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Trump v Clinton: a presidential comparison

US voters are about to decide the 45th President of the United States by choosing between Republican nominee, Donald Trump, or Democrat nominee, Hillary Clinton. What is the likely impact on the US equity market of either Presidency? What would a Trump or Clinton Presidencies look like in terms of key policy areas and which sectors stand to benefit or suffer? We highlight potential sector impacts of the candidates' signature policies.

Equity performance in Republican/Democratic presidencies

It is widely assumed that the Republican party is more pro-market/pro-business than the Democratic Party due to its advocacy of lower taxes and less regulatory intervention. Yet, as shown in Chart 1, the historical evidence shows that the US stock market has typically performed better under Democratic presidencies:

- Since 1929, Democrat presidencies have delivered an annualised stock market return of **14.7% versus 5.4%** for Republican presidencies.[1]
- US equity returns during every Democratic presidency since 1929 have been positive.
- Even if the Herbert Hoover presidency (March 1929 - March 1933) - which coincided with the Great Depression - is excluded, the Republican annualised average return of 9.2% is still well below the Democrats' 14.7%.

At a glance

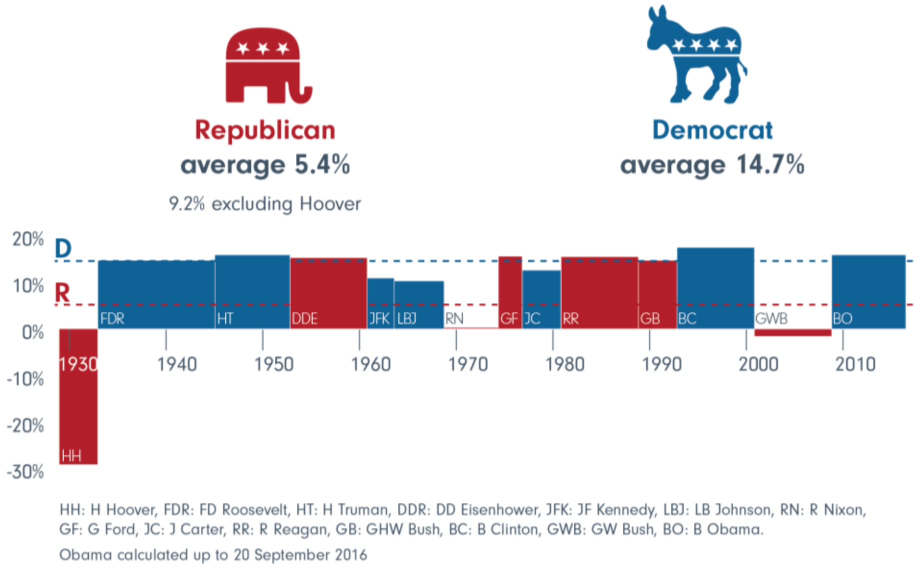
Historical evidence shows that US equities tend to perform better under Democratic presidencies, however, this has been materially driven by favourable timing.

While the macroeconomic and broad market impact may be debatable, presidents and their policies can affect the outlook for sectors and companies.

We outline the signature policies of both candidates and their likely equity sector impacts.

If Trump does win on the **8th of November**, in the short term, we think this could be more of a risk-off event owing to the greater level of uncertainties associated with him.

Chart 1
US equities have performed better under Democratic presidents
Annualised returns of S&P 500 during US presidencies 1929-2016 *



Source: Fidelity International, September 2016; * Annualised figures are based on the average daily return data for the S&P 500 Total Return Index for Republican/Democrat presidency periods.

Presidencies have limited impact on stock markets

An econometric study of the last complete 16 presidential terms by Alan Blinder and Mark Watson of Princeton University,[2] found the US economy grew considerably more strongly during Democratic presidencies (Chart 2) and spent less time in recession (Chart 3) during these periods.

… Democrat presidencies have seen better growth

Their conclusion however was that presidential outcomes had limited impact on the performance of the US market and that timing was the key factor. In particular, the study found that Democratic leaders of the past have tended to have the good fortune in presiding during periods of low oil prices, higher productivity increases and generally better global economic conditions.

…but timing a key factor…

Macroeconomic conditions are an important driver of equity markets, but there are also many other factors at play, such as valuations and monetary policies. It seems reasonable to argue that the US presidential outcome may not be as directly influential to overall equity market performance as some investors think.

…given the influence of global economic conditions…

Chart 2
Real GDP growth better under Democrats

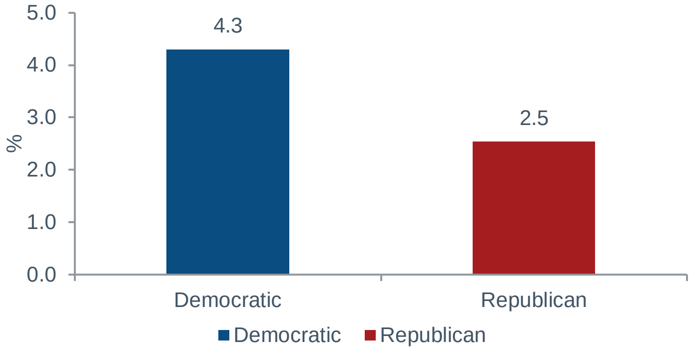
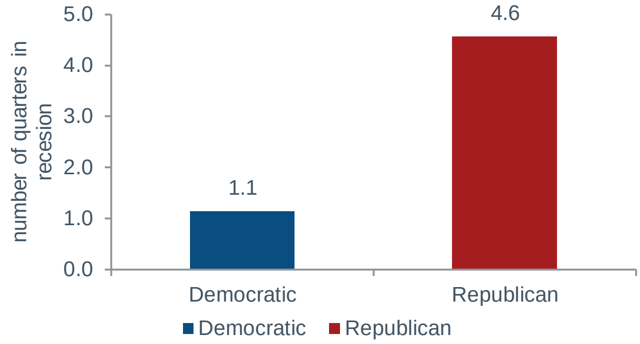


Chart 3
Recessions more common under Republicans



Source: 'Presidents and the US economy: An Econometric Explanation' Alan S Blinder and Mark Watson, Woodrow Wilson School and Department of Economics, Princeton University, July 2016

But presidencies do matter for sectors and companies

While US presidential policies tend to have limited direct impact on the US economy and stock markets, history shows that at the sector and company level, the impact can be more significant. For this reason, it is worth carefully considering the most salient elements of the two candidates' policy platforms.

Donald Trump - key policies and sector implications

While some of Trump's policies are in keeping with the Republican party's traditional association with laissez-faire capitalism, small government and conservative social policies, he also deviates considerably, veering heavily into populism, notably in terms of trade and immigration, where his policies are widely seen as economically regressive.

… Trump offers Republican overtures but with significant populist deviations that appeal to the 'squeezed middle'…

Trump's disdain for convention, his populist policies and his frequently belligerent public tone have enabled him to differentiate himself and appeal to the disenfranchised 'squeezed middle' of US society. This is a group that has seen little improvement in living standards despite the post-crisis economic recovery.

In our view, the key elements of Trump's presidential policy platform are:

Trade and protectionism

Trump is opposed to greater trade liberalisation and hostile to existing trade deals (such as TTIP and TPP), while favouring tariffs and trade restrictions, as well as opposing the use of currency valuation as a policy tool. The latter point clearly takes aim at China, who Trump has pledged to designate as a 'currency manipulator' on day one of his presidency. This would open the door for the US to take retributory action against China, with Trump proposing a hefty 45% tariff on all imported Chinese goods.

…likelihood of greater protectionism and trade wars with China…

Potential investment implications: While Clinton is also opposed to the TPP trade deal, there is little doubt that the bigger risk in terms of a lurch to protectionism is Trump. Threats of stiff tariffs on Chinese goods are a risk factor for any US sector or company that relies on Chinese imports. On the flipside, anti-China trade tariffs could benefit domestic manufacturing areas that have suffered from Chinese competition such as the US **steel** sector.

…which would support domestic industries like US steel…

Infrastructure

With the US suffering from under investment in infrastructure (as reflected in the country's relatively low rankings in this area in global surveys) Trump has made the issue a key plank of his policy platform. In his book 'Crippled America', published in late 2015, he refers to a 'trillion-dollar rebuilding plan'. More recently, he stated he would spend double the amount of his rival on infrastructure. Since Clinton has proposed a $275bn plan over 5 years, this would equate to a substantial **$550bn** over the same period.

Potential investment implications: Trump's focus on infrastructure could give a boost to **domestic construction** companies. Trump's infrastructure spending plans are more aggressive than Clinton's, but as with his ambitious tax plans, there are concerns about funding. While Clinton plans to fund infrastructure spending through selective tax hikes, for Trump, beyond grand claims of private investment, government financing would likely be via increased debt issuance given his commitment to tax cuts. The concern is that we could see large increases in government deficits and debt over time, which might exert upward pressure on US bond yields.

…a boost for construction firms…but funding implications could pressure US bond yields…

Tighter immigration control

A key campaign focus has been on drastically tighter immigration control. This has included controversial talk of the forced deportation of millions of illegal immigrants living in the US and the construction of a wall on Mexico's border.

…immigration and 'the wall' has become a key Trump policy issue…

Potential investment implications: The sectors most exposed to Trump's immigration proposals are those with high shares of low-cost labour. The best example is **agriculture** (farming, fishing and forestry) where an estimated 26% of all workers are undocumented.[3] Indeed, in the fruits, nuts, vegetables and crops categories, over 50% of workers may be undocumented. Curtailing illegal immigrant labour would result in higher labour costs and higher prices for those industries.

…direct impact on low-cost labour activities, such as agricultural harvesting…

It is worth noting that Trump has campaigned strongly on 'putting American workers first', with some suggestions that he might seek to curtail the growth of H1-B visas issued to highly skilled workers from other countries - this could potentially affect a range of intellectual property sectors, such as **IT**.

…but a smaller potential impact in highly skilled sectors too…

Tax reforms/cuts

Trump is proposing significant reform of the tax system by compressing the current seven income tax brackets into three (10% for annual incomes under $75,000, 20% for $75,000-$225,000 and 25% for incomes above $225,000) as well as drastically lowering the top corporate tax rate from 35% to 15%.

…simplified income tax rates and a cut in top corporate tax rate from 35% to 15%...

Potential investment implications: Trump's tax proposals are ambitious and conceptually progressive, with the proposed corporate tax rate reduction to 15% being supportive for the overall corporate environment in the US. However, while such tax cuts could boost economic growth, the loss of significant tax revenues from the cuts could materially increase the deficit.

The Committee for a Responsible Federal Budget has estimated that mainly as a result of his tax proposals, Trump's policies **would add a remarkable USD5.3trillion to US government debt by 2026**, resulting in a government debt-to-GDP ratio of 105%, compared 77% at present and 86% based on Clinton's plans.[4] The longer-run effect of Trump's plans could thus be negative for the US corporate sector, if US government bond yields rose and this had a knock-on negative impact on corporate debt financing costs.

…but benefits would be offset if the policy raised corporate borrowing costs…

Energy

Trump is sceptical about climate change and opposed to environmental regulations, which he sees as excessively burdensome for businesses. He has promised to roll back various past US commitments, including 'cancelling' the Paris Climate Agreement (which seeks to limit global warming to 2 degrees C.) and 'stopping all US payments to UN global warming programs'.

…a reduced commitment to the environment could benefit America's fossil fuel industries...

Potential investment implications: Trump's strong opposition to environmental regulation favours the industries that have been most adversely impacted by such rules in the past. The most obvious beneficiary of this would be **US fossil fuel producers, including shale producers and refiners**. This would be at the expense of the **alternative energy sector**, notably solar and wind, since the generous federal subsidies for these industries (in the form of tax credits) might be cut. The declining **US coal industry** could be a particular beneficiary of a Trump presidency based on his pledges to save the industry.

Defence Spending

Both candidates have spoken about increasing defence spending, but based on his statements and overall profile, we expect Trump to be significantly more aggressive in this regard than Clinton. For example, Trump has spoken in favour of 'maximum firepower and military preparedness' while also saying that current 3% share of military spending to US GDP is too low and should return to past levels of nearer to 6%.

…higher defence spending…

Potential investment implications: A Trump victory would be positive for the US's military-industrial complex [5], including leading **US defence contractors, weapons and other equipment manufacturers**. Again the concerns associated with such increases in spending would be over funding and the impact on the government's deficit and debt levels.

Hillary Clinton - key policies and sector implications

Clinton's policy platform is much more in line with the traditional norms of her own party. This means a greater emphasis on reducing social inequalities backed by state intervention and regulation. Clinton's policies are also considered to be aligned with current Democratic president, Barack Obama.

…Clinton offers a more typical party platform with much fewer areas of uncertainties compared to Trump…

In our view, the key elements of Clinton's presidential platform are:

Infrastructure

Like Trump, infrastructure is a top policy objective for Clinton, and the biggest area of agreement between the two candidates. However, there are some important points of difference. Based on pre-election statements, we can assume Clinton's infrastructure spending plans, although better articulated (totalling $275bn over 5 years), are less ambitious in scale, funded largely by selected tax hikes (compared to debt financing for Trump), and with a greater emphasis on public transport networks compared to a likely higher profile for flagship national projects (for Trump).

…infrastructure is the biggest area of agreement…although the numbers differ greatly…

Potential investment implications: As with Trump, Clinton's plans for increasing infrastructure spending should give a demand boost to companies with established track records of involvement in publicly funded construction projects. While Trump might be more aggressive on this front, Clinton's plans, as in many other areas, have the advantage of being more specific. Goldman Sachs estimates that Clinton's plans imply a 17% boost to total **public construction** every year and a 3.6% boost to **overall construction activity**.[6]

…the construction industry seems set to benefit under either candidate…

Healthcare

Clinton has campaigned heavily against alleged 'unjustified' and 'predatory' price hikes by drug manufacturers, (such as *Mylan* which has recently drawn condemnation for raising the price of its EpiPen anti-allergy treatment). Her plan for tackling such instances include the creation of a dedicated consumer oversight function at public health agencies, which will determine if price increases are excessive, and the provision of enforcement mechanisms for rectifying this, including increased access to cheaper imported alternatives and penalties for those companies deemed irresponsible.

…alleged price gouging in healthcare has become a key Clinton focus…

Potential investment implications: A Clinton presidency would entail a mixed impact on the healthcare sector. Her proposals to reduce prices and for greater oversight could clearly be detrimental for some **drug manufacturers** but she would have difficulty in getting congressional support for any extreme changes. However, a Clinton presidency would entail continuity for Obama's Affordable Care Act, which has verifiably led to increased patient **insurance** coverage and therefore increased demand for **healthcare services**.

…a mixed impact – price caps detrimental for some healthcare stocks but continuity for Obamacare…

Minimum wage increase

Both candidates have voiced support for raising the minimum wage level from the current $7.25 per hour level which has been unchanged since 2007. However, Clinton, partly spurred on by pressure from the party's more left-wing faction headed by Bernie Sanders, has been much more aggressive on this front, supporting a large hike in the federal minimum wage to $12 an hour, with scope for higher rates at the local level. In a further example of departure from standard Republican policy, in July, Trump appeared to suggest he supported a $10 per hour federal minimum wage.

…Clinton is advocating a much higher minimum wage…

Potential investment implications: A Clinton presidency would be less favourable for industries that employ large amounts of low-cost labour. For example, this could be detrimental to the **restaurants and hospitality sectors**, forcing them to either cut labour hours and/or increase prices. According to the National Restaurant Association, following the 2007 hike in the Federal minimum wage, 58% of US restaurants increased menu prices, while 41% reduced aggregate labour hours.

…which is less favourable for low-cost labour industries implying higher prices, and reduced labour hours…

Climate/energy policy

In marked contrast to her opponent**,** Clinton is an avid campaigner for clean energy and environmental protection. She is targeting a **one-third cut in US oil consumption** over a hypothetical two-term presidency to be encouraged partly via cuts in subsidies to oil and gas companies. She also opposes increased drilling on Federal lands and has a specific goal of increasing the number of installed solar panels to 500m nationally over the same period.

…Clinton is a strong advocate of clean energy and environmental protection…

Potential investment implications: A Clinton presidency would be a less favourable outcome for the **US energy sector**, including producers and refiners, but good for **clean energy companies**, including solar energy companies. In terms of her solar panel target, S&P has calculated this implies a 20% increase in annual demand.[3]

…less favourable for the US energy sector, especially fossil fuels…but good for clean energy, especially solar…

Immigration

In marked contrast to Trump, Clinton has a far more liberal position on immigration. In particular, she is opposed to the forced deportation of the estimated 11m illegal immigrants currently in the country and advocates a managed path to legalisation and eventual citizenship.

…liberal on immigration, no ‘wall’…

Potential investment implications: A Clinton presidency would be a clearly favourable outcome for all those sectors that might see a negative labour supply impact from her opponent’s proposed draconian immigration curbs. Notably, this would apply to the **agriculture sector** (farming, fishing and forestry), where an estimated 26% of workers are undocumented.

…positive for all sectors reliant on immigration and overall economy…

Conclusion - Trump riskier for US equities in the short run

We believe that the overall macro and market impact of US presidencies is limited but the sector and company level impact can be significant as summarised in the table below. This suggests that an active, discriminating approach to equity investment can be advantageous.

In terms of likely sector impacts, it is notable that the areas of agreement are few, although the candidates’ push for greater **infrastructure spending** is one area that might offer an element of political insurance for either outcome. <*See our summary table of sector impacts below.*>

A Trump victory would appear to be the less favourable outcome for US equities in the short run. The reason is that a Trump presidency entails a much higher degree of uncertainty - be it in terms of his lack of policy detail, inconsistency on various issues, lack of public service experience or his belligerent personal style – all of which could limit the scope for legislative cooperation domestically and US relations internationally.

Summary of Presidential policies and likely US equity sector impact

The table provides a summarised version of the likely US equity sector impacts of either presidency:

Clinton	Trump
▪ Much more liberal on immigration than opponent - benefits sectors with high levels of undocumented labour, notably **agriculture**	▪ Very tough on immigration - negative for sectors with high levels of undocumented labour, notably **agriculture**
▪ Keen advocate of environmental protection - benefits **clean energy sector, including solar and wind**	▪ Has called for doubling of share of military spending in GDP - positive for military-industrial complex, including **defence contractors and military hardware manufacturers**
▪ Advocates much higher Federal minimum wage of $12 per hour - disadvantageous to sectors and companies that employ large amounts of low cost labour, e.g. **restaurants and hospitality**	▪ Opposes environmental regulation - beneficial for **US fossil fuel producers, including shale producers, the coal industry and refiners** but negative for **clean energy industries**
▪ Calling for increased regulation to prevent unjustified drug price increases - potentially disadvantageous to **some drug manufacturers**	▪ Generally oppositional to freer trade and for increased tariffs; threat to label China as a 'currency manipulator' and resulting punitive action a potential concern for **heavily Chinese import-reliant sectors but beneficial for all Chinese import-competing sectors, such as US steel**
▪ Infrastructure enhancement a top policy objective - beneficial for **public construction activity** and companies with good track records in this area	▪ Infrastructure enhancement a top policy objective, like opponent but likely more aggressive on this - beneficial for **public construction activity** and companies with good track records in this area
▪ Continuity for Obama's Affordable Care Act - beneficial for those **healthcare service providers and health insurance providers** that have seen a pick-up in demand since the act was passed	▪ Corporate tax reductions proposals are potentially beneficial to all sectors if implemented but big concerns about implied increase in government debt that could put upward pressure on bond yields

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6. 'What's the potential impact of post-election fiscal policy on US construction', Goldman Sachs, August 2016

Important Information