

**Presidential Elections
and the Markets**
HOW COULD IT IMPACT
YOUR RETIREMENT?

WEALTH with **NO REGRETS[®]**

12600 Deerfield Pkwy, Suite 150, Alpharetta, GA 30004.

Barry@WealthWithNoRegrets.com and Scott@WealthWithNoRegrets.com

(678)278-9632

Disclosure



Neither Andrew Friedman nor Jeff Bush is providing legal or tax advice as to the matters discussed herein. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness. It is not intended and may not be regarded as legal or tax advice, and financial advisors and other recipients of this information may not rely upon it (including for purposes of avoiding tax penalties imposed by the IRS or state and local tax authorities). Advisors should consult with their firm's legal and tax counsel as to matters discussed herein. Clients should consult their own legal and tax counsel before entering into any investment, annuity, estate planning, or trust arrangement, and financial advisors should advise their clients to do so.

This presentation is designed to provide general information on the subjects covered. It is not, however, intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market or recommend any tax plan or arrangement. Please note that Boomfish Wealth Group, LLC and Wealth With No Regrets® and its representatives do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

The providing of this information as well as the information implied and presented is not related to, endorsed by, nor connected with and not approved by any government agency or organization.

You have the opportunity to visit with us one-on-one to discuss your specific circumstance in a private, comfortable setting. There is no obligation to you for this visit. At this visit you may be provided with information regarding the purchase of insurance or investment products, or establishing an advisory relationship.

Andrew Friedman does not endorse or recommend Wealth With No Regrets® in the providing of this material.

Copyright Andrew H. Friedman 2019. Printed by permission. All rights reserved.

**Presidential Elections
and the Markets**
HOW COULD IT IMPACT
YOUR RETIREMENT?

What to anticipate in 2020

WEALTH with **NO REGRETS**®

12600 Deerfield Pkwy, Suite 150, Alpharetta, GA 30004.

Barry@WealthWithNoRegrets.com and Scott@WealthWithNoRegrets.com

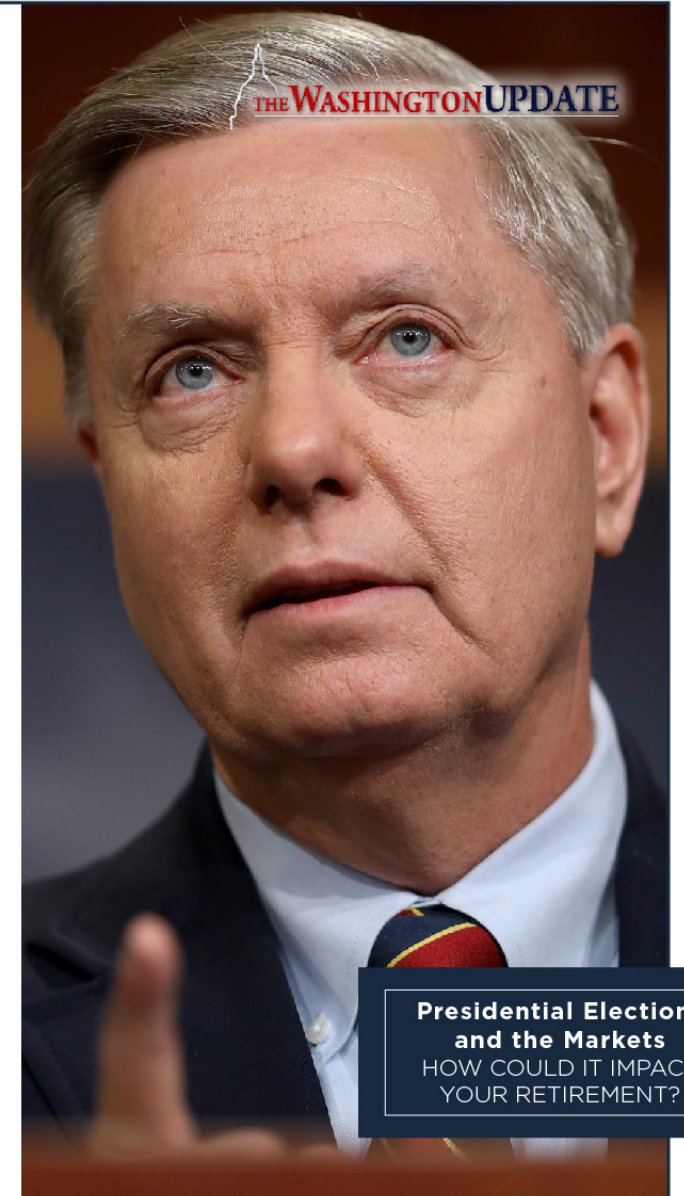
(678)278-9632

**Presidential Elections
and the Markets**
HOW COULD IT IMPACT
YOUR RETIREMENT?

Oversight of President

**“I don’t believe Trump
colluded with the Russians.
[Heck,] I don’t think he even
colludes with his own staff.”**

Sen. Lindsey Graham (R-S.C.)
(June 2017)



Democratic House - Oversight

- Administration oversight
 - Don't assume impeachment is the end of House oversight
 - House retains the power to
 - Undertake investigations
 - Compel document production
 - Subpoena power to force testimony under oath

Impeachment - Allegation

- House impeached President Trump, alleging two grounds:
 - Trump held up military aid unless the Ukraine president agreed to investigate possible illegal actions undertaken by Hunter Biden in that country for his own political gain
 - Trump, then obstructed justice by failing to turn over documents and by prohibiting White House officials to testify in response to the House inquiry regarding the matter

Impeachment – Senate voting

- Trial occurs in the Senate with Chief Justice presiding
- 2/3 (67 of 100) of Senators required to remove the President from office
- Republican majority (53 of 100) in Senate unlikely to convict, citing:
 - Trump's actions do not meet the high standard for conviction (“treason, bribery, or other high crimes and misdemeanors”)
 - Congress should not overturn the will of the electorate
 - Voters in upcoming election should decide whether Trump remains in office

Impeachment – Market reaction

- Markets regard impeachment as a political event not worthy of attention
- Markets might react negatively if new information places the Senate vote in doubt
- Investors don't want Trump's economic plan impeded
- Spill over effect
 - Trade negotiations
 - Pharmaceutical pricing reform
 - Surprise medical bill reform

Constitutional Showdown

- Democrats subpoenaed Trump tax returns; financial statements from Trump company accountants; loan documents from banks; testimony by administration officials
- Trump has sued to prevent submission of financial materials and has ordered officials not to testify; Democrats have sued to enforce subpoenas
- Ultimately the courts will decide standoff between executive and legislative branches

Sector Changes - Technology

- Bipartisan movement to investigate the actions of the large tech companies: Amazon, Apple, Facebook, Google
 - Areas of focus: Data privacy, anti-competitive behavior, failure to address spread of misinformation
 - The Administration (FTC and DOJ) and all 50 states are conducting their own antitrust investigations
- Regulatory changes?
- Even if no action taken, investigations cause headline risk

Sector Changes - Pharmaceuticals

- Committees in both houses are considering methods to limit drug prices
Proposals include:
 - Allowing Medicare to negotiate the purchase price for drugs
 - Capping increase in drug prices paid by Medicare
 - Requiring drug makers to pay rebates if costs exceed inflation
 - Capping seniors' out of pocket spending
- Differences in House and Senate versions suggest action is not imminent
- Headline risk for the sector should the media ramp up focus on the issue

Sector Changes- Healthcare/new court challenge

- Texas district court held that the basis for Roberts' opinion (based on tax levied) no longer applies now that the penalty is "gone", therefore, the entire Affordable Care Act (ACA/Obamacare) is unconstitutional
- Upon appeal, U.S. appeals court upheld the lower court decision
- Democrats asking the Supreme Court to hear the case this session
- Supreme Court decision would likely come at the end of June, 2020
- Assuming the law is validated by the Supreme Court again, it would be a sizable political win for the Democrats heading into the 2020 election

Affordable Care Act - Prognosis

- Legislation at either end of the political spectrum is unlikely
- Republicans (other than the President) are wary of eliminating the ACA
- Democrat demands for a single payer system raises concern among voters who want to keep their private insurance
- In the medium term, what's most likely are ACA tweaks with the addition of a public insurance option

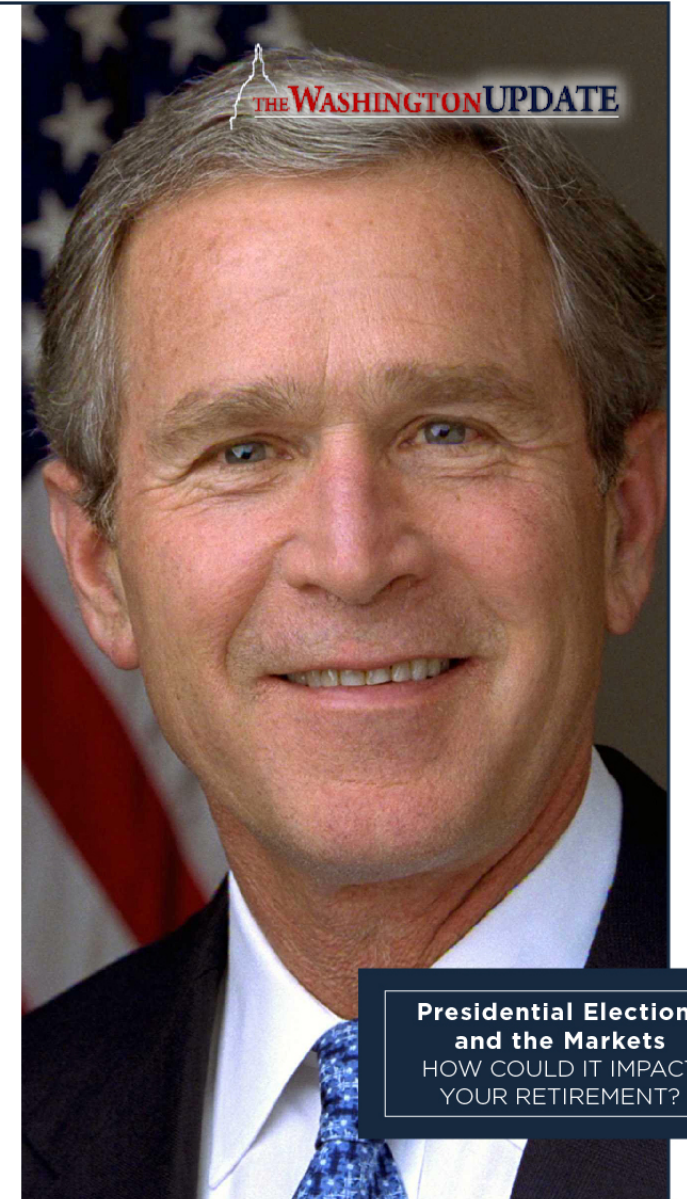
Trump Foreign Relations/Trade

- “America First”
 - Focus on domestic growth, not “exporting” democracy
 - Rejection of globalism, which has hurt American workers
 - Provide resources to protect borders

Trade

**“[The problem is]
more and more of our imports
are coming from overseas.”**

President George W. Bush (2000)



Trade and Tariffs

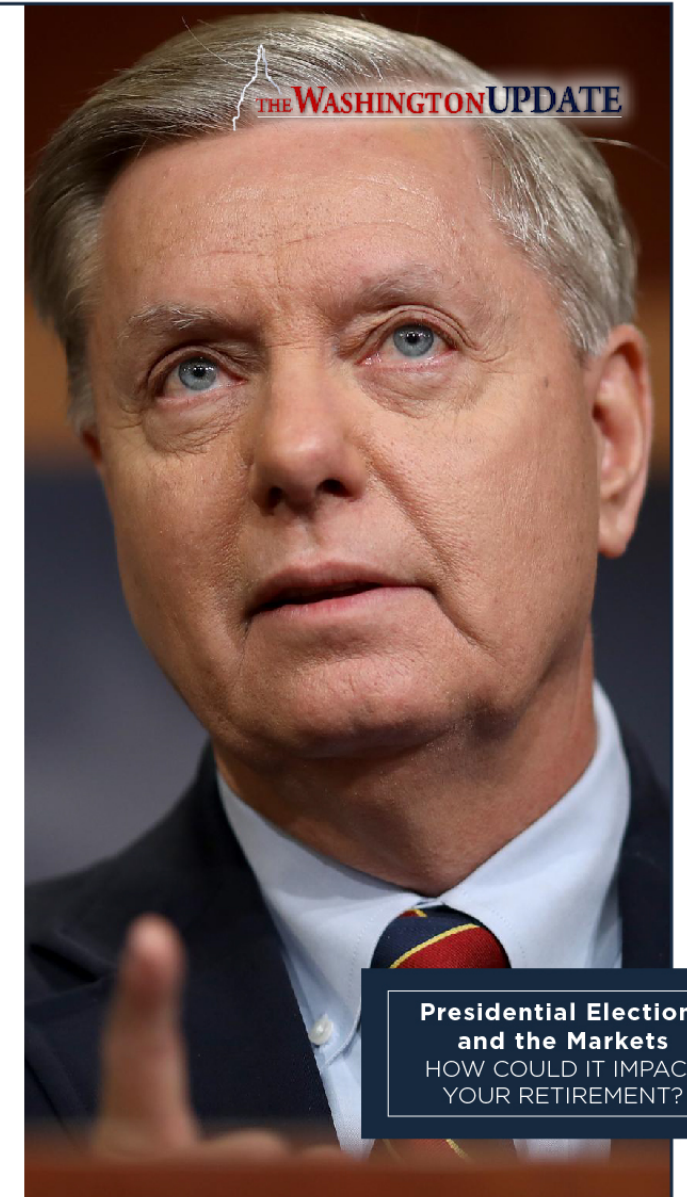
- To protect U.S. producers and encourage trading partners to renegotiate trade agreements, Trump has imposed tariffs on many goods entering the U.S.:
 - 10% tariff on imports of steel, aluminum, washer / dryers
 - 25% tariff on \$250B of Chinese-made machinery, industrial materials, and parts

Source: *Latest round of Trump's tariffs on China takes effect on many consumer goods. L.A. Times (September 1, 2019).*

Trade and Tariffs

“Simply put, any policy proposal which drives up costs of Corona, tequila, or margaritas is a big-time bad idea. Mucho Sad.”

Senator Lindsey Graham (R-SC) (in another context)
(February 2017)



**Presidential Elections
and the Markets**
HOW COULD IT IMPACT
YOUR RETIREMENT?

Trade and Tariffs – Concerns

- *Trade war:* U.S. trade partners retaliate with tariffs on U.S. goods, hurting U.S. exporting sectors (such as soybean producers, which sell most of their product to China)
- *Higher prices:* Tariff costs are passed on to U.S. manufacturers and consumers

Trade and Tariffs

- Example: washers and dryers
 - Increased purchase price: washing machine \$86, dryer \$92
 - Total additional spending by U.S. consumers: \$1.5 billion yearly
 - Less than 5% of the additional cost goes to the U.S. Treasury: \$82.2M
 - Consumer cost for each job created: \$815,000
- Metals tariffs cost GM and Ford \$1 billion each in 2019

Source: *The Production, Relocation, and Price Effects of US Trade Policy: The Case of Washing Machines*, Becker Friedman Institute, University of Chicago (April 19, 2019); Goldman Sachs (October 2, 2018).

Tariffs vs. Trade Treaties

- Perception of success or failure of tariff initiative causes market volatility
 - Tariffs tend to slow the economy by increasing prices and reducing purchases
 - *But* slowdown could prompt the Fed to reduce interest rates, providing a boost to economy and the markets
 - The 2019 interest rate cuts were, in large part, a reaction to this concern
 - Trade treaties, especially free trade treaties, tend to reduce prices and increase global purchases

Trade and Tariffs

“President Xi and I want this deal to happen, and it probably will. But if not remember - *I am a tariff man.*”

President Donald J. Trump’s official
Twitter account
(December 4, 2018)



China Agreement – Phase I

- **US agrees**
 - The existing 25% tariffs remain on middle market and raw materials
 - 15% tariffs implemented in September 1, 2019 are halved to 7.5%
 - December 15, 2019 scheduled tariffs cancelled

China Agreement – Phase I

- **China agrees**

- Purchase \$200B of U.S. goods over the next two years
 - \$45B of agricultural product, a 200% increase over 2019
- Loosening of U.S. joint venture ownership rules
 - Financial Services, Manufactured Goods, Agricultural, Energy, etc.
- Modest intellectual property protection
- End forced technology transfer
- Agrees to stop manipulating their currency

China Agreement – Phase II (unlikely)

- U.S. removes tariffs on all Chinese imports
- China reduces subsidies for state-owned companies
- China completely refrains from poaching U.S. intellectual property
- China agrees to effective enforcement mechanisms

2020 election

WEALTH with
NO REGRETS®

12600 Deerfield Pkwy, Suite 150, Alpharetta, GA 30004.

Barry@WealthWithNoRegrets.com and Scott@WealthWithNoRegrets.com

(678)278-9632

**Presidential Elections
and the Markets**
HOW COULD IT IMPACT
YOUR RETIREMENT?

15 Democratic Candidates for 2020

Federal

Biden (VP)
Delaney (MD)
Gabbard (HI)
Klobuchar (MN)
Sanders (VT)
Warren (MA)

State

Bennet (CO)
Bloomberg (NY)
Buttigieg (IN)
Patrick (MA)

Business

Steyer
Yang



Democratic Primaries

-Progressive vs. pragmatic

- Many Democrats remain pragmatic
- Their singular goal is to defeat Trump
- They are concerned that espousing too much change will scare independent voters
 - Pragmatic Democrats are less vocal and might express their preference more in the voting booth

Democratic Primaries - Progressive vs. pragmatic

- Many Democrats seek profound change in areas such as:
 - Single-payer healthcare
 - Immigration
 - Gun control
 - Minimum wage
 - Tuition free college
 - Erase student debt
- To these voters, Biden represents the party's past, not its future

Progressive Democrat Candidates

– Volatility

- Markets could react negatively if progressive candidate takes the lead in polls
- Progressive's agenda affects many sectors:
 - Pharmaceutical and health insurers: Medicare-for-All, drug pricing controls
 - Defense companies: reduced focus and funding for on defense
 - Energy companies: movement toward Green New Deal
 - Large tech breakups: Amazon, Apple, Facebook, Google
 - Financial services: restore Glass-Steagall, roll back deregulation, tax securities transactions

Sources: *Wall Street Is Worried About Elizabeth Warren. It's Right to Take Her Seriously*, Wash Post (Sept 20, 2019).

Democratic Candidates - Tax proposals

- Repeal Tax Cuts and Jobs Act
- Increase income and estate tax rates on very wealthy
- End stepped-up basis at death
- Annual “wealth” tax on assets
- Surtax on corporate book profits
- Tax corporate worldwide income at 35% with no deferral
- Tax on securities transactions

Brokered Convention?

- With so many candidates, is a brokered convention likely?
- Changes in party rules increase the likelihood:
 - Primaries will use proportional allocation for candidates with > 15% of vote, so states will split their convention votes
 - New York and California have earlier primary dates. Candidates might stay until then, further splitting the delegate allocation
 - “Super Delegates” may not vote on convention’s first ballot

Source: *Washington Weekly, UBS (May 29, 2019)*

General Election

- Most current polling is sampled nationally
- State voting determines the election, i.e. Electoral College
 - For instance, we know California and New York will go Democrat, so why count Trump supporters in California and New York?
 - National polls only accomplish two things
 - Influence perception
 - Perpetuate momentum
- Focus on state-based polling, specifically the toss-up states

General Election

- Four determinative states: Pennsylvania, Michigan, Wisconsin, Florida
 - Republicans flipped each of these states in 2016
 - Trump won each by 1 percentage point or less
 - To win the election, Florida loser must win all three to win the Electoral College
- Other states with modest chances to flip:
 - NC, AZ, GA to Democrats
 - NH, MN, NV, NM to Republicans

Source: *The 2020 electoral map could be the smallest in years, Washington Post (August 31, 2019).*

General Election

“It’s no exaggeration to say that the undecideds could go one way or another.”

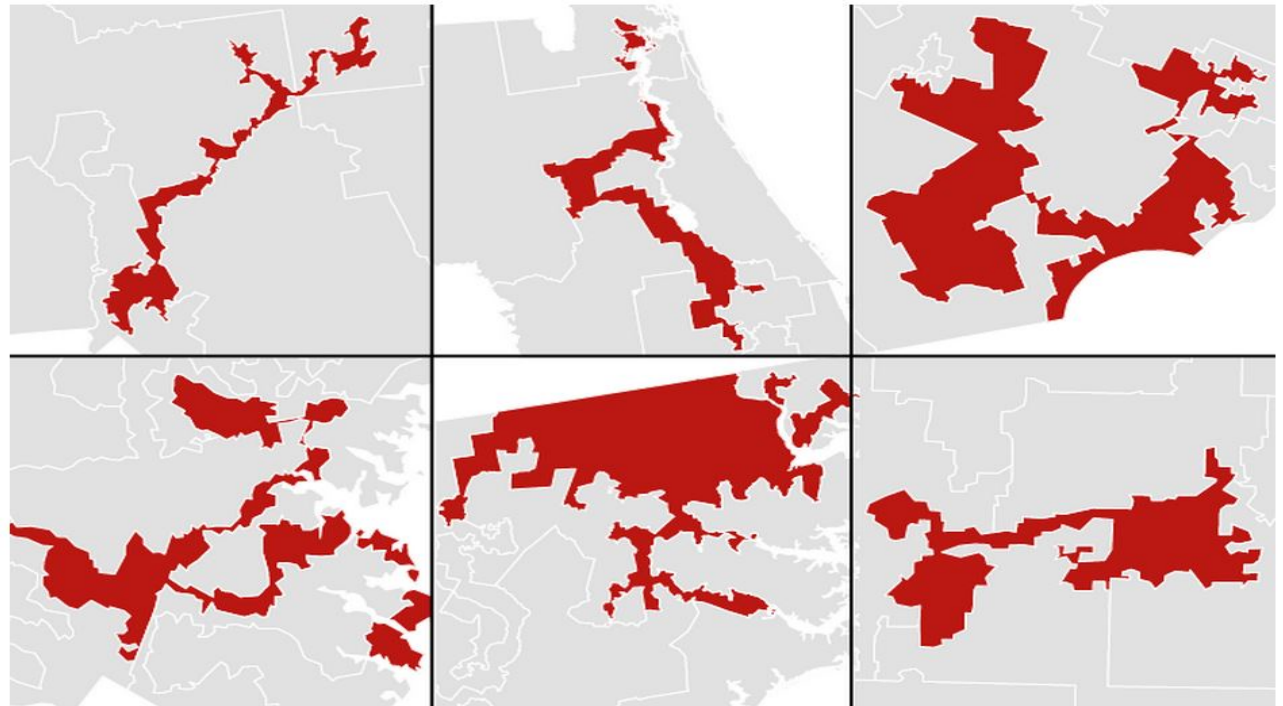
President, George H. Bush

	Approve	Disapprove	Undecided
Job Approval	40%	52%	8%
Healthcare	37%	48%	14%
Economy	50%	38%	13%
Immigration	43%	48%	10%

The Economist/YouGov December 28-31, 2019

House of Representatives

- U.S. Supreme Court finds the constitution does not prevent political gerrymandering
- But some states have begun to prohibit political gerrymandering within their borders
 - Maryland
 - North Carolina
 - Pennsylvania



House of Representatives

- Republicans must pick up 19 seats to win the House
 - 21 Republican incumbents are retiring
 - 23 districts are rated vulnerable
 - If Democrats win only 6, they will retain the House

Democrats likely to keep House

Source: *2020 House Overview: Can Republicans Stave Off a Mass Exodus?*, Cook Political Report (August 13, 2019).

Senate

- Control of Senate is crucial
 - Senate can block White House legislative agenda and expedite court nominations
- Republicans have a 53-47 majority in the Senate
- Democrats must pick up 3 seats if they win the White House, 4 if they don't
- 35 Senators in the class of 2020
- Each party is defending two seats in states won by the other party in 2016
 - Republicans at risk: Maine & Colorado
 - Democrats at risk: Alabama & Michigan

Senate - Handicapping

- Republicans are likely to win back Alabama
- Democrats must then pick up 4 or 5 seats depending on who wins the White House
 - Possible Democratic pick-ups: Colorado, Arizona, North Carolina, Maine
 - Stretch Democratic flips: Iowa, Georgia (2), Texas
 - Stretch Republican flips: Michigan, New Hampshire

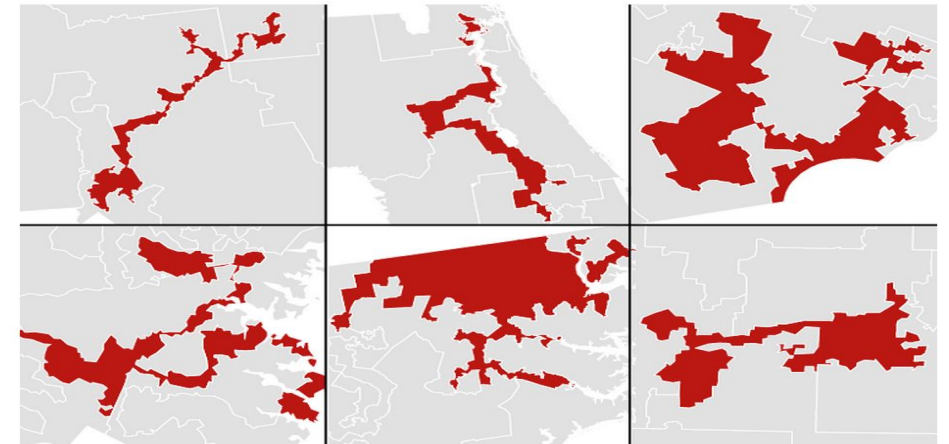
Senate likely to stay Republican

Gubernatorial Elections

Governorships			
	2016	2018	2020
Republicans	33	27	?
Democrats	17	23*	?

*Democratic gains included PA & WI

Governors sitting in 2020 will oversee the next redrawing of the House districts



Economic and Market Consequences

- *Positive effect:* Lower tax rates and reduced regulation
- *Volatility concerns:*
 - Showdown between Trump and House escalates
 - Tariffs vs. trade agreements / NAFTA repeal
 - Technology hearings and investigations
 - Pharmaceutical price controls
 - Trump moves to fire or demote Powell
 - Progressive Democrat becomes favorite

WEALTH with NO REGRETS[®]

12600 Deerfield Pkwy, Suite 150, Alpharetta, GA 30004.

Barry@WealthWithNoRegrets.com and Scott@WealthWithNoRegrets.com

(678)278-9632

 **THE WASHINGTON UPDATE[®]**
FROM ANDY FRIEDMAN