Friday, we saw yet another “October Surprise” that could impact the pending election as FBI Director Jim Comey announced via a letter to Congress that emails from a Clinton aide would be examined in connection with the Hillary Clinton email investigation. Whether or not this announcement will influence the election outcome, there has been a clear improvement in polling numbers for the Trump campaign through the end of last week. When select state polls are released, we will have further clarity into any impact the announcement may also be having on downstream elections. We participated in an election update conference call this morning with Dan Clinton, Strategas’ Head of Political Research, and David Wasserman, the House Editor for *The Cook Political Report*. David is known as a leading expert on analyzing U.S. House Races and he will be making all House race calls for NBC on election night.

Presidential Race Summary:

- Market Indicator: S&P500 performance in the 3 months leading into a Presidential race has been a good predictor of election outcomes for 100 years. Specifically, in 19 of the last 22 elections, the index performance has accurately predicted the winner of the Presidential race.
 - If stocks are higher in the three months prior to the election, the incumbent party has won. Currently, the S&P is down slightly since August 8.
 - This year, the market movement has largely been driven by interest rate expectations and likely less by the outcome of the election as we have seen clear out-performance in the energy and financial sectors during the time period.
- Betting Odds Update: The markets are not pricing in a Trump victory. Since last Friday, the odds of a Hillary Clinton win dropped from 85% to 75% with the announcement from Director Comey. Strategas polls estimate a Clinton victory at 60%.
- National polling Update: On average, national polls have narrowed with the Trump campaign closing in 4 points and is now trailing Clinton by 2 points according to an average poll of polls.
 - Typically, expect the downstream election impact to be 50% of the move noted in a Presidential campaign. For example, if the Presidential race changes by 1 point, the Congressional race typically changes by an average of 0.5%.
 - State specific polls have not been released since the announcement by Director Comey.
 - Clinton’s lead in national polls has narrowed primarily due to Republicans coming back to vote for Trump in the final days of the campaign.
- Path to 270: The electoral college map for Republicans is more difficult than for Democrats as has been publicized for weeks.
 1. Trump must hold all 2012 Romney states to gain 206 electoral votes including North Carolina (lean Clinton now), Arizona (lean Trump now) and Utah (lean McMullin now).
 2. If Trump wins Florida and Ohio, he would have 259 votes.
 3. Trump would then have to win either Maine’s 2nd Congressional District and Wisconsin OR Pennsylvania.

Election Update

- a. If Trump was able to accomplish all three electoral victories outlined above, there would be a significant possibility that Hillary Clinton would have still won the popular vote based on early margins of victories projected in California and Texas.
- David believes the single most important demographic in this election is college educated, white women based on their geographic dispersion across the Electoral College map. Trump is running in line with Romney's numbers for non-college educated, white women but is trailing him significantly among college educated, white women. Virginia, Colorado, suburban Philadelphia, and urban North Carolina particularly in Charlotte pose the largest issues for Trump due to the lack of enthusiasm for him among this specific segment of the voting population.

Early Voting Trends and General Presidential Election Questions:

- As of Friday the 28th, an estimated 25M votes have been placed. Official counts tally to 21M but there are ballots in the mail not yet counted. Estimated final voter turnout in 2016 is expected to be 130-145M with the more likely outcome in the 130M range.
- With less than 20% of votes cast, most have been the base voters but the following early trends have been noted:
 - There is an overall increase in early voting compared to 2012.
 - Increased enthusiasm is seen for pockets of the Republican party, college educated white voters and Latino voters. Many indicators are off-setting.
 - In VA for example, the largest increase in absentee votes has been noted among Latino voters.
 - There has been a drop in African American democratic votes across all battleground states when compared to 2012.
 - While democrats lead in early voting numbers within North Carolina, early voting rules have changed significantly since 2012 thus reducing voting hours and limiting voting locations on Sundays which may impact the final count for the state in the coming days.
 - Support for other candidates (Stein and Johnson) is fading especially among Millennials.
- Is there a secret Trump vote? The answer is not likely. With two of the most unpopular Presidential candidates running against each other, there are likely "shy" voters on each side of this race.
- Will there be a BREXIT surprise in the US? The answer is also not likely but there are similarities in the polls currently. For example, the Stay vote in the UK was leading 3% in the average polls and the odds of a Stay vote was nearly 76%. Each election has culturally charged underpinnings. The US election has less room for surprise due to the ability to vote early but the possibility is there and should be considered.
- How could there be an election surprise with a Trump victory? David believes three things must all happen.
 - First, there must be a massive turnout among working class white voters. There is an estimated 47M pool of working class white voters who did not vote in 2012 but who are eligible to vote. This demographic must turnout larger than what is currently expected for 2016 based on voter registrations to date.
 - Republican voters must return to the top ticket. At the beginning of last week, Trump had 80% of the Republican vote and is now polling in the upper 80% range.
 - The democratic turnout among Millennials and African Americans must be lower than 2012.

Election Update

Senate Race Commentary:

- Currently, Republicans hold the Senate Majority by 54 to 46 Democrats or Democratic leaning Independents. Democrats need 4 seats plus the VP to tie and 5 seats plus the VP to win the Majority.
 - Currently two seats are likely to switch to the Democrats in Illinois and Wisconsin.
 - A remaining 6 seats are classified by David as “toss up” seats giving Democrats a number of paths to gain the Majority of the Senate if Clinton wins the Presidency.
 - Florida, Indiana, New Hampshire, Missouri, North Carolina, Pennsylvania.
 - Trump will likely win Indiana and Missouri but the Senate races are less clear.
 - Marco Rubio (R) will likely win Florida but the Presidential race is not clear.
 - Kelly Ayotte (R) in New Hampshire is slightly disadvantaged
 - North Carolina is leaning Democrat for the Senate while Pennsylvania is too close to estimate now.
 - It is highly unlikely for a Supermajority win for Democrats or Republicans in the Senate.

House Race Commentary:

- Currently, it would be very unlikely for the Democrats to gain control of a House Majority as they are at a historical disadvantage not seen since the Great Depression. They would need to win 30 seats.
- According to David, the disadvantage for the Democrats was set in 2010 when many Congressional maps were re-drawn to cluster urban areas and college towns which are weighted heavily to Democrats.
- David believes that 10-20 seats for Republicans could be lost cutting the Republican Majority in half.
- Prior to the release of the Donald Trump Access Hollywood tape, David predicted a double digit loss in House seats and likely closer to 20 seats lost. With the release of the Comey letter and improvement in National polls, he believes the loss may be closer to 10 House Seats to the Democrats.
- Every seat matters to Speaker of the House, Paul Ryan, who will be surrounded with a larger percentage of the more conservative Freedom Caucus which is expected to grow from 36 to 40 seats. If Trump loses the election and 15 seats are lost, it is likely that Paul Ryan may not have the votes to retain his position as House Speaker.
- In 2006 and 2010, there were sweeping shifts in the House seat count. There are no indications that a major sweep will occur in 2016 based on all data David is currently monitoring. In particular, the generic Congressional Ballot gapped to Democrat by a maximum of 6 points after the Access Hollywood audio tape was released. By the end of last week, the same Generic Congressional ballot was down 2-3 points with Democrats leading still leading but not a margin since in previous years where there was a sweeping change in House control.
 - View David’s Congressional map online at <http://cookpolitical.com/house/charts/race-rating>. If the Democrats win all “toss up” Congressional seats, they would have to then win 9 of the 14 “lean Republican” seats where polling shows the current leads in those races at 10-15 points. Polls would have to be “very wrong” for Democrats to gain Majority of the House.

Election Update

ABOUT THE AUTHOR



Elizabeth Mackie, CPA
Director

Elizabeth Mackie is a Director and member of the Research Team at Edge Capital. Since joining Edge in 2007, she has been instrumental in working with some of our largest clients to build customized portfolio solutions, solve the unique challenges of multi-generational families, and build relationships with clients' trusted advisors. Elizabeth now focuses her time on building long-term client relationships as well as capital markets research, strategy due diligence, and idea generation that is implemented across Edge client portfolios.

ABOUT EDGE CAPITAL

EDGE Capital is an independent financial firm whose objective advice helps individuals and institutions realize their goals in the areas of investment management and corporate finance. The Edge Research Team's thoughtful and timely reports are based on extensive independent research and analysis of firms, financial developments and macroeconomic trends.

For more research and commentary, visit us online at <http://www.edgecappartners.com/>.

CONTACT EDGE

1380 West Paces Ferry Road
Suite 1000
Atlanta, GA 30327
Phone: 404-890-7707
Email: info@edgecappartners.com

This material represents the views of Edge Advisors, LLC. This information is provided to discuss general market activity, industry or sector trends, or other broad-based economic, market or political conditions. This information should not be construed as research or investment advice, and investors are urged to consult with their financial advisors before buying or selling any securities. This information may not be current and Edge Advisors, LLC has no obligation to provide any updates or changes to such information. This material contains forward-looking projections and there is no assurance that these projections will prove correct. Past performance is no guarantee of future results.
