

Regional view - United States

Reflections from DC



Michael Ryan

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This past week I had the opportunity to join my colleagues from across UBS in meeting with a number of senior legislators in our nation's capital. John Savercool, the head of our US Office of Public Policy, had arranged for us to spend some time with congressman and senators from both parties to discuss some of the most critical policy challenges facing our nation today. Many of these members of Congress play prominent leadership roles on some of the key committees on Capitol Hill that are responsible for shaping the legislative agenda. All told, we spent eight hours engaging in an open and (mostly) frank discussion with five congressmen, five senators, and one senior Trump Administration official.

There seems to be this popular notion that our nation's elected officials are just a collection of diffident, vacuous "grandstanders" who care more about the press than the people. But I walked away from our meetings with a very different impression. What I found was a group of thoughtful, well-informed, and articulate leaders. While they had very different views about both the current state and future direction of our union, each seemed to care very deeply and genuinely about this country. They also appeared to have a firm grasp on the issues—and expressed a willingness to work constructively across the political divide to find solutions.

But I'm also not naïve.

It's clear to me that the actions and approaches of those running for office will



be heavily influenced by plain old partisan politics. With the White House, Senate, and House all potentially up for grabs, both sides know precisely what's at stake in next year's election. This suggests that the polarizing rhetoric will likely escalate. Each side will look to tack for advantage both by demonizing opponents and presenting a host of policy proposals. Some of these proposals will be serious-minded efforts intended to address acute or chronic issues, but others will simply be designed to inflame passions in order to mobilize a political base or garner attention in the media.

This presents something of a dilemma for investors.

With the media attention on DC only to intensify between now and the 2020 election, market participants will be besieged with mixed policy messages that have the potential to impact portfolios. So how can we get a handle on how to best position portfolios to weather the rhetorical onslaught? We have found that the best way is to develop a framework that helps in determining which sorts of political discussions actually matter for investors, and which are merely the "white noise" that accompany every election cycle.

This entails a multistep process whereby we first distill political dynamics into a likely legislative agenda that may ultimately translate into public policy. We then assess in what ways those policy decisions will materially impact the real economy. Next we consider how those macro-impactful events may affect market pricing. Finally we

determine how best to position investment portfolios to take advantage of—or guard against—potential market shifts.

In terms of distilling the political rhetoric into likely policy outcomes, we leverage the outstanding analysis and insights of John Savercool and his team. We not only defer to them with regard to the probable electoral outcomes and likely composition of Congress, but also rely on them to assess which policy preferences could emerge from these elections and wind their way through to the legislative agenda. This serves to screen out much of the inconsequential political chatter and forms the basis for the first level in our figure at the top of the page.

Our CIO ElectionWatch team then takes the policy views identified by the Public Policy Office and assigns them to one of the seven key issue categories identified in our most recent ElectionWatch series report (healthcare, security, commerce, environment, society, infrastructure, and public policy). The ElectionWatch team works closely with our global macro team to determine which of these key policy issues will ultimately impact growth and inflation dynamics, and by how much. This process refines the policy output to meet what we define as the "macro-impactful threshold" as illustrated in the second level of our figure at the top of the page.

From here our Investment Strategy team determines how this policy mix and economic outlook will affect markets. They assess the impact both across and

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within asset classes, within industries as well as across geographies. Ultimately, this analysis helps inform our Global Investment Committee of the impact of potential changes to policy and helps form the basis of the recommendations for clients' investment portfolios. These last two steps are represented by the third and fourth levels in our figure.

The step-by-step process won't help any of us figure out how to vote come next November. But it will serve to separate the "political matter" from the "political chatter," allowing us to determine which policies will ultimately affect the economic outlook and impact investment portfolios. For more of our thinking on this election cycle, please visit ubs.com/electionwatch.

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