
From: Richard Kahn [REDACTED]
Sent: 9/20/2016 7:58:13 PM
To: jeffrey E. [jeevacation@gmail.com]
Subject: Fwd: US Equity Insights - Clinton vs Trump stock baskets
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Begin forwarded message:

From: Stewart Oldfield <[REDACTED]>
Subject: FW: US Equity Insights - Clinton vs Trump stock baskets
Date: September 20, 2016 at 9:25:31 AM EDT
To: Richard Kahn <[REDACTED]>

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From: David Bianco, Deutsche Bank [[mailto:\[REDACTED\]](#)]
Sent: Friday, September 16, 2016 6:47 PM
To: Stewart Oldfield
Subject: US Equity Insights - Clinton vs Trump stock baskets

Deutsche Bank - Equity Research - North America
US Equity Insights - Clinton vs Trump stock baskets

16 September 2016 (26 pages/ 2739 kb)

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Clinton vs. Trump: A sweep by either party would likely rattle markets

Our S&P targets and sector strategy assume a balanced outcome from the US general election on Nov 8th that maintains the current split in power. However, if Democrats keep the Presidency and take Senate or Republicans take the Presidency and keep Senate, it likely brings policy uncertainty and market volatility. Longer-term, it will be the policies and implementation that will influence markets, which both parties, many individuals and circumstances will craft. This note identifies sectors, industries and stocks that we think would be price sensitive to an unbalanced election outcome tilted toward one party.

Dividing issues: Taxes, trade, favored infrastructure types and monetary policy

It's difficult to pin down specific policies from either candidate, but on several economic issues their general bias is clear. These issues include taxes, trade deals, favored types of infrastructure – such as green vs conventional energy, preference for monetary policy, and also their expressed views on industries such as Health Care and Energy. It is the gist of the candidate's preference on these issues that we used to identify sectors and stocks sensitive to a sweep.

Big banks might outperform small banks and oil might go down on Rep sweep

While many of our conclusions align with conventional judgment, we think we differ in that we think a Rep sweep could: 1) be good for some domestic oil producers, as it should permit more drilling, but negative to the recovery in oil and gas prices, as more supply, and thus negative for the broad Energy sector, 2) bring somewhat faster Fed hikes and a stronger dollar than otherwise, 3) the first two could lead to lower inflation and a flatter yield curve than otherwise would be. One could argue that Trump sized tax cuts and an infrastructure and defense spending spree would steepen the curve, but we think this unlikely while Republicans control the House. If Fed hikes bring yield curve flattening then big banks and capital markets likely outperform small banks and insurance companies. Slow hikes that allow inflation to accelerate and steepen the curve might favor smaller banks and insurance, but this could pressure PEs at non-financials. If the Fed falls too far behind the curve, higher long-term rates could threaten the stock market, real estate and the overall economy.

Equity strategy election themes: Party sweep better for investor confidence on

Taxes-R, Trade-D, Infrastructure-R/D, Faster Fed hikes-R, Higher inflation target-D, Steeper curve-D, stronger dollar-R, stock market-R/D, large caps-R, small caps-D, globally exposed S&P stocks-R, domestically exposed S&P-D, higher commodity prices-D, lighter regulations-R, foreign profit repatriation-R.

Industry pair trades and ETF ideas for Democratic vs. Republican Sweep

- 1) Favor Health Care Services & Facilities over Drugs & Medical Devices
- 2) Favor Engineering & Construction over Defense stocks
- 3) Favor Small Banks & Life Insurance over Big Banks and Capital Mkts
- 4) Favor Energy majors over Oil Services and smaller domestic E&Ps
- 5) Favor Clean Energy & Social Media over Cheap Energy & Telco/Cable
- 6) Favor Metals & Mining over Chemicals & Construction Materials

Dem: IHF, GEX, XME, SOCL, IWM, KBE. Rep: XPH, IHI, XOP, IGF, ITA, IYZ, VGT, XLF

Clinton 15 stock basket (DBUSCLNT): UNH, HUM, MCK, ACM, PWR, XOM, AA, NEE, CREE, FSLR, FB, NFLX, PRU, C, UNP

Trump 15 stock basket (DBUSTRMP): JNJ, PFE, MDT, NOC, LLL, HAL, DOW, DUK, F, MLM, VZ, CMCSA, SCHW, WFC, DAL

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Winnie Nip +

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