



The United States under Trump

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US Politics: Key Points

Unified Republican
control raises
expectations

Deep divisions in
both parties

Domestic policy:
Chance for market-
positive reforms

Foreign Policy:
Trump brings
uncertainty



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A Surprising Election

How Trump won: the conventional wisdom was wrong

The polls missed

The Obama coalition
didn't show up

The "Blue Wall" fell

White working class
flipped for Trump

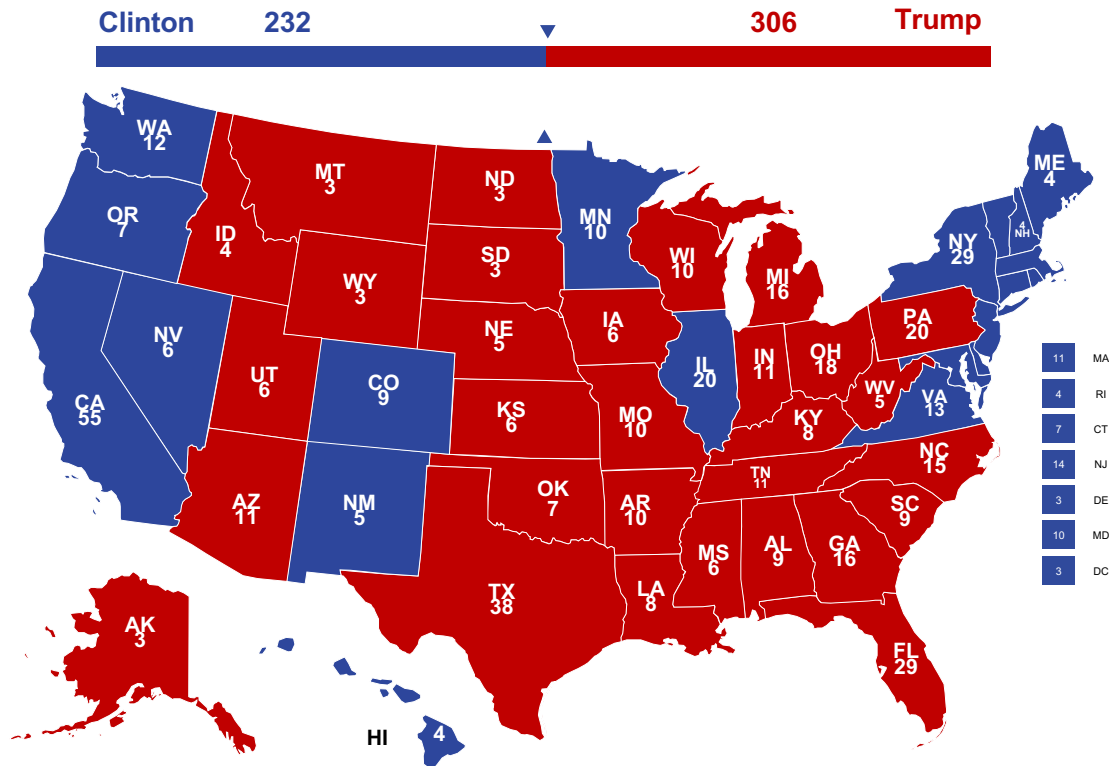
Hispanics didn't revolt

Trump had coattails



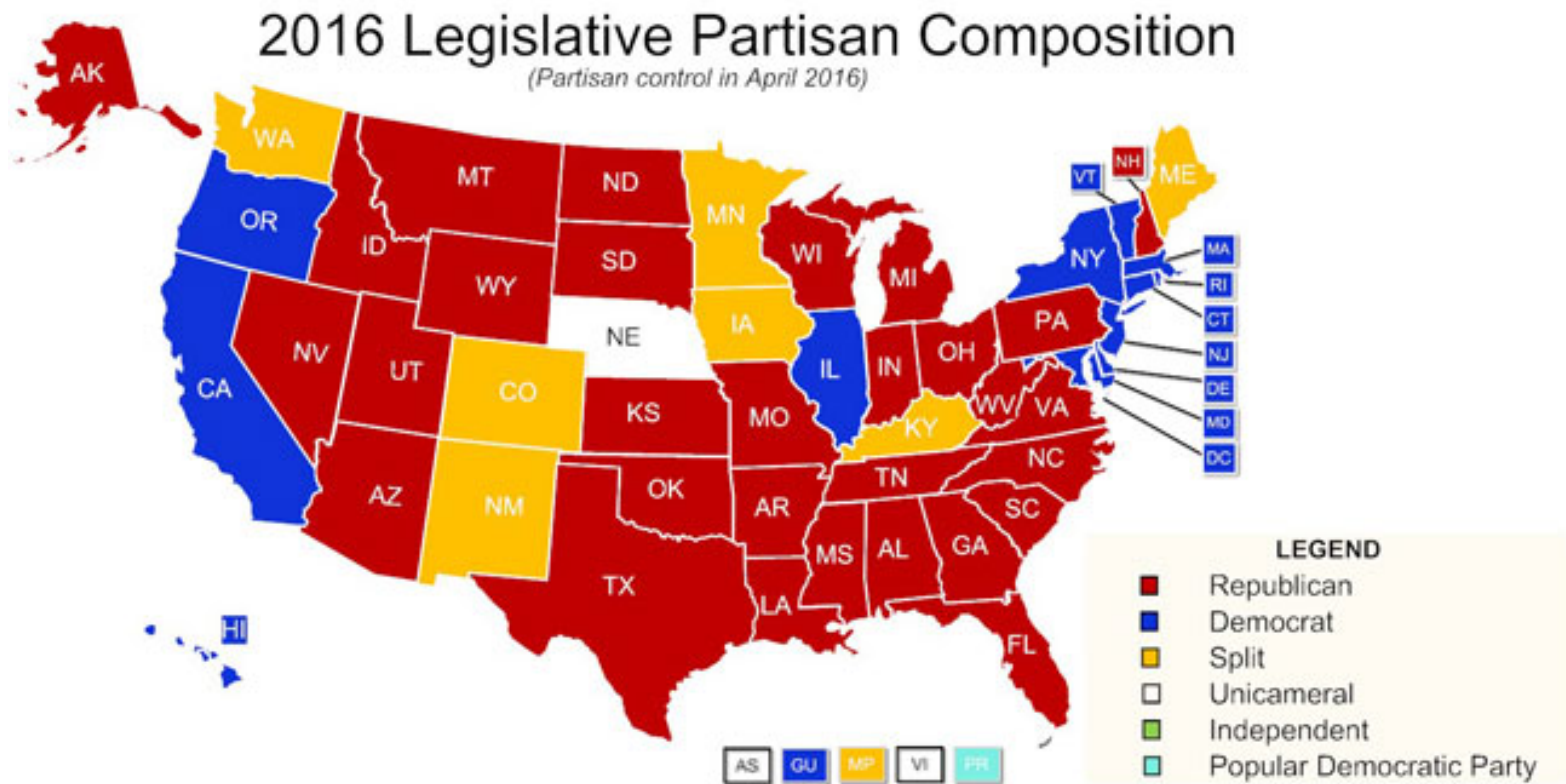
Trump's surprising map

- The industrial Midwest (WI, MI, and PA) unexpectedly broke for Trump
- Clinton lost states Democrats had dominated for decades



GOP now firmly in command of state and federal governments

GOP has majority in House, Senate, and controls White House, 30 state legislatures and 31 governorships

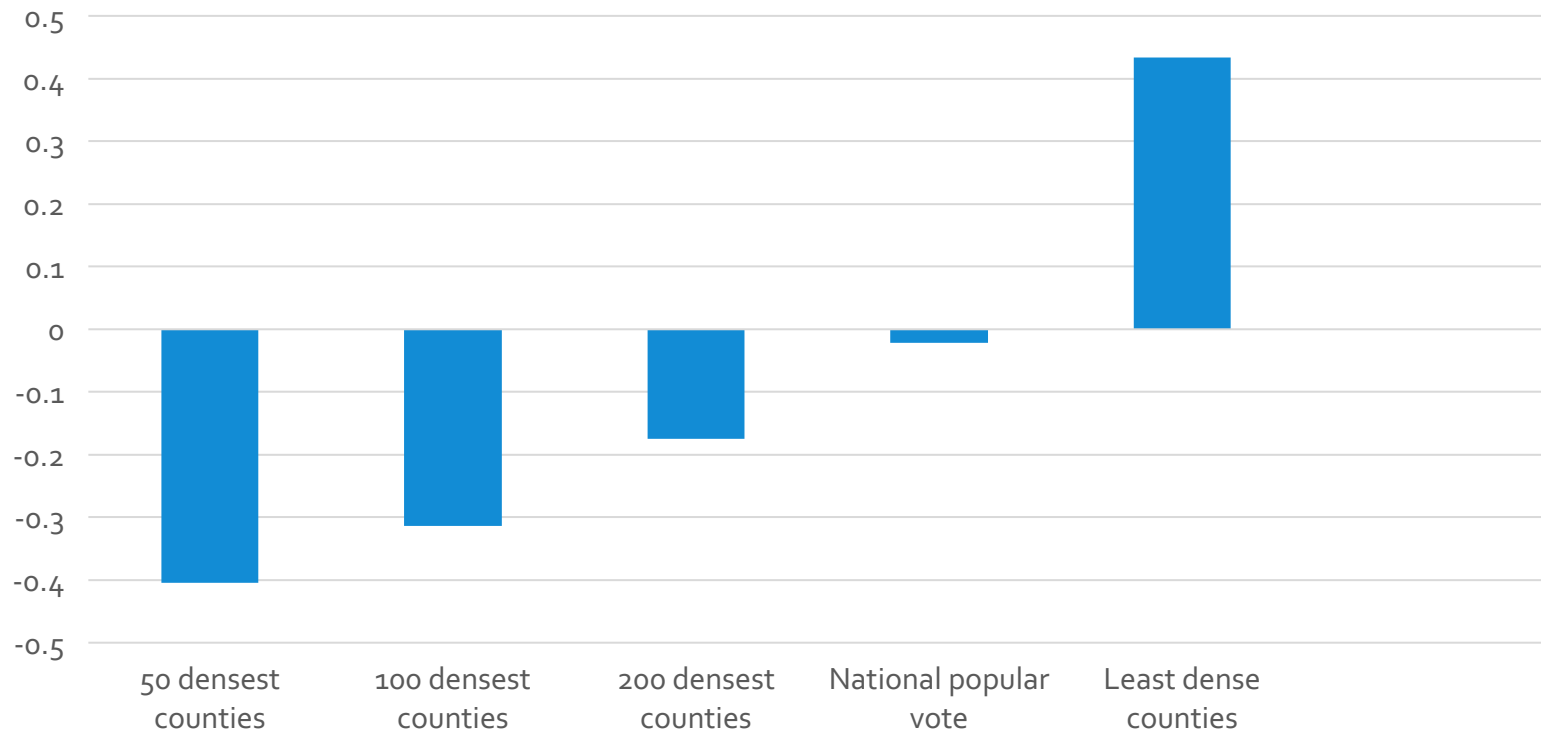


Source: National Conference of State Legislatures



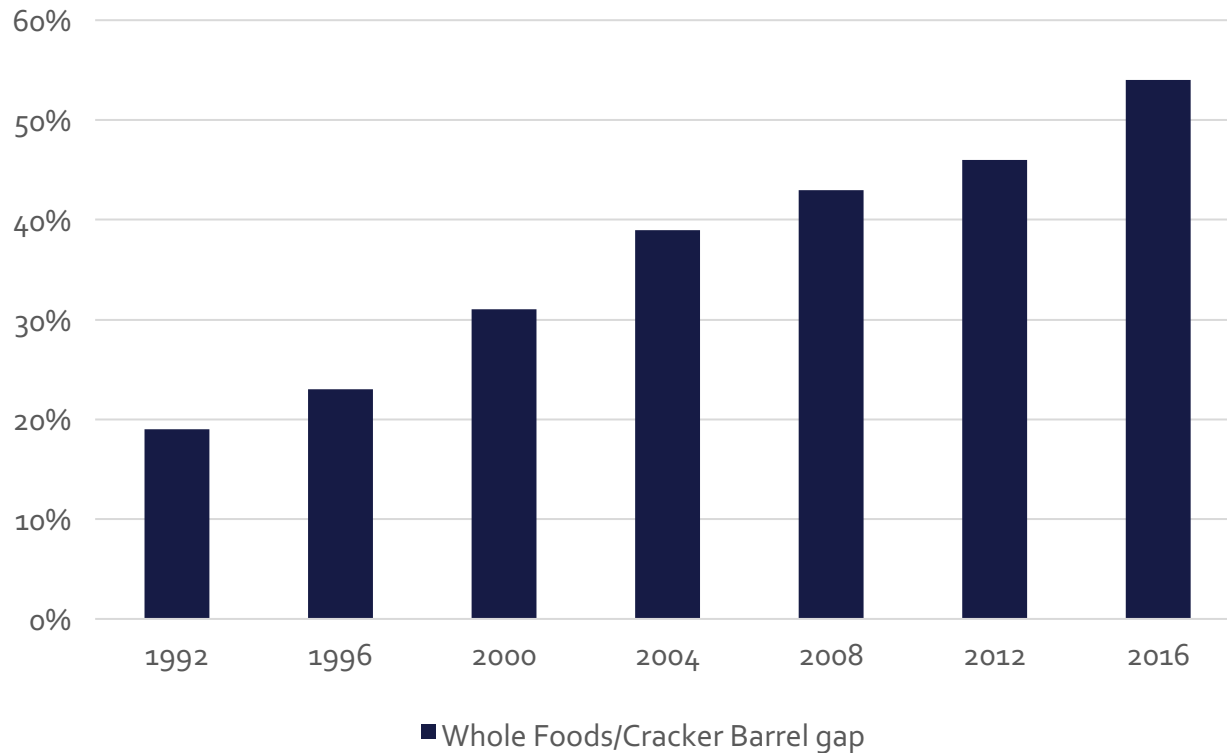
Two Americas

Largest and densest urban counties went heavily for Clinton;
rural counties broke heavily for Trump



Two Americas: Whole Foods vs Cracker Barrel

Donald Trump won 76 percent of counties with a Cracker Barrel and 22 percent of counties with a Whole Foods – largest gap ever.

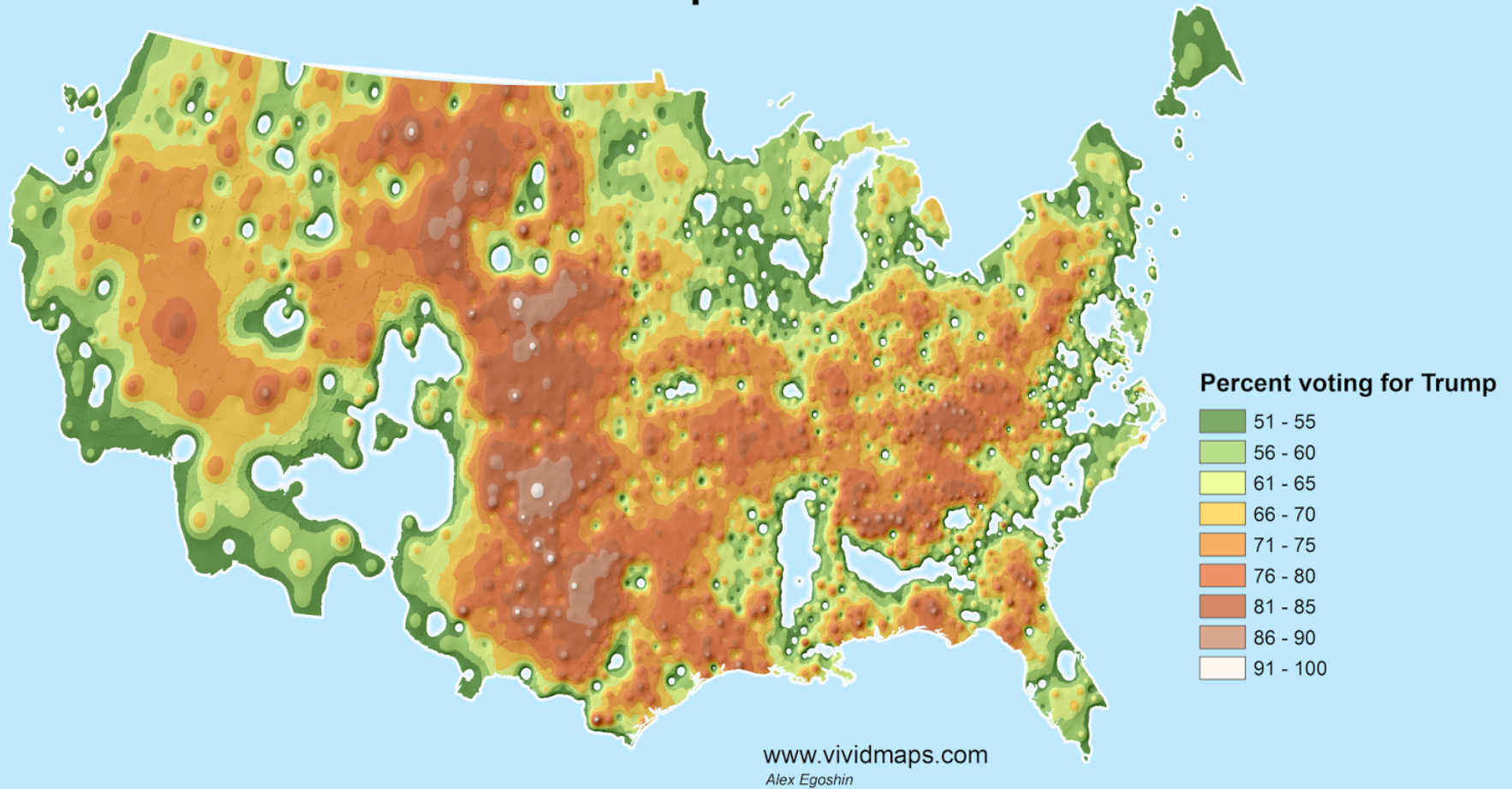


Source: Cook Political Report



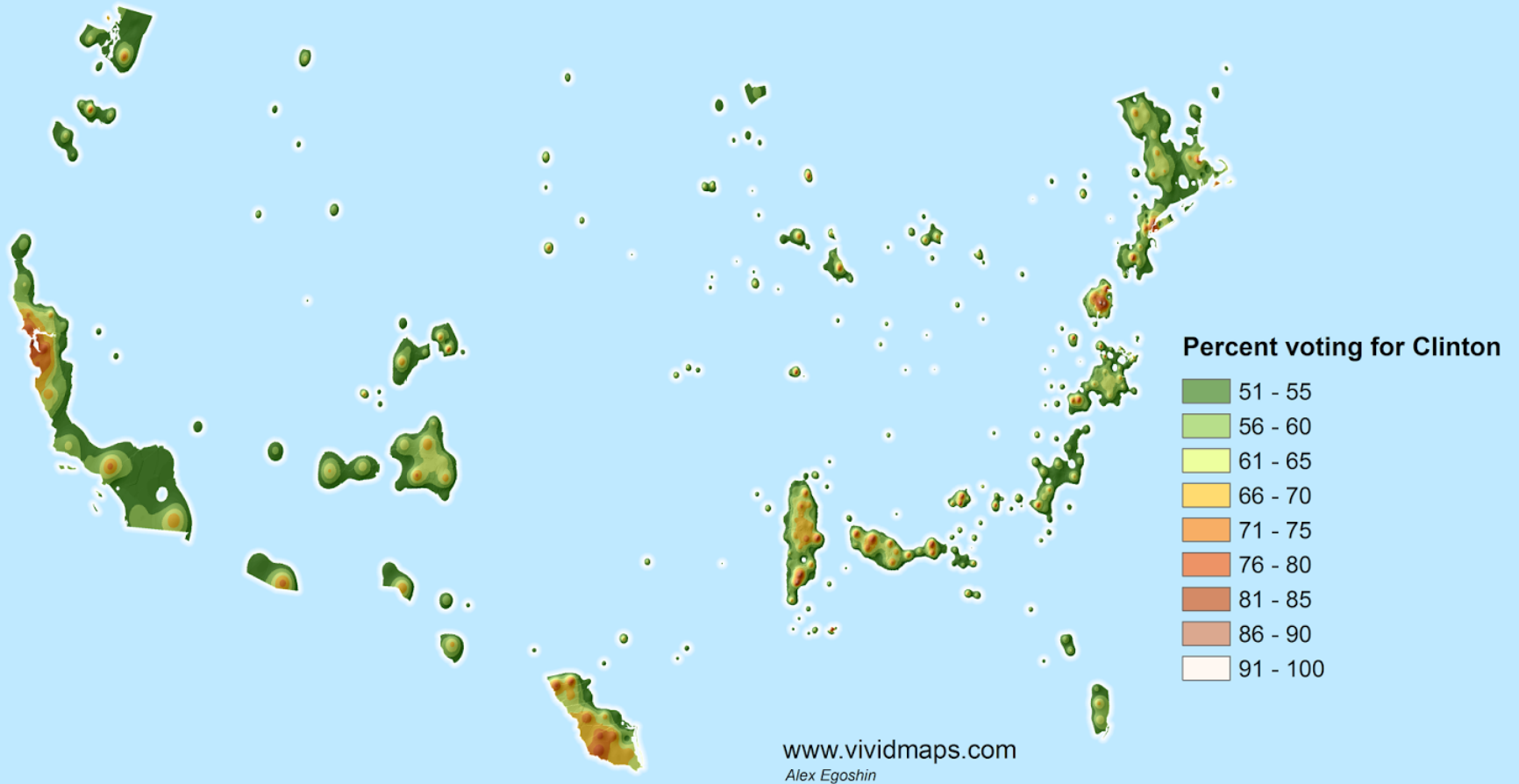
Two Americas

TrumpLand



Two Americas

Clinton Archipelago



America is splitting up

Top rated TV show, 1994-1995 season



15.7 ratings share

1st in 1995

Top rated TV show, 2014



5.0 ratings share

57th in 1995

Source: Vulture.com



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2017: Trump's America

Trump's mandate: Making America Great Again

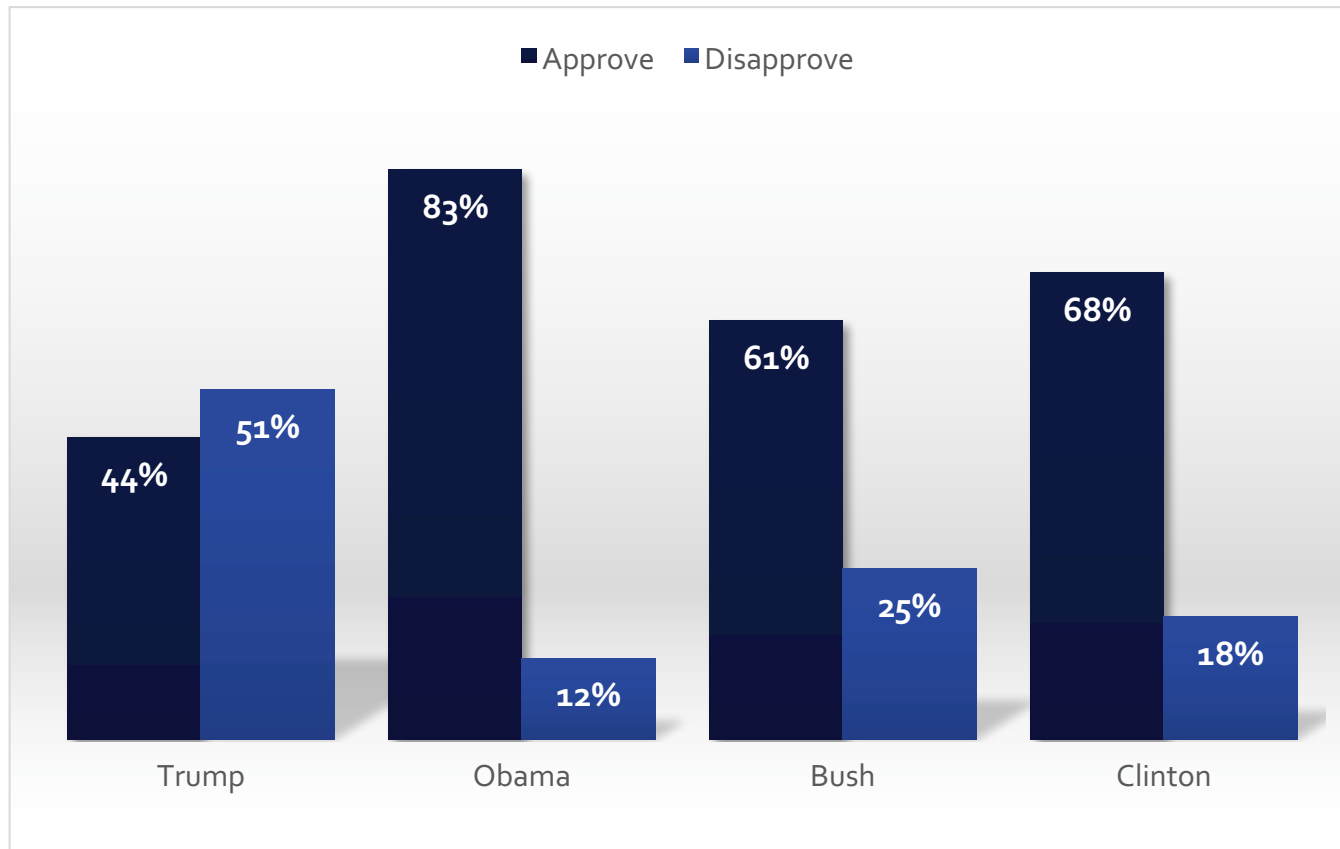
Restore jobs to the industrial Midwest

Secure the southern border

Prevent acts of terror



Trump will be the least popular new president ever



Source: Gallup



Agenda for change

Undo Obama's legacy

ACA repeal

Fiscal expansion unlikely until 2018 or beyond

America will look inward

Trade war?

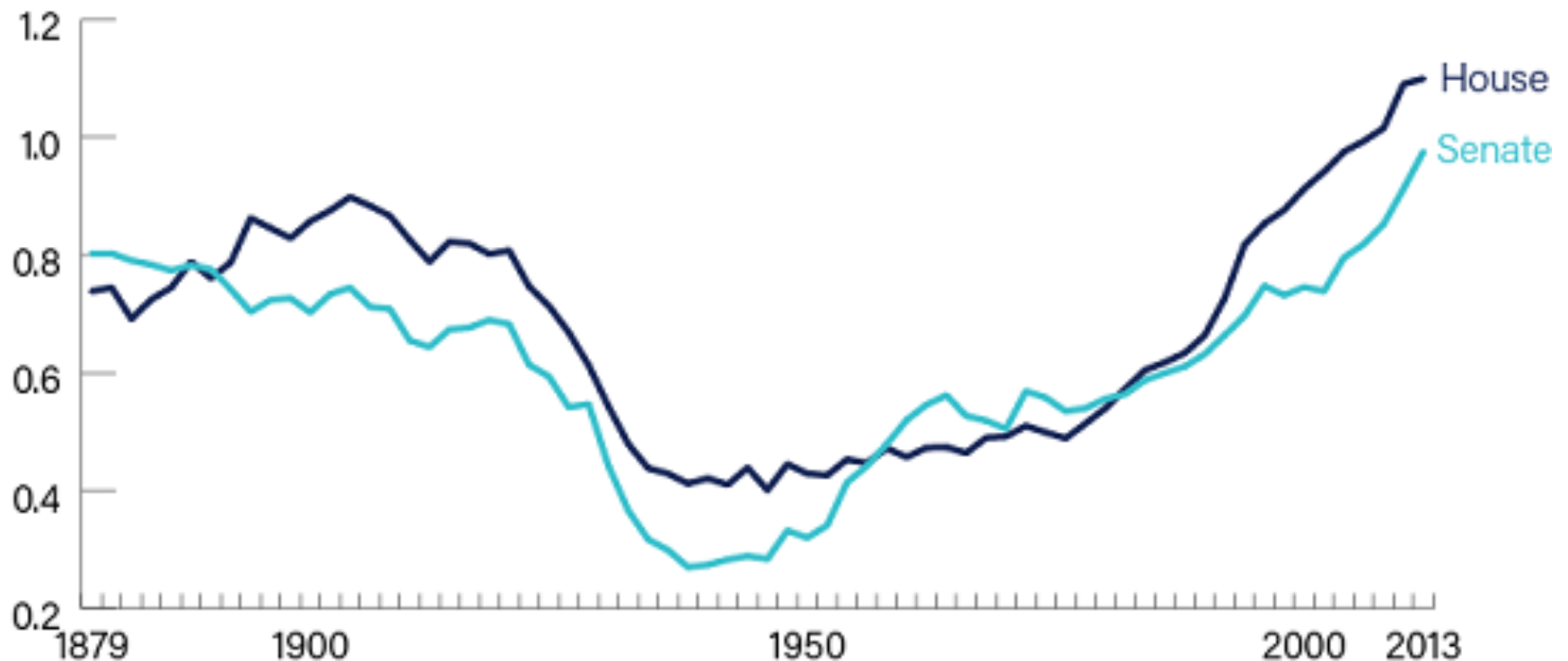
Immigration reform?



Parties are increasingly polarized, reflecting divided America

Party polarization is at historic highs in both chambers.

Party polarization between 1879 and 2014 as measured by the spread between mean two-party DW-Nominate scores:



Source: Voteview



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2017: Staffing the Trump Administration

Personnel choices will shape policy outcomes

Loyalists

Mike Flynn, Jeff Sessions, Steve Mnuchin

Establishment

Reince Priebus, Elaine Chao

Outsiders

Gary Cohn, Rick Perry, James Mattis



Competing power centers in the White House

The establishment vs the revolutionaries



Likely to clash over policy as well as politics





Policy Outlook

Economic Outlook for 2017

Pro-growth policy possible, but policy uncertainty a drag

Opportunities:

- Tax Reform
- Infrastructure investment
- Rationalize immigration system
- Control costs in health care

Risks:

- US becomes closed economy
- Uncertainty in health care and financial services
- Trade wars
- More foreign policy uncertainty than we've had in 100 years



Policy overview

Tax reform

- Increased the odds of tax reform, but politics remain difficult
- Reform of the international system, including a transition to a territorial system, is the most likely outcome
- Border adjustable tax unlikely

Trade

- Changes coming to NAFTA
- Aggressive trade enforcement against China; will it lead to escalation?
- TPP is dead

Energy

- Deregulation coming
- EPA standards for methane emissions will be targeted under the Congressional Review Act
- Trump can refuse to defend the Clean Power Plan

Health care

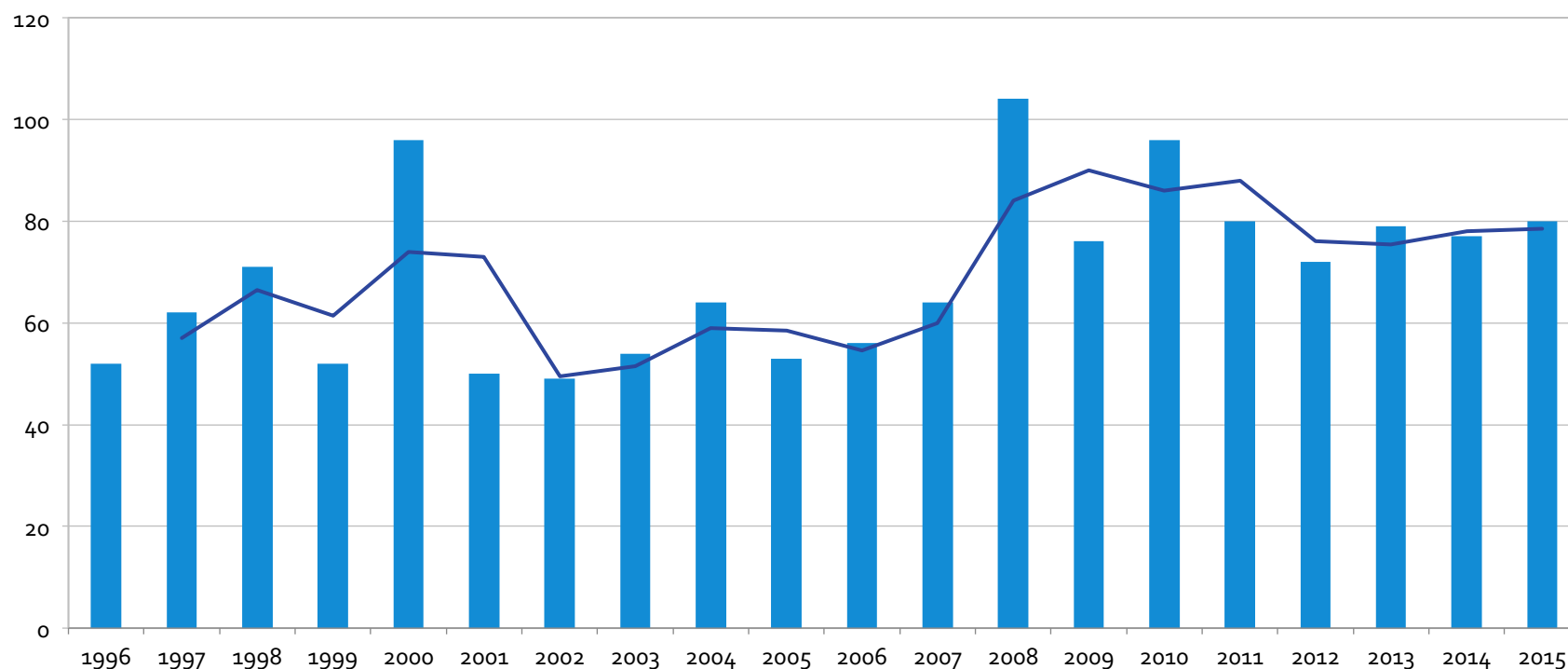
- Obamacare being repealed; less agreement on replacement
- Repeal will happen quickly but replacement will take 2 or more years



Regulation set to slow

Trump will undo Obama-era regulations, but pace of new major rules could drop back to Bush-era levels

Number of major rules published (by presidential year)



Source: George Washington Regulatory Studies Center



Domestic production to receive a boost

Whirlpool pleads for import relief from South Korean rivals

By DOUG PALMER | 12/07/16 05:53 PM EST

BUSINESS

Ford Scraps Plans For Mexico Plant In Surprise Move

January 3, 2017 - 4:32 PM ET



Donald J. Trump
@realDonaldTrump



Follow

Toyota Motor said will build a new plant in Baja, Mexico, to build Corolla cars for U.S. NO WAY! Build plant in U.S. or pay big border tax.

RETWEETS

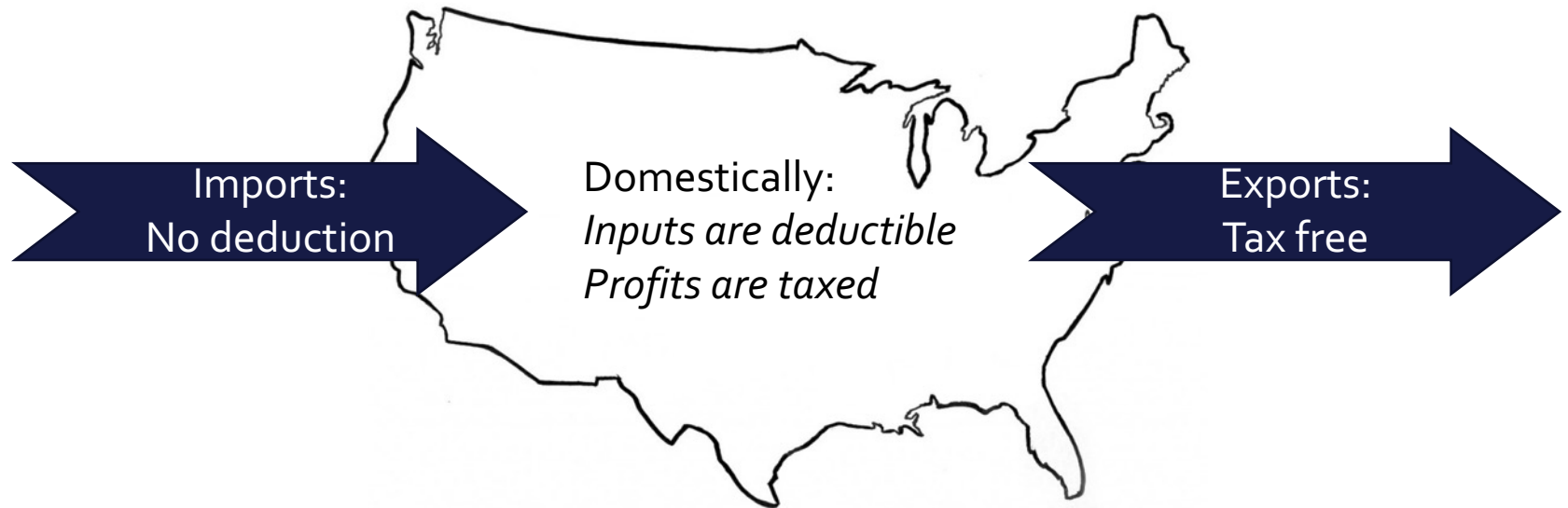
30,147

LIKES

97,789



Is a border tax coming?



- GOP corporate tax plan:
 - Lower the rate to 20 percent from 35
 - Shift from a worldwide to a territorial system
 - Eliminate interest deductibility
 - Allow immediate expensing of capital equipment
 - Allow exports to be sold tax free and deny deduction for imports
- Impact:
 - Import tax → Higher consumer prices
 - Production moves to US to avoid tax
 - Offset by dollar appreciation
 - ~\$1 trillion in new revenue for the government



Border-adjusted tax unlikely to pass

- Radical import tax affects *everyone*, including America's biggest employers
- Few endorsements (so far) on key House committee
- Rank-and-file have stayed quiet so far
- Large exemptions possible
 - Easy to allow deductions for favored categories of goods
- *Could* pass the House (late summer?); unlikely to pass the Senate
- Senate bill will look a lot different
 - Plan B: territorial system, repatriation, rate cut
 - Plan C: just a rate cut, few base broadeners
 - Plan D: recriminations

Retail, auto makers, and the energy sector are America's largest importers

US general imports by dollar value, thousands of USD, 2014

Electronic products	438,167	19%
Transportation equipment	403,018	17%
Energy-related products	349,955	15%
Chemicals and related products	251,615	11%
Minerals and metals	205,082	9%
Machinery	184,701	8%
Agricultural products	136,184	6%
Textiles and apparel	121,684	5%
Miscellaneous manufactures	114,314	5%
Special provisions	72,362	3%
Forest products	42,092	2%
Footwear	26,014	1%

Total **2,345,187**

Source: US International Trade Commission



A risk for brands



Biggest changes coming in foreign policy

Trump's foreign policy

- Interests based, zero sum
- Disengagement from multilateral institutions
- Bilateral trade agreements, not multilateral
- Iran deal likely to survive
- More aggressive stance against the Islamic State
- Russia will be a big winner



Sector outlook: winners and losers under Trump

WINNERS

- Oil, gas, and coal
- Banking and finance
- Defense
- Construction
- Private prisons and education

LOSERS

- Carmakers
- Health insurers
- Renewable energy
- Importers
- Shipping





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