

# Equity Research; Clinton v Trump “sensitive stocks”



**COLLINS SARRI STATHAM**  
INVESTMENTS

## Research Report

### Report Date

3rd November 2016

### Analyst

Ravi Lockyer MSc LLb

Collins Sarri Statham  
Investments Ltd

## The US Presidential Election moves centre stage

Global markets have backtracked in recent days, worried about a perceived elevated risk factor of the US Presidential elections on the 8<sup>th</sup> November.

Also important are the Congressional elections, a total of 469 seats in the US Congress are up for election (34 Senate seats and all 435 House seats (House of Representatives)). The issue is whether the Democrats can recapture the Senate (current balance is 54 Republicans/ 44 Democrats / 2 Independents).

The Obama Administration has struggled from day one with Republican efforts to block legislation and launch investigations. This “gridlock” is a persistent feature of the US political landscape making it hard for a Democrat President to pursue a policy programme (if the Republicans occupy the House) and likewise for a Republican President (if the Democrats hold the Congress).

A Republican President would see gridlock end, assuming the current Congressional balance. The Republicans hold both Houses though their grip in the Senate is weak. 2016 could see a shift in the Senate, though the Republicans should retain the House of Representatives.

Let us start with dispensing with false analogies, such as the “Brexit” referendum comparison. This spuriously claims that because polling and betting data on June 23<sup>rd</sup> got the outcome “wrong”, (in fact most polls predicted a very close result within the margin of error....which actually happened) this must mean Trump’s chances have been understated. Broadly I think “Brexit is irrelevant to US voting patterns.

The 2016 US election will be determined in the “Swing States” (Florida, Ohio, Iowa, Colorado etc) as it has been for decades. Yes there is a generational factor, and an anti-establishment factor which are more prevalent this time. However the issue is primarily the candidates themselves, their credibility and charisma. Marginal or “floating” voters in the swing states determine the US Presidential election, as always.

A very good view of the data workings of the US Presidential election can be found on : [http://projects.fivethirtyeight.com/2016-election-forecast/?ex\\_cid=rrpromo](http://projects.fivethirtyeight.com/2016-election-forecast/?ex_cid=rrpromo)

US “Swing State”	Electoral College	Clinton	Trump	COMMENT
Florida	29	50.2%	49.8%	A “must win” for Trump
Ohio	18	37.9%	62.1%	A “must win” for Trump
Georgia	16	16.8%	83.3%	A “must win” for Trump
North Carolina	15	51.4%	48.6%	Important for Clinton
Arizona	11	36%	64%	A “must win” for Trump
Iowa	6	36.1%	63.9%	Affordable loss for Clinton
Nevada	6	54.5%	45.5%	Important for Trump
Utah	6	24.3%	75.7%	Important for Trump

**Collins Sarri Statham Investments Ltd. 6th Floor, 5 Lloyds Avenue, London, EC3N 3AE**

**T** +44 (0)20 7264 2360 **F** +44 (0)20 7264 2361 **W** [www.css-investments.com](http://www.css-investments.com) **E** [info@css-investments.com](mailto:info@css-investments.com)

Collins Sarri Statham Investments Ltd. Is authorised and regulated by the Financial Conduct Authority (Registration no. 483868).

Registered in England and Wales (Company no. 6539190)

Total	96 / 270			
-------	----------	--	--	--

## The Clinton “sensitive basket”

A Clinton victory (certainly our preferred choice) is a vote for the “status quo”. It would broadly endorse and continue the Obama Administration’s policies in relation to “Obamacare” and the current monetary policy framework of the US Federal Reserve.

It would also blend the Clinton’s 1990s policies, i.e. conservative and aimed at balancing the US budget whilst maintaining US defence and infrastructure spending. The Clintons if I recall, were not keen on foreign adventures after the failed Somali adventure early in Bill’s first term (the subject of a superb Ridley Scott movie “*Black Hawk Down*”). So foreign wars (as with Obama) are unlikely.

*Please note the risk warnings and disclaimers on the last page of this document.*

Equities – Positive	COMMENT
iShares MSCI Mexico (NYSE: EWW)	\$1.2bn ETF tracking Mexican blue chips, average PE 19.5x, one hit exposure to the Mexican Bolsa.
SPDR S&P 500 ETF (NYSE:SPY)	US blue chip \$192bn ETF should be positive on status quo
Health SPDR (XLV)	\$11.2bn ETF should be rise on “Obamacare” survival
First Solar (Nasdaq :FSLR)	Clinton will extend Federal solar tax breaks beyond 2016 to hit 500m solar panel residential target by 2020
Equities- Negative	
iShares Biotech Index (Nasdaq: IBB)	\$7bn ETF tracking blue chip biotechs/ most exposed to pharmaceutical price reforms
Valeant Pharma Intl (NYSE:VRX)	\$10bn biotech co accused by Clinton in 2015 of “price gouging”

Currency	COMMENT
Mexican Peso	MXP/ USD likely to jump from current US\$0.05156 levels
US Dollar	USD positive as Federal Reserve would be intact
Japanese Yen	JPY/USD likely lower as “safe haven” demand reduces

Mexican asset prices have seen significant volatility so far. Investors have been appalled at the Trump rhetoric and specific proposals on wall building, immigration controls (that would breach NAFTA’s principles) and personal attacks on Americans with Mexican heritage. Mexican blue chips will react to the US election whatever the result. Hence we have looked at a US based ETF with broad exposure as a “one stop shop” blue chip basket for Mexican assets.

On the currency front, we expect a positive response primarily due to maintaining the composition of the US Federal Reserve. We don’t see a major impact on commodities from a Clinton win.

## The Trump “sensitive basket”

The notion of a Trump victory....well, I need to toughen up my fitness program, there is likely to be a world war soon! I am grappling with the concept of

**Collins Sarri Statham Investments Ltd. 6th Floor, 5 Lloyds Avenue, London, EC3N 3AE**

**T** +44 (0)20 7264 2360 **F** +44 (0)20 7264 2361 **W** www.css-investments.com **E** info@css-investments.com

Collins Sarri Statham Investments Ltd. Is authorised and regulated by the Financial Conduct Authority (Registration no. 483868).

Registered in England and Wales (Company no. 6539190)

Donald Trump having to address complex world issues, propose and negotiate the US budget, head the complex US military presence globally, armed with soundbites and stereotypes.

The fact is Donald Trump is a total unknown political entity with zero voting record, a highly unpredictable character who has changed political allegiance many times, gone bankrupt many times, on his third marriage and engaged in highly fraudulent business dealings. There are worrying ties to the totally corrupt Russian leadership.

Donald Trump would certainly cause global markets to wobble. The only issue is how much? We would have to say between -5% to -10% as an immediate response.

Donald Trump did not understand the US constitutional system of checks and balances when he laced into Janet Yellen, the Federal Reserve chair, accusing her of creating a “false economy”. A victory would therefore disrupt the balance of the US Federal Reserve and wreck its credibility as a non-partisan independent institution.

Equities – Positive	COMMENT
Lockheed Martin (NYSE:LMT)	Trump has said he would increase US defence spending, hence higher Pentagon procurement budgets
SPDR S&P ETF Pharmaceuticals	Trump is unlikely to implement reforms to unregulated US pharmaceutical pricing
Equities- Negative	
Wal-Mart de Mexico SAB (ADR)	Exposed to weaker MXP and confidence in Mexican economy/ consumer
Powershares QQQ Trust ETF	US technology ETF \$39.4bn – US technology stocks are widely held by global investors
SPDR S&P 500 ETF	US blue chip \$192bn ETF will drop on fresh uncertainties
Procter & Gamble (NYSE:PG)	Significant operations in Mexico and other Latin American countries

Currency	COMMENT
Swiss Franc	CHF/ USD higher hence investors move to “safe haven”
US Dollar	Sharply lower due to Federal Reserve issues

Commodity	COMMENT
Gold	Likely “safe haven” and a direct beneficiary;
Oil – WTI	Agnostic to Donald Trump up to Nov 29 <sup>th</sup> OPEC meeting; a possible short term “safe haven”

The US S&P 500 and Dow Jones should see a significant sell off if Trump wins – there is total policy blank there. Hence we select index shorts as exposure in the event of significant uncertainty/ risk aversion. Commodities we prefer gold, but crude oil is an alternative in the short term. Heading into the US

**Collins Sarri Statham Investments Ltd. 6th Floor, 5 Lloyds Avenue, London, EC3N 3AE**

**T** +44 (0)20 7264 2360 **F** +44 (0)20 7264 2361 **W** [www.css-investments.com](http://www.css-investments.com) **E** [info@css-investments.com](mailto:info@css-investments.com)

Collins Sarri Statham Investments Ltd. Is authorised and regulated by the Financial Conduct Authority (Registration no. 483868).

Registered in England and Wales (Company no. 6539190)

election the US economy is in strong shape which is a good tailwind for incumbents. This was a strong factor for Obama in 2012.

## Conclusion

There is tension in the air....and another very late night. We would keep the champagne corked and on ice, until Florida declares, and hope for not many "too close to calls". Mindful of the 2000 election, Al Gore won the popular vote but lost the White House, we are not fazed by poll movements.

Back in 2008, President Bill Clinton remarked he felt "torn" as he "always wanted to see a black President and a female President"...I hope this happens in 2016.

## Collins Sarri Statham Investments Ltd - Analyst Rating Definitions

### Key to Material Interests:

Please be aware that Collins Sarri Statham Investments Ltd has clients who hold either shares or CFD positions in the following securities mentioned in this research note:

### US S&P 500, First Solar, & Valeant Pharmaceuticals.

The analyst who wrote this report has no personal holding or derivatives in the securities mentioned in this research note.

### ANALYST CERTIFICATION:

The report's author certifies that this research report accurately states his personal views about the subject securities, which is reflected in the ratings as well as the substance of the reports.

### RECOMMENDATIONS:

Collins Sarri Statham Investments Ltd (CSS) does not in any of its publications take into account any particular recipient's investment objectives, financial situation, and specific needs and demands. Therefore, all CSS publications are, unless otherwise specifically stated, intended for informational and/or marketing purposes only. CSS shall not be responsible for any loss arising from any investment based on a perceived recommendation.

No publication (including recommendations) shall be construed as a representation or warranty that the recipient will profit, nor avoid sustaining losses, from trading in accordance with a trading strategy set forth in a publication.

This research is non-independent and is classified as a Marketing Communication under FCA rules detailed in their Conduct of Business Rulebook (COBS). As such it has not been prepared in accordance with legal requirements designed to promote independence of investment research and it is not subject to the prohibition of dealing ahead of the dissemination of investment research outlined in COBS 12.2.5.

### RISK WARNING:

Trading in the products and services offered by Collins Sarri Statham Investments Ltd (CSS) may, result in losses as well as profits as the value of investments may go down as well as up. You may not get back the full amount you have invested. Any reference to past performance should not be viewed as an indication of any future performance. Investments held in overseas markets are subject to the effects of changes in exchange rates which will impact on the value of the underlying investment. Leveraged products such as Contracts for Difference (CFDs), derivatives, commodities & Foreign Exchange (FX), carry a higher risk to your capital. They can lose their value rapidly and you may lose substantially more than your initial investment.

Investments made in smaller companies and investment trust, AIM and penny shares carry an increased risk due to the difficulty in creating a market in these shares. There may be a substantial difference in the buy and sell price.

### SPECULATIVE TRADING IS NOT SUITABLE FOR ALL INVESTORS.

**Collins Sarri Statham Investments Ltd. 6th Floor, 5 Lloyds Avenue, London, EC3N 3AE**

**T** +44 (0)20 7264 2360 **F** +44 (0)20 7264 2361 **W** [www.css-investments.com](http://www.css-investments.com) **E** [info@css-investments.com](mailto:info@css-investments.com)

Collins Sarri Statham Investments Ltd. Is authorised and regulated by the Financial Conduct Authority (Registration no. 483868).

Registered in England and Wales (Company no. 6539190)

The information contained herein is based on materials and sources that we believe to be reliable however we make no representation or warranty, either express or implied, in relation to the accuracy, completeness or reliability of the information contained herein. Please note that the figures shown may, in some instances, be rounded to the nearest penny. Prices can move sharply from those quoted in this document. Current prices can be verified by calling one of our brokers. CSS is under no obligation to update the information contained herein. Neither CSS, nor its affiliates, nor its employees shall have any liability whatsoever for any indirect or consequential loss or damage arising from the use of this document.

**Collins Sarri Statham Investments Ltd. 6th Floor, 5 Lloyds Avenue, London, EC3N 3AE**

**T** +44 (0)20 7264 2360 **F** +44 (0)20 7264 2361 **W** [www.css-investments.com](http://www.css-investments.com) **E** [info@css-investments.com](mailto:info@css-investments.com)

Collins Sarri Statham Investments Ltd. Is authorised and regulated by the Financial Conduct Authority (Registration no. 483868).

Registered in England and Wales (Company no. 6539190)