

The 2016 US Elections: Making sense of this most unusual election cycle

FHLB Conference
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Passion to Perform



They said it...



“You may have seen I recently launched a Snapchat account. I love it. I love it. Those messages disappear all by themselves!”

- Hillary Clinton

Hugh Hewitt: “Last night, you said the President was the founder of ISIS. I know what you meant. You meant that he created the vacuum, he lost the peace.”

Donald Trump: “No, I meant he’s the founder of ISIS.”

- Hugh Hewitt Radio Show

“In politics, absurdity is not a handicap.”

- Napoleon Bonaparte



“Americans today face a profound challenge to preserve our common values and national promise.

Wage stagnation at home and our declining influence abroad have left Americans angry and frustrated. And yet Washington, D.C., offers nothing but gridlock and partisan finger-pointing.

Worse, the current presidential candidates are offering scapegoats instead of solutions, and they are promising results that they can’t possibly deliver. Rather than explaining how they will break the fever of partisanship that is crippling Washington, they are doubling down on dysfunction.

Over the course of American history, both parties have tended to nominate presidential candidates who stay close to and build from the center. But that tradition may be breaking down. Extremism is on the march, and unless we stop it, our problems at home and abroad will grow worse.”

- Former New York Mayor Michael Bloomberg

Let's review: from so many to two



REPUBLICAN

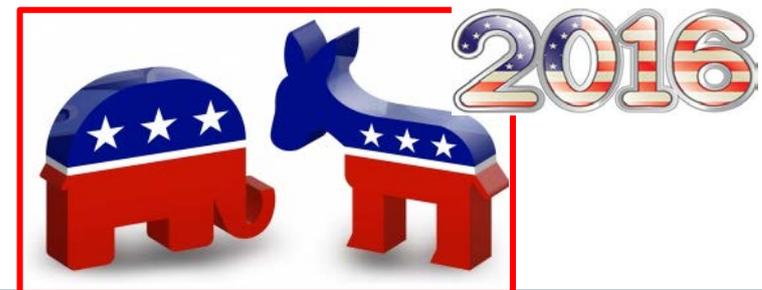
DONALD TRUMP

~~Senator Ted Cruz (R-TX)~~
~~Gov. John Kasich (R-OH)~~
~~Senator Marco Rubio (R-FL)~~
~~Ex-Gov. Jeb Bush (R-FL)~~
~~Senator Rand Paul (R-KY)~~
~~Dr. Ben Carson MD~~
~~Gov. Chris Christie (R-NJ)~~
~~ex-Senator Rick Santorum (R-PA)~~
~~Ex-HP CEO Carly Fiorina~~
~~Ex-Gov. Jim Gilmore (R-VA)~~
~~Ex-Gov. Mike Huckabee (R-AK)~~
~~Gov. Scott Walker (R-WI)~~
~~Senator Lindsey Graham (R-SC)~~
~~Ex-Gov. George Pataki (R-NY)~~
~~Ex-Gov. Bobby Jindal (R-LA)~~
~~Ex-Gov. Rick Perry (R-TX)~~

DEMOCRAT

Hillary Clinton

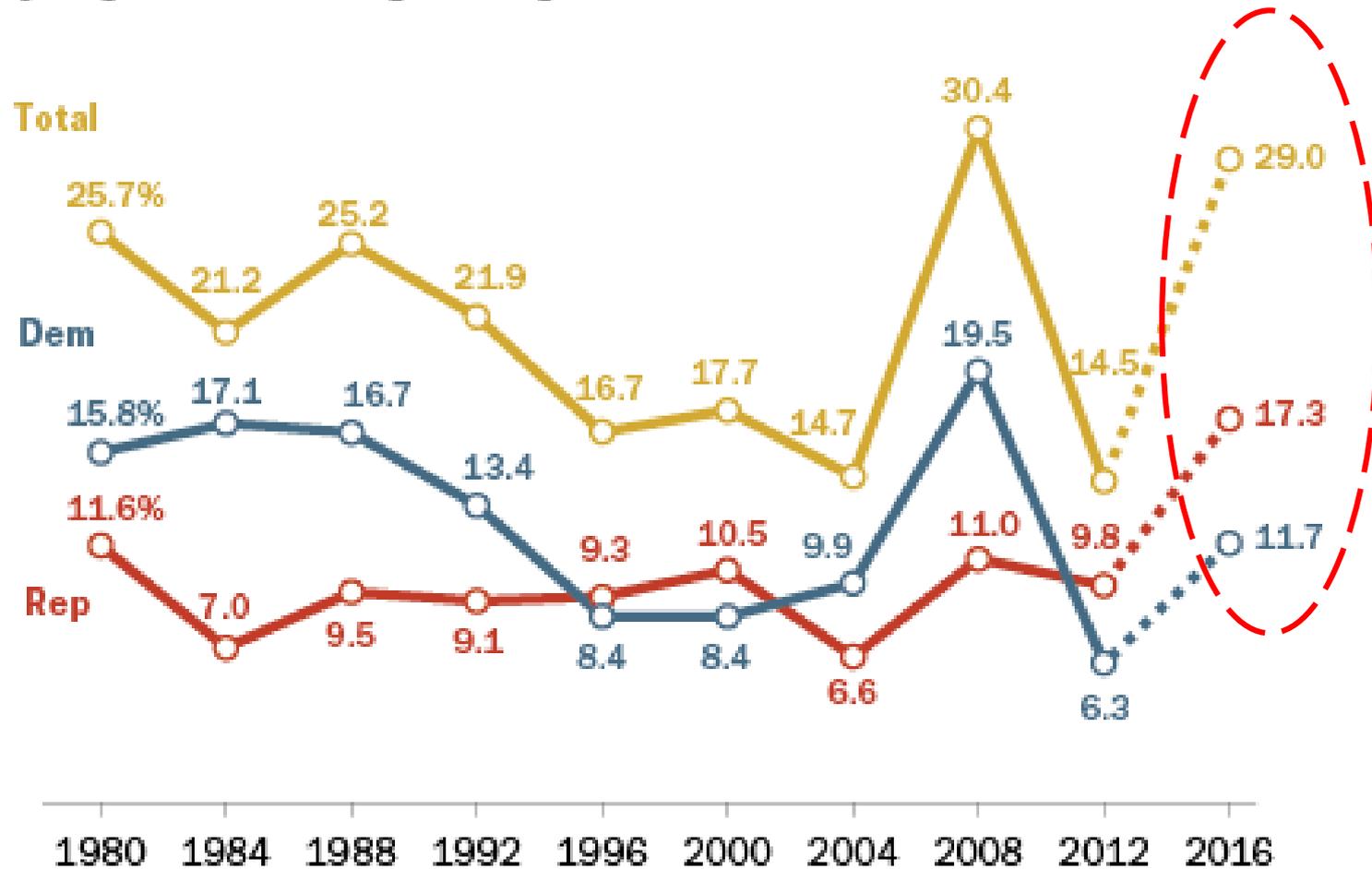
~~Senator Bernie Sanders (D-VT)~~
~~Ex-Gov. Martin O'Malley (D-MD)~~
~~Harvard Professor Lawrence Lessig~~
~~Sen. Elizabeth Warren (D-MA)~~
~~Ex-Senator Jim Webb (D-VA)~~
~~Ex-Governor Lincoln Chaffee (D-RI)~~



How engaged are voters so far this election cycle? Very – voters are back in a big way this year

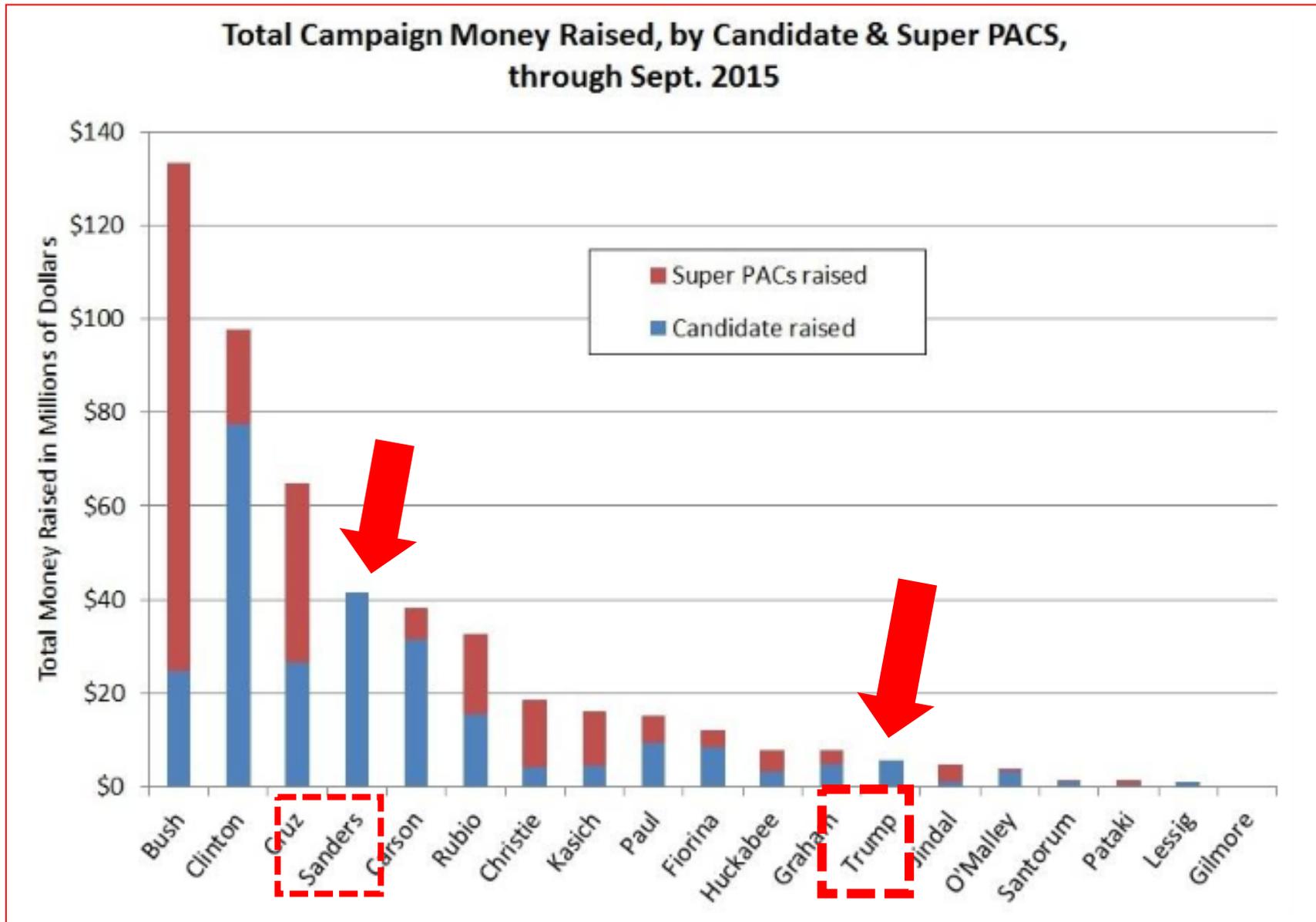


Votes cast in Democratic and Republican primaries as a share of eligible voters in primary states



Source: Pew Research Center

The biggest surprise of the 2016 campaigns? Money has not mattered... so far



Now that we are down to two candidates, how is the money factoring in?



*in millions	Clinton	Trump
Total Raised (Campaign)	\$264.3	\$88.9
Total Raised (Outside)	\$110.2	\$9.7
Total Raised (Combined)	\$374.5	\$98.7
Cash on Hand (Campaign)	\$44.3	\$20.2
Cash on Hand (Combined)	\$84.1	\$22.3

**as of August 10, 2016*

Source: Opensecrets.org; Peck Madigan Jones

Does anyone like either of these two candidates?

Not really



Clinton

	Men	Women		18-29	30-45	46-65	Older
Favorable	40%	50%	Favorable	46%	52%	41%	42%
Unfavorable	56%	46%	Unfavorable	46%	45%	55%	55%
Unsure	4%	5%	Unsure	8%	3%	4%	5%

Overall: 42.9% Favorable to **52.7% Unfavorable** (-9.8 spread)
Qualified to serve as president (NBC/WSJ Poll): **60% Yes** vs. 38% No

Trump

	Men	Women		18-29	30-45	46-65	Older
Favorable	38%	35%	Favorable	28%	32%	41%	41%
Unfavorable	57%	59%	Unfavorable	64%	63%	55%	55%
Unsure	5%	5%	Unsure	5%	5%	5%	5%

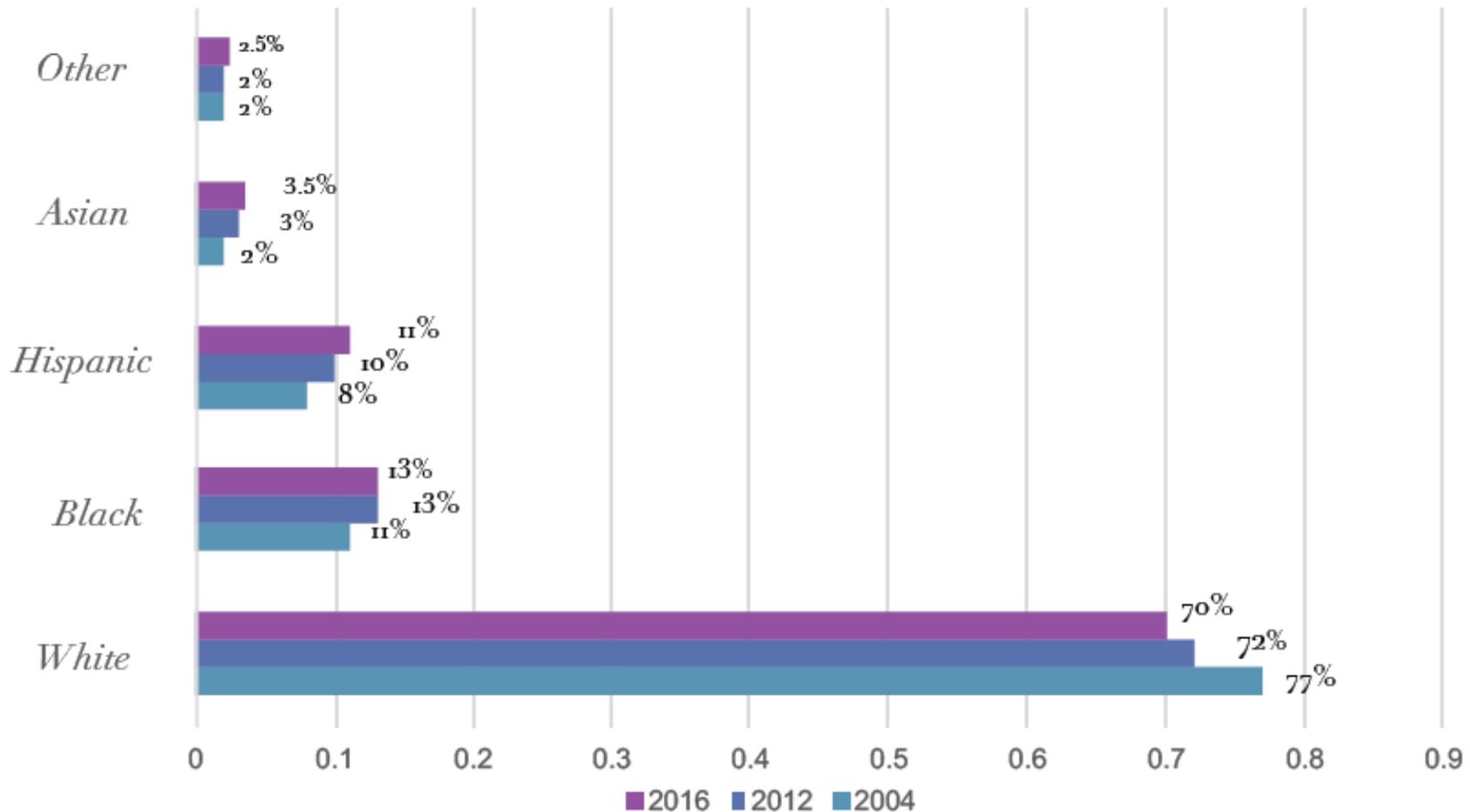
Overall: 33.3% Favorable to **60.8% Unfavorable** (-37.5 spread)
Qualified to serve as president (NBC/WSJ Poll): 38% Yes vs. **61% No**

Source: NBC/WSJ Polling; Vox; Public Policy Polling

What has changed since the last couple of elections? The electorate of the US, that's what



2004 vs. 2012 vs. 2016 Electorate



Source: AP; Cook Political Report

What are voters most worried about *today*?



	%
The economy	19
Immigration	14
Healthcare/Healthcare costs/Healthcare reform	10
Defense/National Defense/Homeland security	9
Education	8
The federal deficit/The budget	7
Wages/Earning a decent wage/Decline of middle class	6
Jobs/Unemployment	6
Terrorism	5
Foreign policy/affairs	4
Big government/Government invasion of privacy	4
Race relations/Equal rights	3
Restoring respect to the office of president	3
Taxes	2

Gallup: May 18-22, 2016

What issues that drove voters to the polls in the early primaries?



What do you think is the most important problem facing this country today?

[OPEN-ENDED]

Recent trend

	Mar 2-6, 2016	Feb 3-7, 2016	Jan 6-10, 2016	Dec 2-6, 2015
	%	%	%	%
ECONOMIC PROBLEMS (NET)	39	39	27	21
Economy in general	17	17	13	9
Unemployment/Jobs	11	10	5	6
Federal budget deficit/Federal debt	5	6	5	2
Gap between rich and poor	3	2	1	2
Lack of money	2	3	1	1
Taxes	1	1	1	1
Corporate corruption	1	1	*	1
Wage issues	1	2	1	1
High cost of living/Inflation	1	*	1	1
Foreign trade/Trade deficit	*	*	--	*
Fuel/Oil prices	--	*	*	--

Source: Gallup

Additionally, the non-economic issues go back to anger at Washington first and foremost



NON-ECONOMIC PROBLEMS (NET)	72	70	76	83
Dissatisfaction with government	15	13	16	13
Immigration/Illegal aliens	8	10	8	5
Healthcare	8	6	4	3
Race relations/Racism	6	5	6	4
Terrorism	6	7	9	16
Elections/Election reform	5	*	2	*
Ethics/Moral/Religious decline	4	2	4	6
Education	4	5	3	3
National security	3	7	3	5
Poverty/ Hunger/Homelessness	3	3	4	4
Foreign policy/Foreign aid/Focus overseas	3	2	2	3
Unifying the country	3	2	*	1
Lack of respect for each other	2	3	1	1
Crime/Violence	2	4	2	6
Environment/Pollution	2	1	2	3
Situation in Iraq/ISIS	2	3	3	6
Judicial system/Courts/Laws	2	2	1	2
Guns/Gun control	1	2	7	7
Welfare	1	1	1	2
Lack of military defense	1	1	1	1
Drugs	1	*	1	*
Wars/War (nonspecific)/Fear of war	1	1	1	2

Source: Gallup

So what do voters think of all this? A letter to the editor says it all



Objection from a former sailor

To the Editor:

I object and take exception to everyone saying that Obama and Congress are spending money like a drunken sailor. As a former drunken sailor, I quit when I ran out of money.

**- Bruce L. Hargraves
US Navy Retired
Worland, Wyoming**

Do you think the country is headed in right direction or wrong?

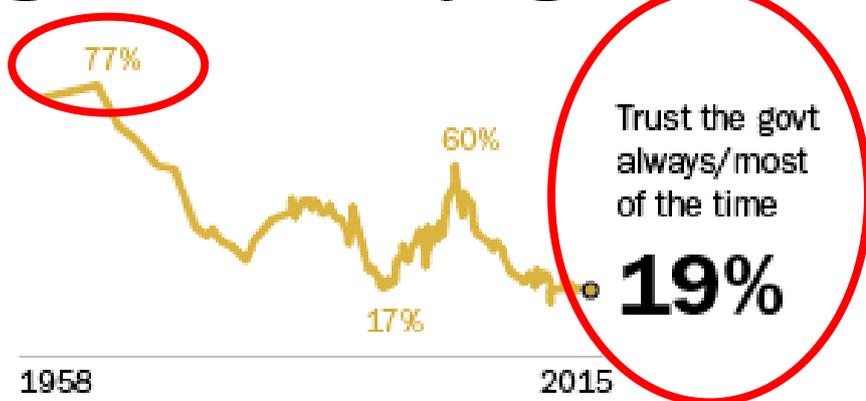


Source: National Journal; Gallup; NBC/WSJ

But where is all the anger coming from? Anger at government in general – and Obama in particular

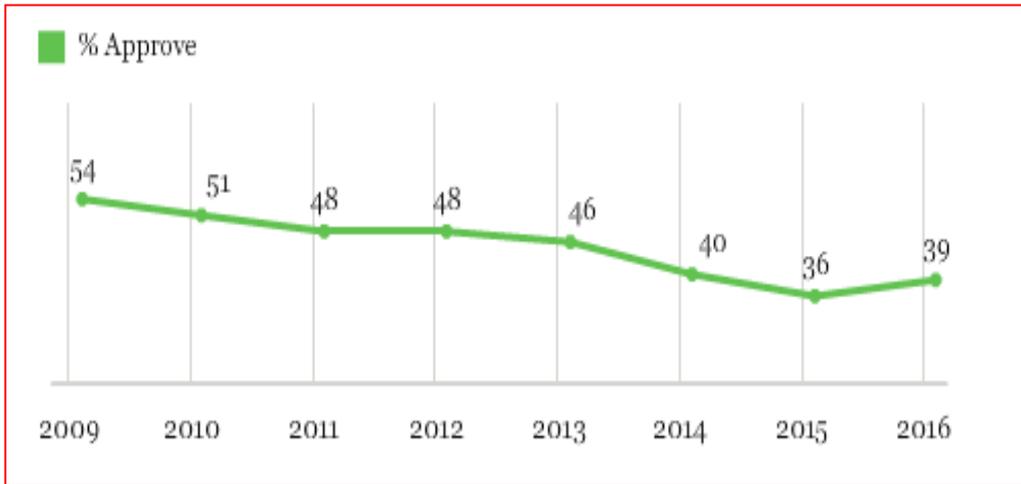


Americans' overall views of the federal government are very negative ...

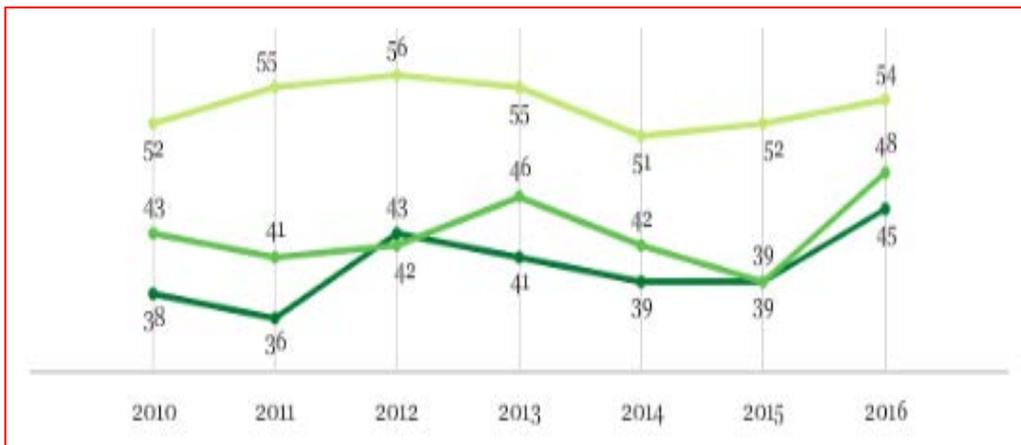


74% Most elected officials put own interests ahead of country's

55% Ordinary Americans would do better job solving problems



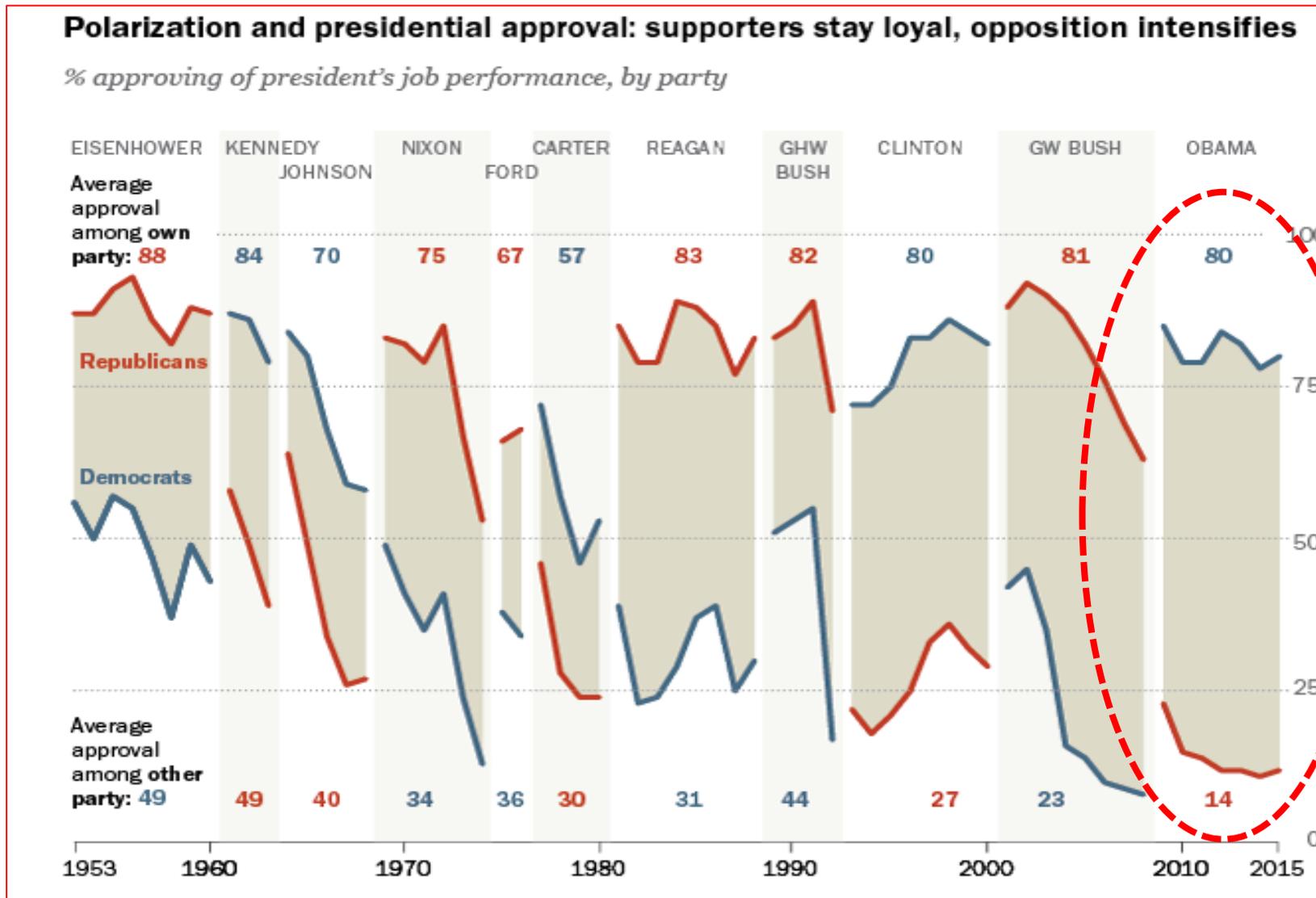
Voters view of how President Obama is handling foreign Policy (above) and view of Obama economic policy (below).



Source: Pew Research

Source: Gallup

The Obama years have been more polarizing than any of his predecessors in the last 60 years



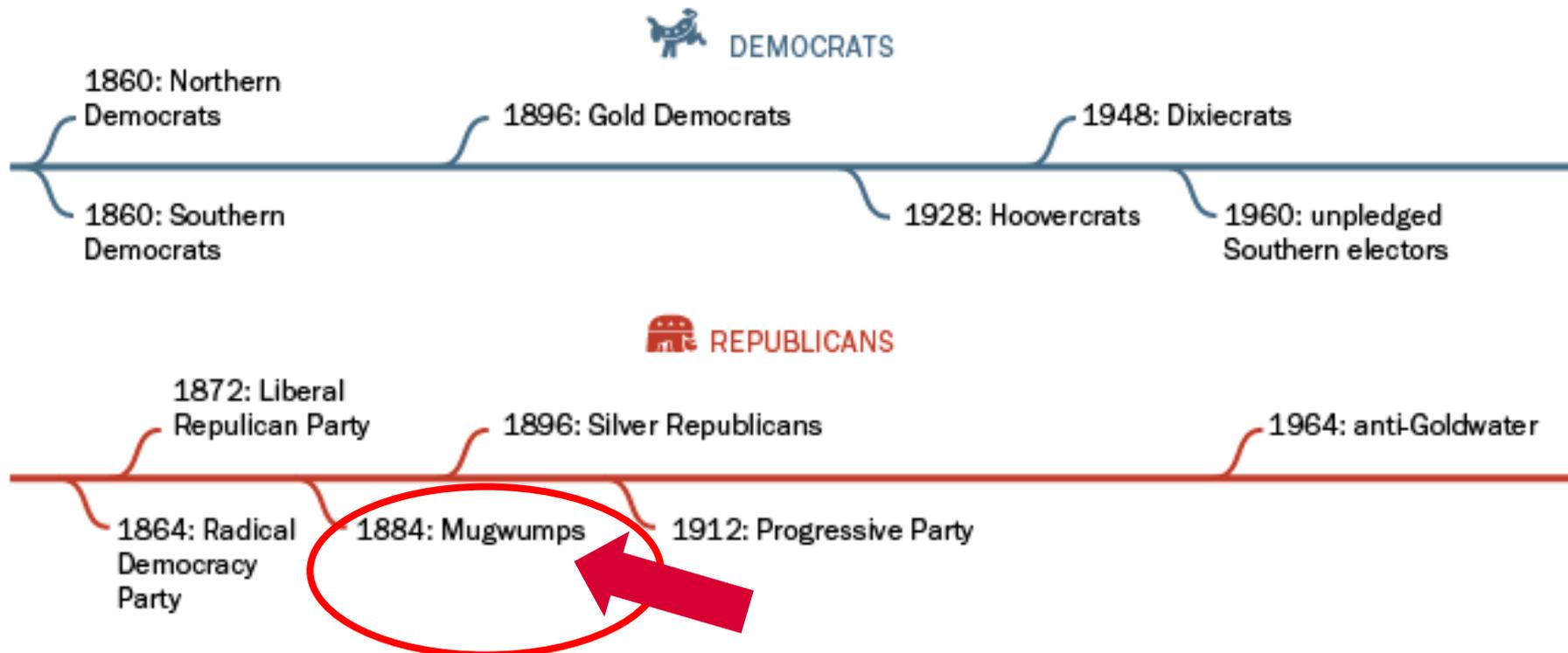
Source: Gallup

Just how unusual is this presidential election cycle?
Not that unusual as history repeats itself...



Major party splinters in presidential elections

Major party splinters in presidential elections



Source: Pew Research Center

Have we seen this before? Mugwumps and James G. Blaine in 1884



-Blaine was the Republican nominee for president in 1884. He lost to Grover Cleveland.

- Blaine was a former Speaker of the House, twice Secretary of State and a longtime congressman from Maine. Also served as a US Senator.

- The rise of the “Mugwumps”: Republicans disgusted with Blaine’s extensive corruption and perceived anti-Irish/anti-immigrant views. Led by elite Boston and New York Republicans who felt repulsed by the direction of the party (Henry Adams, Louise Brandeis, Charles William Eliot, etc.)

- But what killed Blaine’s efforts was the Republican chant that the Democratic Party was the “party of rum, Romanism and rebellion!”

Republicans were also famous for tagging Cleveland with the chant “Ma, Ma where is my Pa?”

Democrats quickly responded: “To the White House! Ha! Ha! Ha!”

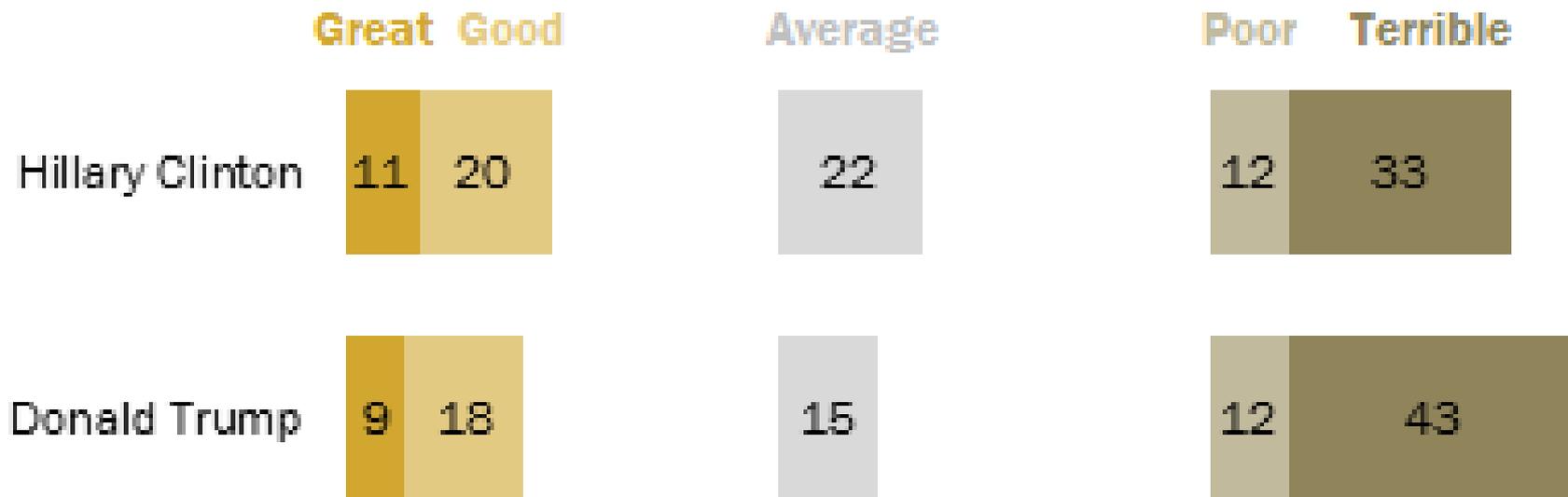


A race to the bottom: moving toward picking candidates who are most likely to fail



Neither Trump nor Clinton expected to be a 'good' or 'great' president

% of registered voters saying each would be a ____ president if elected



Pew Research Poll taken between August 9-16, 2016

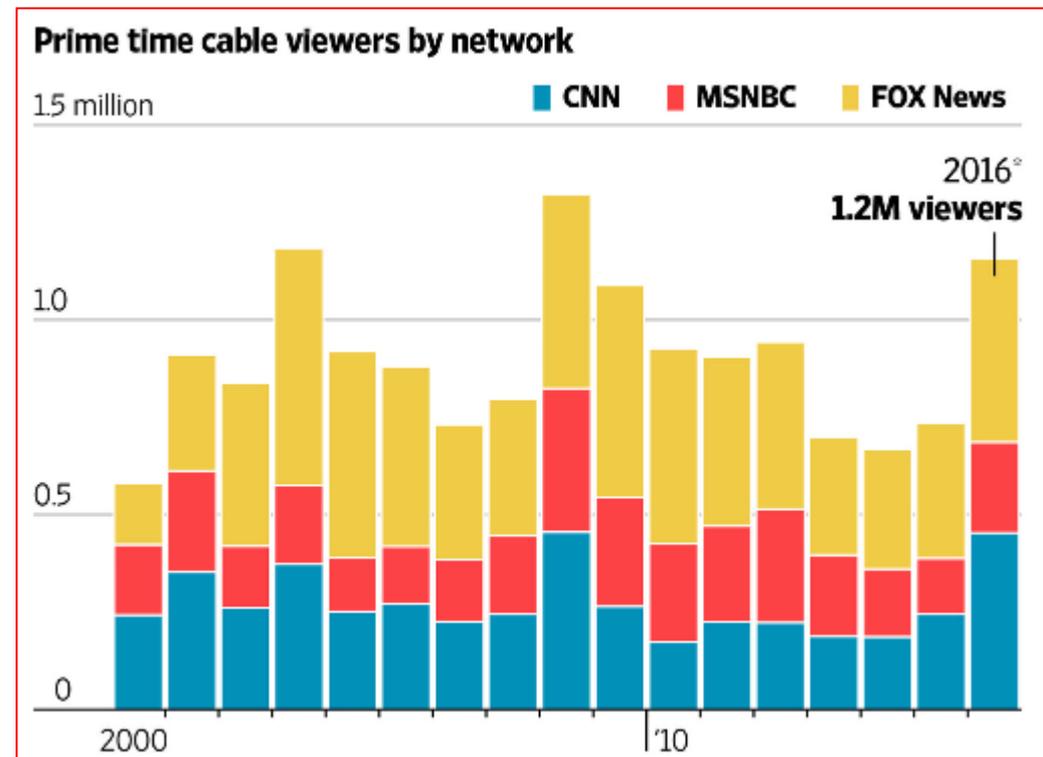
Why all the breaking news and constant debates? Three words: Money, Money, Money



“When CNN President Jeff Zucker saw the ratings for Fox News’s first Republican debate last August—a staggering 24 million viewers—he immediately called up his head of advertising sales and told her to raise prices, by a lot.”

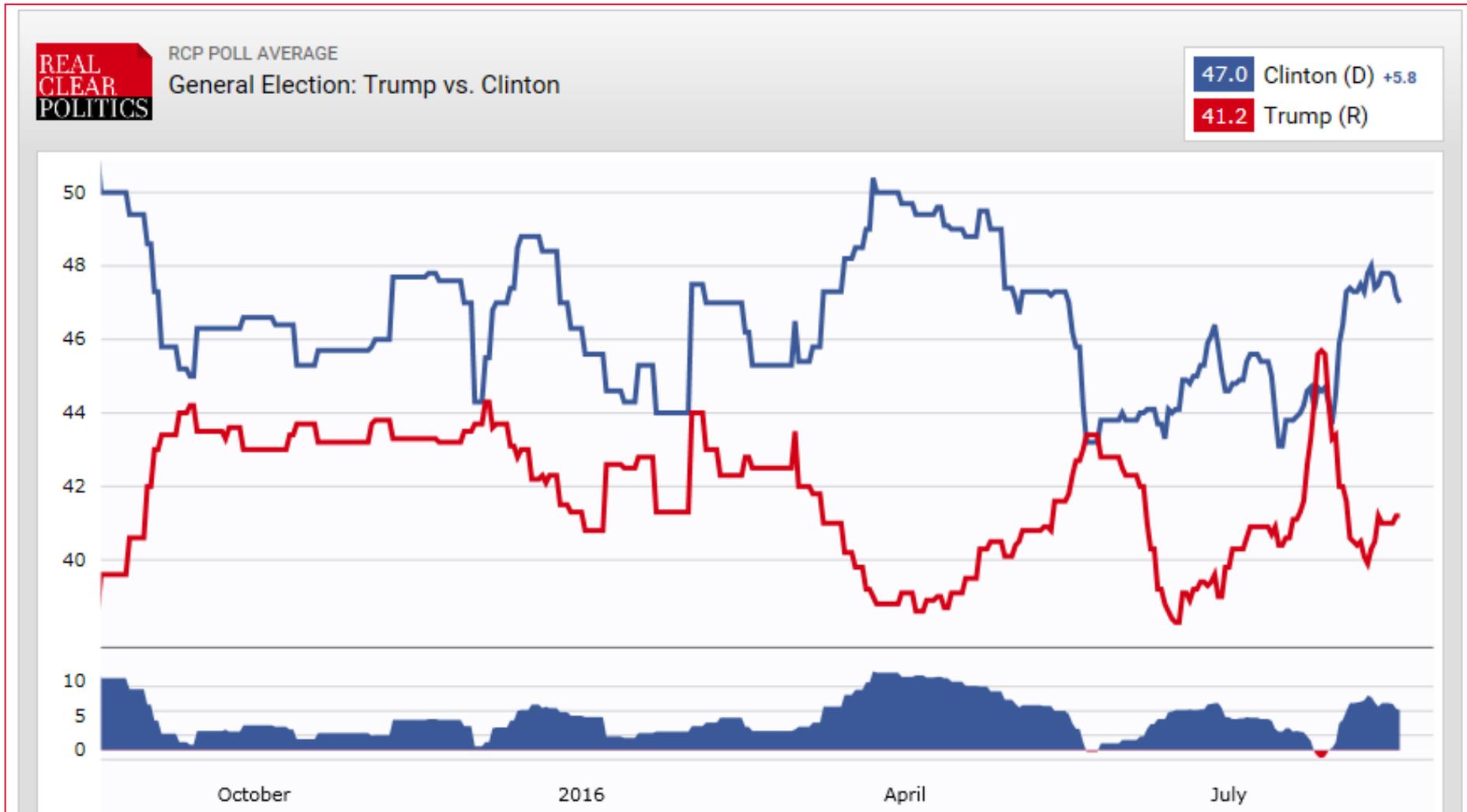
“It charged advertisers as much as \$200,000 for a 30-second spot, roughly 40 times its usual prime-time price, and continued to raise prices across its schedule as interest in the election escalated, according to people familiar with the matter.”

- Wall Street Journal
May 1, 2016



Source: Wall Street Journal

But for now, polls suggest Clinton will beats Trump – is there any chance for Trump to close the lead?



Source: Realclearpoitics.com

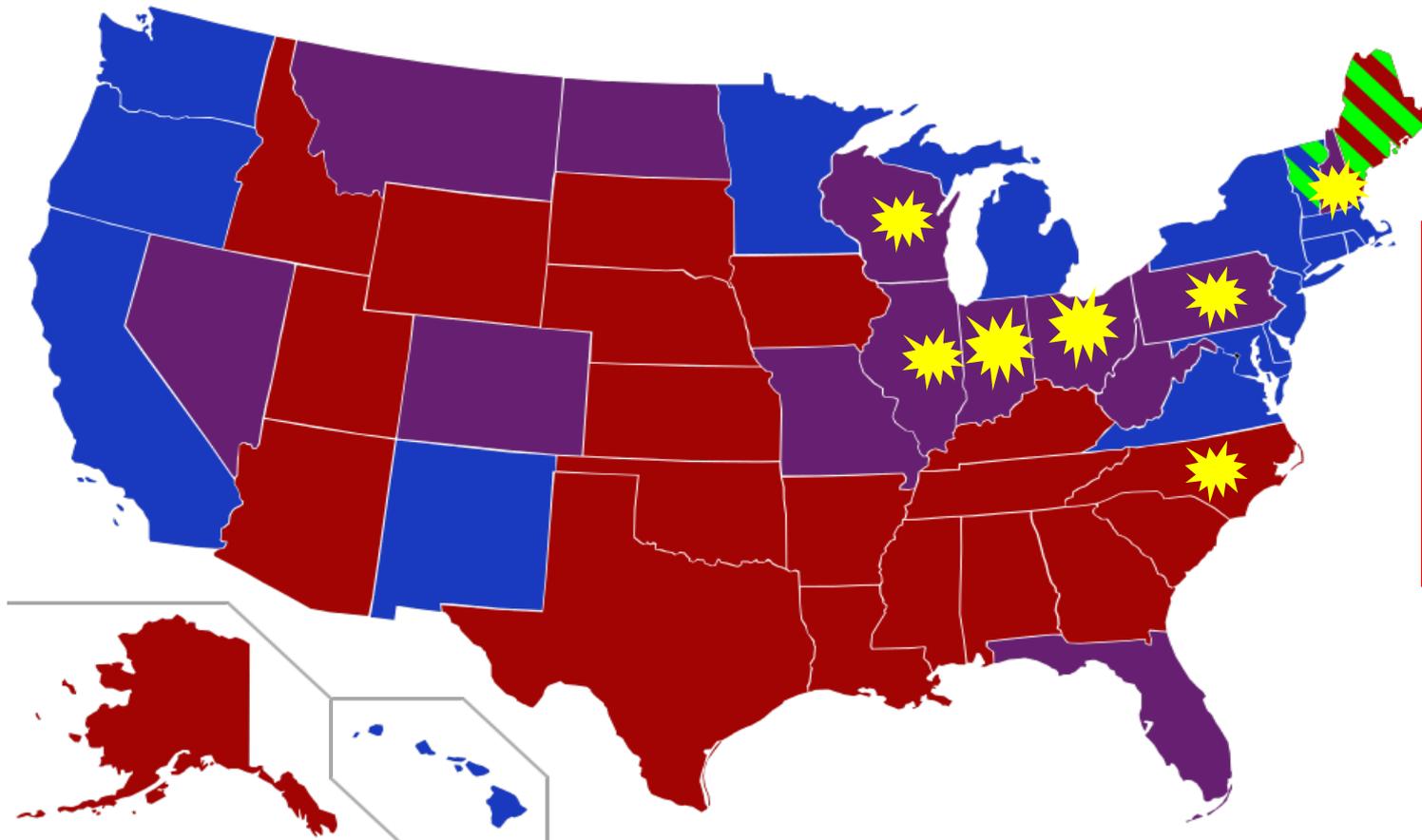
But the markets need to watch who has control of the Senate – and Democrats seem to have an edge



Current Make-Up of Senate:

- **44 Democrats**
- **54 Republicans**

- **34 seats up for election**
- **24 GOP and 10 Democratic**
- In order to gain a majority, **Democrats must gain 5 seats** (4 if they retain the White House).



Watch NH, PA, OH, NC, IL, IN and WI as to whether Republicans hold the Senate.

The US: Washington's 2016 agenda: What they did in 2015 and what to expect in the "Lame Duck"



Despite the dramatic press accounts, Washington has been getting things done. A positive for the political process and for the Nation. It may have been messy but here is what they did in 2015:

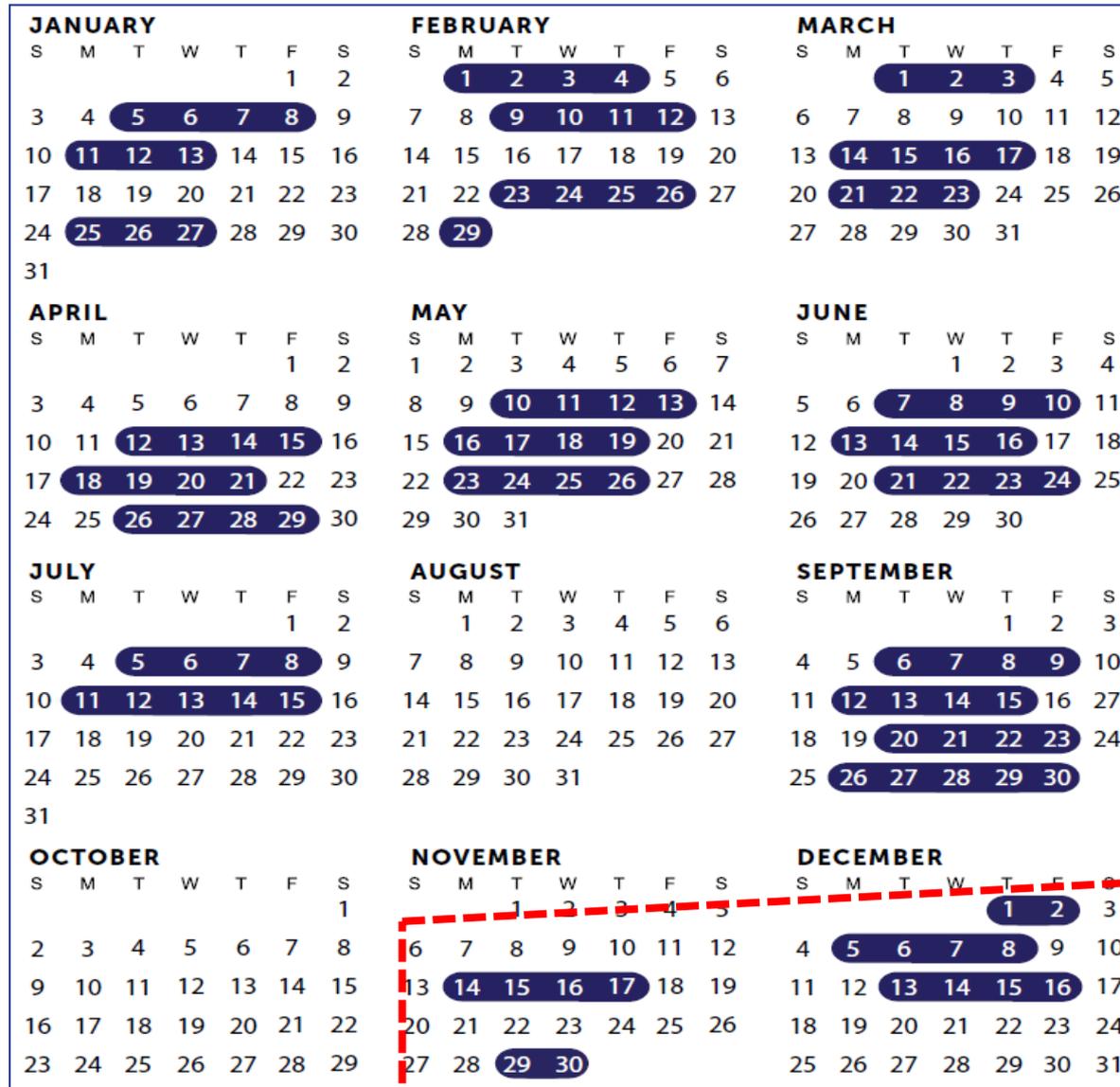
- ✓ Trade Promotion Authority (TPA)
- ✓ A federal budget & Debt Ceiling Raise
- ✓ Iran Nuclear Deal (by not blocking it)
- ✓ Medicare Payment & CHIP funding
- ✓ Homeland Security funding
- ✓ Appropriations
- ✓ Repealing Oil Export Ban
- ✓ Highway Funding Bill
- ✓ Permanent Tax extensions

So what is left for 2016? Not much – and most of it will be done after elections ("Lame Duck session"):

- Ratify The Trans Pacific Partnership (TPP)
- 2017 budget & appropriations



When The House of Representatives has work schedules like this, no wonder voters are mad



Days they are in Session are in blue.

The expected
Lame Duck
Session



Source: House Clerk's Office

And the Senate is not much better... they just made their calendar a little harder to read



JANUARY							FEBRUARY							MARCH						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
					1	2	1	2	3	4	5	6			1	2	3	4	5	
3	4	5	6	7	8	9	7	8	9	10	11	12	13	6	7	8	9	10	11	12
10	11	12	13	14	15	16	14	15	16	17	18	19	20	13	14	15	16	17	18	19
17	18	19	20	21	22	23	21	22	23	24	25	26	27	20	21	22	23	24	25	26
24	25	26	27	28	29	30	28	29	27	28	29	30	31							
31	SENATE CONVENES JANUARY 11, 2016																			
APRIL							MAY							JUNE						
					1	2	1	2	3	4	5	6	7			1	2	3	4	
3	4	5	6	7	8	9	8	9	10	11	12	13	14	5	6	7	8	9	10	11
10	11	12	13	14	15	16	15	16	17	18	19	20	21	12	13	14	15	16	17	18
17	18	19	20	21	22	23	22	23	24	25	26	27	28	19	20	21	22	23	24	25
24	25	26	27	28	29	30	29	30	31	26	27	28	29	30						
JULY							AUGUST							SEPTEMBER						
					1	2	1	2	3	4	5	6				1	2	3		
3	4	5	6	7	8	9	7	8	9	10	11	12	13	4	5	6	7	8	9	10
10	11	12	13	14	15	16	14	15	16	17	18	19	20	11	12	13	14	15	16	17
17	18	19	20	21	22	23	21	22	23	24	25	26	27	18	19	20	21	22	23	24
24	25	26	27	28	29	30	28	29	30	31	25	26	27	28	29	30				
31																				
OCTOBER							NOVEMBER							DECEMBER						
						1	1	2	3	4	5	1	2	3						
2	3	4	5	6	7	8	6	7	8	9	10	11	12	4	5	6	7	8	9	10
9	10	11	12	13	14	15	13	14	15	16	17	18	19	11	12	13	14	15	16	17
16	17	18	19	20	21	22	20	21	22	23	24	25	26	18	19	20	21	22	23	24
23	24	25	26	27	28	29	27	28	29	30	25	26	27	28	29	30	31			
30	31																			

Days they are in Session are in blue.

The expected
Lame Duck
Session



Source: US Senate

If the Democrats do win control of the Senate, what sectors will most likely be most impacted?



-Financial Services:

- Key Democrats in Senate Banking Committee (led by Senator Elizabeth Warren (D-MA) will seek to push for further regulation of investment banks including potential legislation to break up the banks. Multiple hearings/investigations likely to be launched into activities of banks and role of regulators.
- **“Shadow Banking”** – particularly private equity and hedge funds – would come under new scrutiny via hearings and investigations by Senate Banking Committee. New regulations/oversight likely.
 - Federal Reserve would find new protection from Congressional (mostly Republican) regulatory and monetary policy scrutiny.
- Unlikely any significant reforms to GSE’s will occur as House Republicans will continue to differ with Senate Democrats on architecture and charter of new entities.
 - **Two Key Questions:** What will likely Senate Majority Leader Chuck Schumer (D-NY) do to assist New York’s financial sector from more onerous regulation? And at what point does the seemingly insatiable appetite to criticize Wall Street on the campaign trail begin to wane in the halls of Congress? Unclear at this point in time.

Sectors most likely to be focused on by Democratic Senate (continued)



Tax Reform:

- House Republican efforts to create a “Blue Print” plan for corporate and international tax reform by Q1 2017 will be presented in June 2016. Unclear what Senate Democratic Leadership will entertain and agree to at this point in time. But we have a “Sneak Preview” (see ahead)

Health Care/Pharma:

- Despite campaign focus on pharma pricing, doubtful any significant legislation can be achieved. But plenty of hearings and investigations possible.
- House Republican efforts to reform Obamacare in any significant way will likely be blunted.

Trade Policy:

- Possible effort to re-write the Trans Pacific Partnership (TPP); Slowdown of Trans Atlantic Trade & Investment Partnership (TTIP). Could Trump look to review/re-write the North America Free Trade Agreement (NAFTA)?

Other Issues: Immigration Reform (H1b Visa expansion); Patent Reform; Cybersecurity

Will we see the return of Glass-Steagall? Election rhetoric and scars of scandals are stoking the fire



“I believe we must seriously consider bolder, transformational options including the following:

- **Breaking up large banks into smaller, less connected, less important entities.**
- **Turning large banks into public utilities by forcing them to hold so much capital that they virtually can't fail (with regulation akin to that of a nuclear power plant).**
- **Taxing leverage throughout the financial system to reduce systemic risks wherever they lie.”**

- Minneapolis Federal Reserve Board President Neel Kashkari



Minneapolis Federal Reserve
President Neel Kashkari

“Our new 21st Century Glass Steagall Act once again separates traditional banks from riskier financial services. The bill will give a five year transition period for financial institutions to split their business practices into distinct entities – shrinking their size, taking an important step toward ending “Too Big to Fail” once and for all, and minimizing the risk of future bailouts.”

- Senator Elizabeth Warren (D-MA) member of Senate Banking Committee

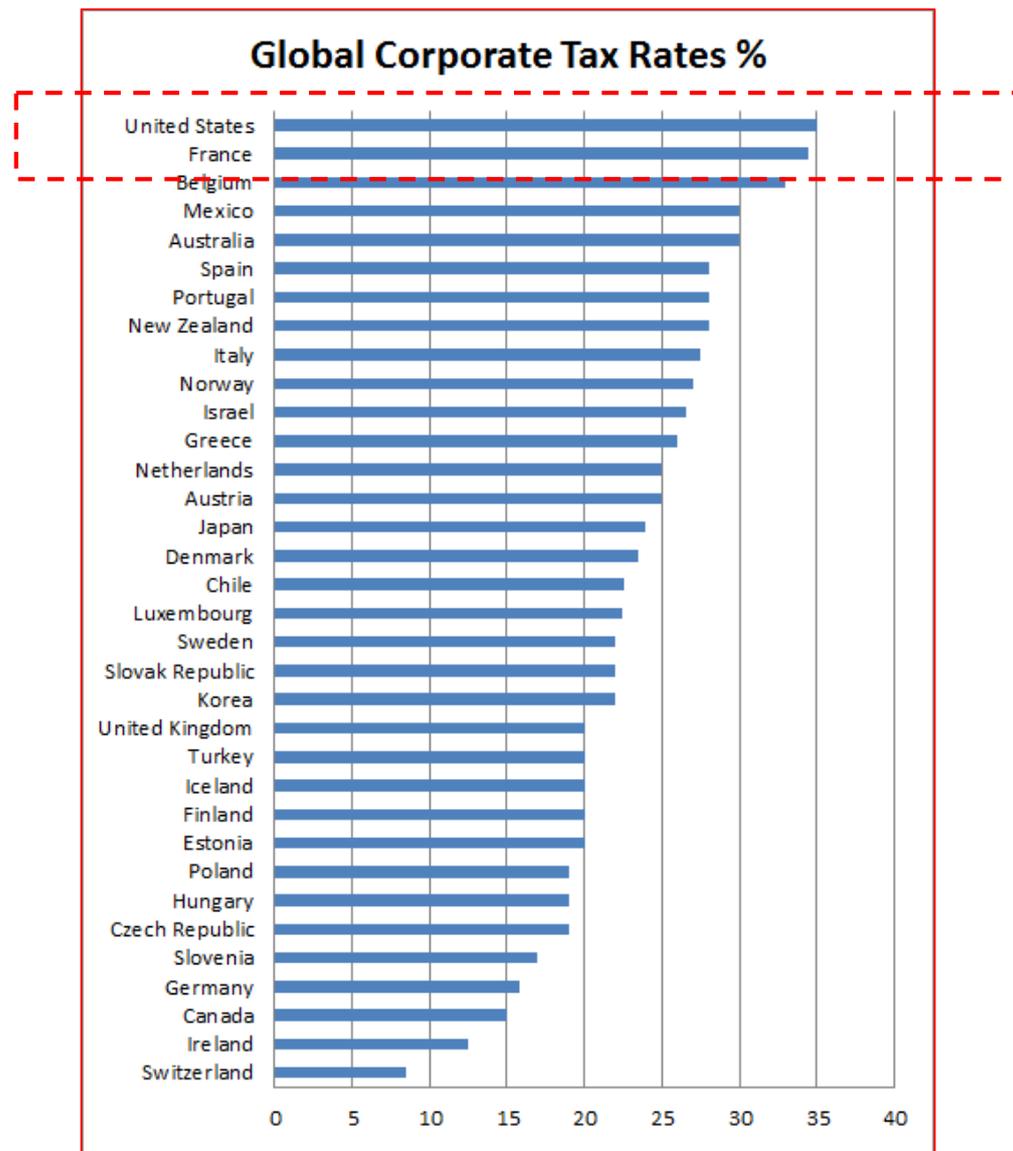


Senator Elizabeth Warren (D-MA)

The Inversion issue and Reg 385: Now what?



- Treasury has issued a sweeping package of proposed regulations to curtail inversions. But they went far further than most expected.
- The comment period ends July 7th – will it be extended? On June 2nd, Treasury said they have not yet seen any comments which would lead them to make substantive changes.
- Congress has made little to no effort to address the issue or respond to the proposed regulations – no hearings, no proposed legislation. While subject to the Congressional Review Act, there is little chance Congress will repeal them by next year.
- Either lawsuits or Congress pursuing corporate tax reform seem the only options going forward.



Source: OECD

What the House is thinking in terms of personal tax reform: The Tax Postcard



- An early draft – goal is to keep it simple and clear.
- House Ways and Means Committee is expected to unveil it in mid- to late- June with Speaker Ryan's blessing and support.
- Still waiting to find out about pass-through's, corporate rates, international tax, etc.
- At very least, it starts a discussion and seeks bipartisan development.

Consumed Income/Postcard Tax Elements	
Wage Income	\$ _____
+ ½ of Investment Income	
– Standard/Personal Deduction	
– Mortgage Interest	
– Charitable Deduction	
– Net Savings	
Taxable Income	\$ _____
Apply Tax Rate	\$ _____
– Child Tax Credit	
– Earned Income Credit	
Total Tax	\$ _____
– Subtract taxes paid	
Taxes Owed/Refund	\$ _____

DRAFT

DRAFT

Overview: We are moving rapidly from the geopolitical models of the last 50 years; Unpredictability Reigns



LONG TERM OUTLOOK:

- Geopolitical events are increasingly pressuring global markets and will continue to do so throughout 2016 and for many years to come.
- We continue to believe the Middle East serves as locus for key uncertainty and chaos. We continue to believe the region is at risk of remaining in turmoil for **30+ years**.
- We also continue to believe NAFTA nations as being seen as economic and political “safe havens” in large part to “Energy Renaissance.” This may be expanded further in the Western Hemisphere and to the EU and key economic partners in the TPP.
- China will continue for a number of years to go through intense political, economic and societal transformation.

SHORT TERM (3-10 month) OUTLOOK:

- Lifting of sanctions on Iran by the West will accelerate to show improving relations with Tehran – further heightening Shia and Sunni tensions in the region. But EU and other major industrial countries will flood the market .
- US presidential and congressional election uncertainty will inject deep concern into global markets.
- Watch for heightened tensions between US and China in Asia Pacific.
- Significant threat of renewed mass migration to EU via Turkey and Libya.

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Frank Kelly is Global Coordinator for Public Affairs as well as head of Government & Public Affairs for North and Latin Americas. In this role, he manages and coordinates relationships with elected officials and political and legislative bodies globally.

Additionally, he heads up the Bank's U.S. Direct Investment Advisory Group (DIAG) providing strategic counsel to non-US companies engaged in cross-border mergers and acquisitions requiring regulatory and political approvals.

Mr. Kelly also serves as the Bank's Chief Political Risk Strategist advising clients on geopolitical and domestic risk issues and their impact on markets and industry sectors.

Previously, he was Head of Communications & Public Affairs – Americas overseeing legislative and regulatory matters, corporate and internal communications, branding and advertising and conferences and events for Deutsche Bank in the Western Hemisphere.

Prior to joining Deutsche Bank, Mr. Kelly held senior positions at both Charles Schwab & Co. and Merrill Lynch & Co, Inc.

Before joining the private sector, Mr. Kelly served at the U.S. Securities and Exchange Commission as Chief Spokesman as well as the US Department of Justice as Assistant to the Director for Policy Development.

Prior to these posts, he served in both the George H. W. Bush and, earlier, the Reagan White House where he started as a writer for President Reagan.

Mr. Kelly is a member of the Council on Foreign Relations and serves as a member of the Board of Directors of the American Council on Germany.

Mr. Kelly, his wife, Maura, and their two living children resides in Great Falls, Virginia.