



Infomail

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Why the Stakes in 2016 Are so High

"If God has wanted us to vote, he'd have given us candidates"

Comedian Jay Leno

The media coverage and rhetoric in the US Presidential election are in full swing, and will be the front-and-center news story for the duration of the year. The emergence of non-traditional" candidates like Bernie Sanders, Donald Trump and Ben Carson have given this campaign a whole new dynamic.

So why do we need to follow what goes on in US politics? Because it matters. Whether people like it or not, the entire world's economic well being hinges on the USA. They are over 50% of the world's GDP with an economy in the \$20 Trillion range. They are the world's largest consumers and producers, and over 80% of Canada's trade is done with the USA. In 2008 when the US had a mortgage problem, it rippled through the entire world.

There is always much at stake when electing the "most powerful position in the free world", and we will often read that the latest election is often "the most important one in history". One can argue that having Lincoln as President during the Civil War, or FDR in WWII, certainly changed the course of global history. In recent memory, in 1980, when the global economy was stuck in double digit inflation; Soviet -style communism was advancing in Asia, Africa, and South America, electing a B-movie star named Ronald Reagan who had the political will to do what it took, certainly made a difference.

Now, as the 2016 Presidential race unfolds, the stakes may be even higher than 36 years ago. The US (and global economy) is unsteady at best, debt levels around the world are reaching unsustainable levels, threats to global security are more pronounced, and America's power and influence around the world has waned.

A Republican victory would no doubt reverse a lot of what the President leaves behind. A Democrat winner would presumably be forced to defend Mr. Obama's policies, since they reflect the views of the Democratic Party.

The most immediate issues confronting the new President are the economy and the military. The US role in the world is in retreat. Allies like Israel, Poland, Egypt, Saudi Arabia and until recently Canada, had all been alienated. Last week's State Dinner with Prime Minister Trudeau was the first in 19 years, showing how frosty the relationship has become. It would seem to me given our history, our enormous trade, and our similar cultures, that every Canadian Prime Minister would receive a State Dinner. It was a nice gesture by the President, but his time is limited to eight months, so hopefully, the US-Canadian relationship will continue to improve regardless of which party claims the White House.

Russia's intervention in the Crimea, Ukraine, and yes, even the Middle East, knowing the repercussions would be zero, showed the President's self-announced "pivot" toward Asia turned out to simply be more rhetoric. While the President began his Presidency with an "Apology Tour", the next President may be wise to conduct a "Reassurance Tour", to persuade the world of the USA's intentions to stand up to rising aggressions by Russia, China, Iran and ISIS.

Just as important will be the economy, which has been stuck in 2% or less growth for almost a decade now. In fact, it has not had a growth of 3% or more since 2005. Rejuvenating the US economy is a must because it dovetails with the military objective. A weak US economy also weakens US influence globally.

Entitlements have exploded in the last eight years and by 2020 are estimated to eat up over 80% of the US budget. That leaves very little room in the budget for anything else like healthcare, education, infrastructure, and yes, security.

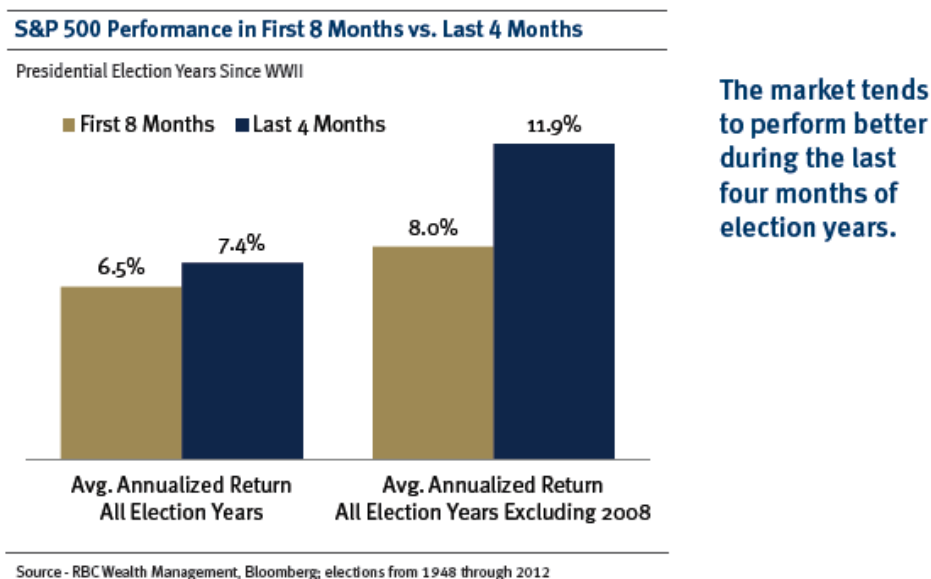
The recently untimely passing of the US Supreme Court Justice Antonin Scalia also creates an issue. The average age of the remaining Justices is almost 70, and three are 77 or older (Breyer 77/Kennedy 79/Ginsberg 83). Scalia was a conservative, Breyer and Ginsberg are Liberals, and Kennedy is a swing vote. The next President's nominees, assuming there will be several, will be pivotal.

For a Republican winner, Obamacare seems to be the first issue on the chopping block, and curbs on oil and natural gas production may get eased. Any Executive Orders he seems to be trying to impose because he couldn't get Congressional approval can be promptly rescinded. I would guess the EPA's new found powers of the last eight years would be scaled back, and who knows about Dodd-Frank, the stepped up regulation of Financial Markets, how that could be affected. Should Republicans regain the White House, they would be wise to not to treat Democrats the way they were treated during the Obama administration. The President did himself no favours by ramming through Obamacare, the economic stimulus, and Dodd-Frank when he had large majorities in the House and Senate at the time. There wasn't even a hint of bi-partisanship and it left the US political system in the state it is now, a despised Washington with the worst approval ratings in history. If

he has simply reached out for a minimum of Republican support, those policies would not be as unpopular as they are today. Many of his Executive orders he is quickly putting through are used to specially deny any Republicans a role.

This touches as well on the growing popularity of people like Bernie Sanders and Donald Trump. Voters are simply fed up with "business as normal" in Washington. The parties are deeply divided, they've always disliked each other, but the President made it worse. Citizens are fed up with the corruption, waste, fraud, and rhetoric.

Market wise, since 1945, the S&P 500 has risen an average of 6.1% during Presidential election years, about 3% worse than the average of all the other years since the end of WWII.



Given we are in March already, one interesting take away from historical patterns is that performance in election years tends to be back end loaded in the last four months of the year (September to December). It makes sense as we all know markets don't like uncertainty, and as the polls and results become known, there is less uncertainty.

Since WWII, there have been seven Presidential Elections (1952/1960/1968/1976/1988/2000 and 2008) in which the incumbent party was seeking to occupy the White House for a third consecutive term. Only one (in 1988) did the incumbent party succeed (George H Bush). So that would seem to support the Republicans winning in November.

But the math for the Republicans has become a challenge. The winner needs 270 electoral votes to win the election, and if we focus on just the most recent six elections (1992 through 2012), the Democrats hold the upper hand.

In those six elections, the Democratic candidate has managed to win the same 18 states and the District of Columbia, which carry 242 electoral votes, 90% of what's required to win the election:

| The Blue vs. Red Wall | | | |
|-----------------------|------------|----------------|------------|
| Blue Wall | | Red Wall | |
| California | 55 | Texas | 38 |
| New York | 29 | Alabama | 9 |
| Illinois | 20 | South Carolina | 9 |
| Pennsylvania | 20 | Oklahoma | 7 |
| Michigan | 16 | Kansas | 6 |
| New Jersey | 14 | Mississippi | 6 |
| Washington | 12 | Utah | 6 |
| Massachusetts | 11 | Nebraska | 5 |
| Maryland | 10 | Idaho | 4 |
| Minnesota | 10 | Alaska | 3 |
| Wisconsin | 10 | North Dakota | 3 |
| Connecticut | 7 | South Dakota | 3 |
| Oregon | 7 | Wyoming | 3 |
| Hawaii | 4 | | |
| Maine | 4 | | |
| Rhode Island | 4 | | |
| D.C. | 3 | | |
| Delaware | 3 | | |
| Vermont | 3 | | |
| Total | 242 | | 102 |
| % Needed | 90% | | 38% |

Over the past six elections, voter trends have become increasingly consistent.

Source - RBC Wealth Management, Bloomberg; elections from 1948 through 2012

I would also add Iowa, New Mexico, and New Hampshire (15 total electoral votes) voted Democrat 5 of the past 6 elections, bringing that total to 95% of the total electoral votes needed.

It is not impossible (as shown in 2000 and 2004) for the Republicans to overcome this "Blue Wall" but it won't be easy. Both parties face their own challenges, and given the current front runners, 2016 should be an exciting US Presidential election year.

Stay tuned,

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