3. U.S. Economic Outlook

Disentangling Economic optimism and uncertainty

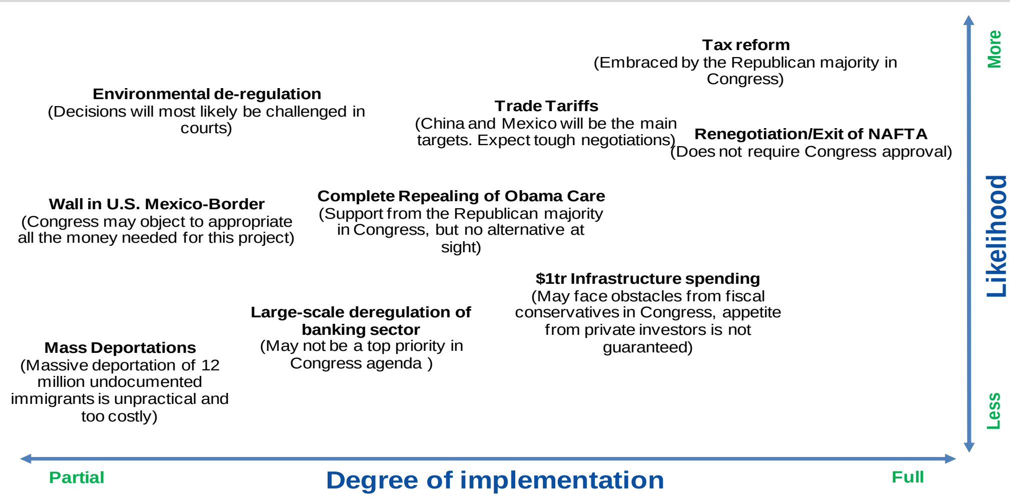
After the reset following the presidential election, we have revised our economic outlook to the upside. This assumes that the new administration will be able to generate enough positive effects from fiscal stimulus, deregulation and infrastructure spending to offset the negative impact from protectionism and isolationism. As a result, we expect higher real GDP growth, inflation and interest rates, along with a stronger dollar, relative to our previous baseline. Nonetheless, the risks remain high given the uncertainties on the effectiveness of the fiscal stimulus and the degree of protectionism.

U.S. economy could be stronger with administration's policies

Taking the campaign promises at face value, if the economic agenda focuses on corporate tax reform, cutting individual income tax rates, boosting infrastructure spending and easing the regulatory burden on businesses, the growth rate of the economy would be stronger than in the past few years. However, there are negative risks from a protectionist foreign trade strategy. Furthermore, there has been no major softening of rhetoric with respect to immigration and unwinding the Affordable Care Act (ACA), which if done haphazardly, could add headwinds to any pro-growth economic agenda.

Figure 3.1

Trump Administration Proposal & Implementation Matrix



Source: BBVA Research

Although the GOP would prefer to pass permanent comprehensive tax reform, they are short of the 60 votes in the Senate necessary to avoid filibuster and thus will likely focus on a less ambitious agenda. There is a chance that the GOP could convince enough Democrats to vote for changes to the corporate tax code given the broad consensus that reform is needed. However, it seems that reconciliation, which only requires a simple majority in the Senate, is the most likely option. There are many drawbacks to using reconciliation, but the most pressing is the fact that the process can only be used once per fiscal year. Currently, the GOP-controlled congress is focusing on repealing the ACA through reconciliation; if this includes any adjustments to the taxes or revenues associated with the act, the first chance for tax reform would be fiscal year 2018.

On top of the legislative uncertainty, there has been little agreement within the party and the White House on the size, mix, strategy and magnitude of the fiscal stimulus. Under an optimistic scenario, the fiscal stimulus would increase consumption, investment and employment in the short-run without generating significant inflationary pressures, boosting potential output by making the economy more efficient over the long-run. In a less upbeat scenario, the fiscal stimulus would generate inflationary pressures and increase interest rates, the deficit and the debt without altering the path of long-term growth.

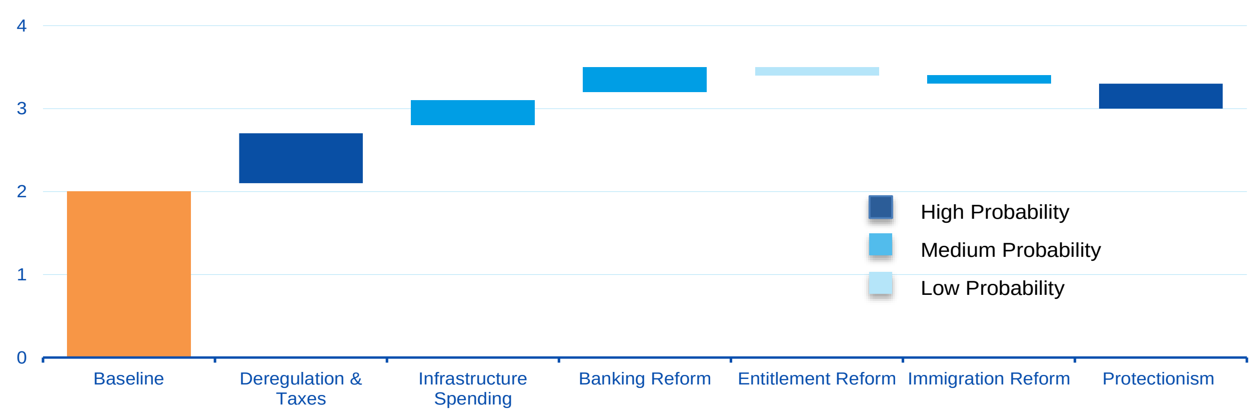
Size, mix, strategy and magnitude of fiscal stimulus key

While there is empirical evidence that infrastructure spending can have a high positive effect on economic growth, it is not clear how much appetite there is from the private sector, how it will be paid for or how long it will take to implement these projects. Lastly, although deregulation always has strong appeal as a tool to boost business activity and improve market efficiency, the effectiveness of the policies and the extent of the strategies are unclear.

To a large degree, the impact of fiscal stimulus depends on two key issues: the effectiveness of the measures and the cyclical position of the economy. For example, tax cuts benefiting high income earners with a low propensity to spend or tax cuts that increase savings because of higher expected taxes will have a lower impact on growth. Meanwhile, if the amount of slack remaining in the economy is small, the fiscal stimulus will translate into higher inflation and interest rates, which will also limit growth and investment.

Figure 3.2

Impact on Growth Impact from Administration's Policy Proposals

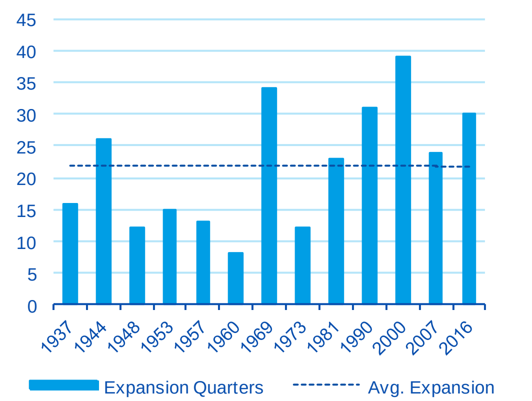


Source: BBVA Research

These concerns should not be taken lightly. First, the economy has been in expansion for over seven years, and labor market indicators suggest that the economy is at or near full employment. Therefore, fiscal expansion with modest slack remaining could increase inflation and inflation expectations, resulting in no real wage gains and higher interest rates. Second, current policy proposals, which imply lower fiscal revenues and little to no reductions in government spending, would be largely pro-cyclical and could result in higher deficits. Given the already high ratios of public debt to GDP, increased concerns on fiscal sustainability could also lift interest rates and reduce business confidence. Third, even if there is some success from the new policies in generating greater real growth, higher interest rate differentials could result in a stronger demand for U.S. dollars. This in turn would strengthen the value of the currency, reduce the level of exports and weaken profits, employment and investment.

Figure 3.3

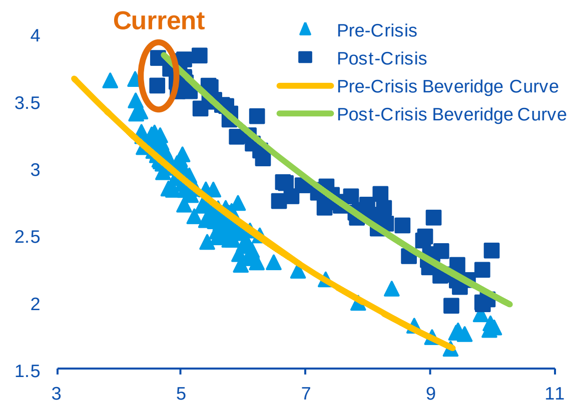
Age of Economic Cycles in U.S., # quarters



Source: BBVA Research & BEA

Figure 3.4

Beveridge Curve



Source: BBVA Research & BLS

Although there are some indications that slack remains in the labor market, rising wage pressures and tighter labor market conditions suggest that significant labor underutilization is narrowing. Moreover, if the labor market continues to add jobs at a pace of 175K-200K and the amount of job growth needed to absorb new entrants is ~100K, then the additional 750K-1.2M individuals still looking for work could be employed by 1Q18. Reaching this level would be consistent with historically low unemployment.

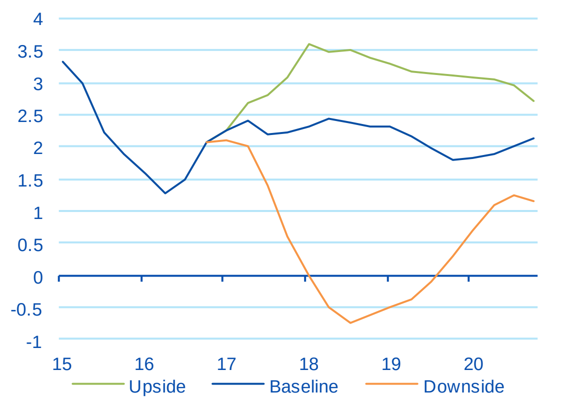
Nevertheless, there are major components of this scenario that carry a great deal of uncertainty as to when and how they will be implemented. In what follows, we present our economic scenarios for the administration's first four years, our expectations for fiscal policy and trade, the winners and losers at an industry level and perspectives on the regulatory environment for the financial sector.

U.S. macroeconomic scenarios

We believe that there are three scenarios with a nontrivial likelihood of occurring. In the base case, we assume that Trump is successful in boosting business expectations, encouraging greater labor market participation through higher effective wages and incentives to work, lowering regulations for the mining and banking sectors and encouraging infrastructure investments albeit at a lesser magnitude than current proposals. All things being equal, the base case also assumes that the administration faces headwinds from tighter monetary policy, a stronger dollar and an aging business cycle. In the upside scenario, the impact from tighter monetary policy is minimal and the relative value of the dollar stabilizes, which in combination with a significant expansionary fiscal agenda, pushes growth and inflation above current long-run equilibrium levels. In regards to downside, we assume that protectionist, isolationist and xenophobic tendencies dominate the administration's platform, eroding business and consumer confidence, while fiscal policy is ineffective at stimulating the economy, leading to widening deficits and growing debt.

Figure 3.5

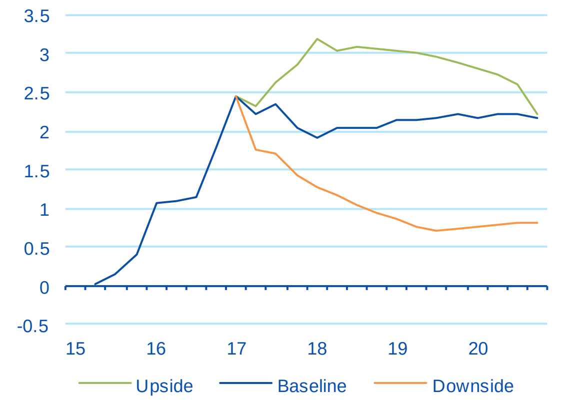
GDP Growth, year-over-year %



Source: BBVA Research

Figure 3.6

Consumer Price Index, year-over-year %



Source: BBVA Research

Baseline: Given the position of the U.S. in the current economic cycle, the fact that monetary policy is becoming less accommodative and the bias of current tax proposals towards high income earners with very limited marginal propensity to consume, we assume only moderate improvements to the growth outlook. In addition, expectations of higher deficits (and hence future tax increases) boost savings and offset other tailwinds to private investment.

In terms of the specifics, we expect public investment in infrastructure to be $250bn-$750bn over ten years. With the economy near capacity and rates rising, the overall impact is substantially less than in a period where economic conditions are more austere. However, deregulation contributes positively to growth in this scenario, although the scope currently discussed by the administration is not achieved and thus the impact is localized in sectors such as defense, energy and manufacturing, leading to only moderate gains in efficiency. Although the rhetoric may be significant, procedural frictions and legal challenges limit sweeping immigration reform and deportations to levels consistent with the Obama administration (2-3M).

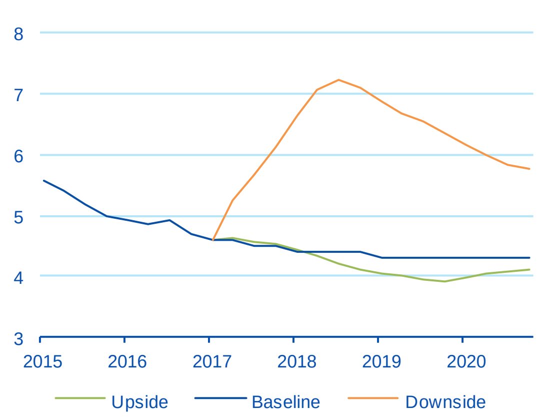
These policies should be sufficient to maintain the current trends in the labor market, as our forecasts assume that job growth continues to trend at a pace consistent with the 2H16, of around 175K. While below previous cycles, this rate is in line with a tightening of the labor market and slower growth in the labor force, which is assumed to trend to a pace of around 100K per month. These labor market dynamics imply an UR of 4.4% by year-end 2018.

U.S. economy to grow 2.3% in 2017, up from 1.6% in 2016

In terms of growth, higher business confidence and moderate fiscal stimulus boost real GDP growth to 2.3% in 2017 and 2.4% in 2018. Tight labor market conditions and pressures from rising commodity and house prices push inflation above 2% in this scenario.

Figure 3.7

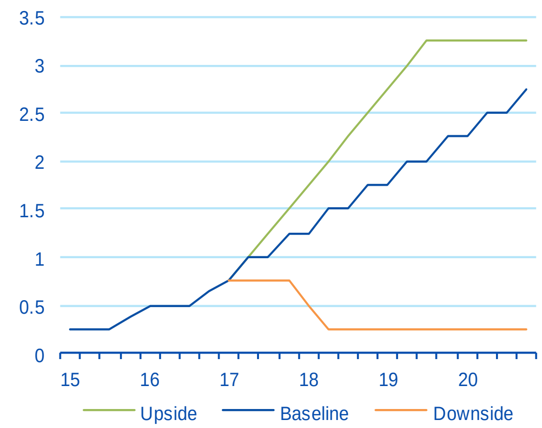
Unemployment Rate, %



Source: BBVA Research

Figure 3.8

FOMC Target, upper limit %



Source: BBVA Research

Upside: Given the pro-growth tilt of the administration, there is the potential that lower policy uncertainty boosts business confidence and reignites private investment, increasing productivity and potential output. In this case, we believe growth is higher in the medium-run. A focus on impactful fiscal stimulus, major deregulation and entitlement reform and a departure from the campaign rhetoric on protectionism and immigration lead to average growth in excess of 3%, which would be the highest in two decades. Leverage also plays a role in this scenario, as regulations for the financial sector are relaxed at a time when capital positions are strong and the desire to lend to profitable segments is high.

Further, efforts to bring back workers that left the labor force in the post-crisis period are successful due to stronger incentives to work from higher wages and greater labor demand. This pushes the UR to 3.9% in 2019, which is consistent with the lows of the 1990s. Given that flows into the labor force are structural in nature, we don't expect to see runaway inflation in the short-run as a result of UR trending well below levels consistent with higher inflation. Nevertheless, the limited slack in the labor market, stronger demand and rising inflation expectations push inflation above 3%.

Downside: In this scenario, the economic policies implemented by the administration have a protectionist slant, while the effects from the fiscal stimulus and deregulation are very low given a complicated global environment and aging business cycle. Tax cuts have minor effects on consumption, while spending plans are marred by inefficiencies and wasteful spending, and infrastructure spending is minimal due to lack of participation of the private sector.

In addition, regulation is unsuccessful with a bias towards the least productive sectors, while protectionism and isolationism manifest themselves in the most damaging way, with mass deportations and tit-for-tat tariffs between China and Mexico. Global risk aversion, a cascade of protectionism and loss of confidence underlie a major slowdown in global trade and growth.

In downside scenario U.S. enters recession in 2H17

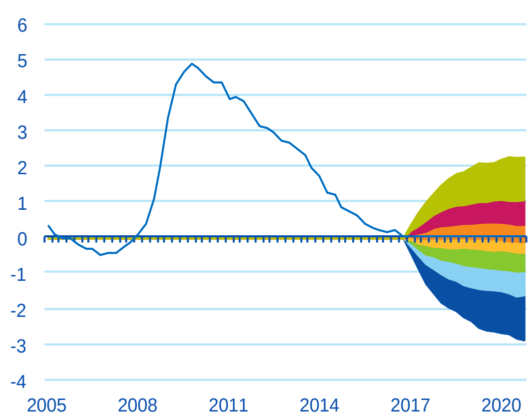
With this mind, the U.S. enters a recessionary environment in late 2017 and 2018. Disinflationary conditions prevail as demand-side pressures offset the impact of higher tariffs and a contraction in the labor force. Against this background, a “U-turn” in financial markets should be expected, as the combination of a weaker economic outlook and disinflationary pressures would exert renewed downward pressure on the U.S. yield curve and equity markets. In this scenario, the UR rises to 7.2%, and inflation dips below 1% through 2020. The adverse conditions result in average annual growth for the first four years of the Trump administration of 0.5%.

Current agenda to test FOMC’s patience

In an environment that will likely be categorized by the Fed as having balanced risks and elevated uncertainty, the Federal Reserve will remain cautious until they observe any real risks to their inflation outlook or any major undershooting of the UR target. Thus, we expect the FOMC to continue to normalize monetary policy at a pace of two 25bp rate increases a year. Obviously, the Fed may increase rates at a faster pace if inflation pressures build, the labor market tightens faster than anticipated or the committee is convinced that the equilibrium real interest rate is well above zero percent.

Figure 3.9

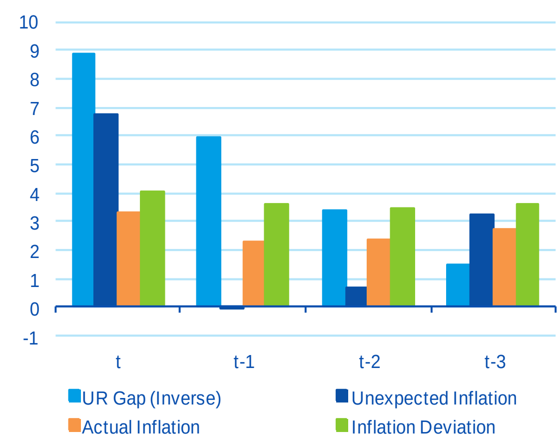
Unemployment Rate Gap, pp



Source: BBVA Research, CBO & BLS

Figure 3.10

FOMC Interest Rate Response*



Source: BBVA Research, CBO, BLS & Haver Analytics
*Orthogonalized IRF

Conversely, the Fed may also decide to postpone or delay future rate increases if downside risks intensify or if they perceive that their own strategy could be detrimental to their mandate. For example, major disruptions in the global economy or clear evidence that the equilibrium real interest rate is not moving up would lead to a slower-paced or delayed policy normalization. In addition, it is important to highlight that, despite fundamentals pointing to a clear course of action, there is a major source of uncertainty for the Fed with respect to the appointments of the three vacant governors’ seats and the possibility of a new FOMC chair in 2018. These appointments could tilt the hawk/dove balance dramatically.

However, any future changes to the target rate will depend on the estimates of the equilibrium level of the real interest rate. For now, the consensus view is that such level is close to zero, and thus, a policy of raising interest rates has to be implemented gradually to avoid the risk of tightening policy too much too fast.

Fed long-term interest rate level reaches 3.25% in optimistic case

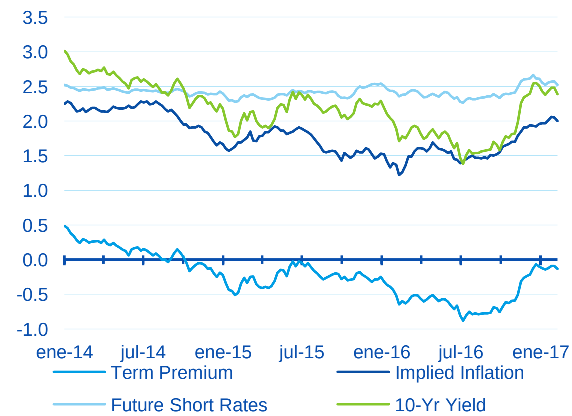
In the upside scenario, which is characterized by an increase in potential, there is likely be some upward pressure on equilibrium real interest rates. This, and our expectations for a pickup in inflation, underlie a faster tightening cycle to a higher long-term level of 3.25%. In the downside scenario with disinflationary pressures, lower potential GDP and weak demand, the Fed lowers rates back to the zero lower bound. Additional accommodation in the form of unconventional monetary policy intervention such as quantitative easing, forward guidance and possibly negative nominal interest rates could be implemented given how low equilibrium interest rates are and the proximity to the zero lower bound.

Yield curve: onward and upward

In spite of the uncertainties, our outlook for the yield curve remains firmly tilted to the upside. To a large degree, this reflects that downside risks to inflation have diminished significantly. Coupled with the fact that risk appetite is increasing and inflation expectations are likely to move up, we expect the yield curve to steepen.

Figure 3.11

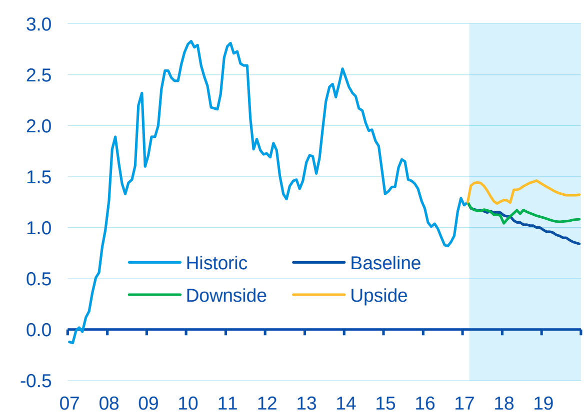
10-yr Treasury Yield & Term Premium, %



Source: BBVA Research, Bloomberg, FRB & FRBNY

Figure 3.12

Treasury Yield Curve Slope, pp



Source: BBVA Research

The baseline yield scenario maintains a moderate rate increase in the short-to-mid-term and higher long-term rates in line with U.S. macroeconomic assumptions on growth, inflation and policy rate path, accounting for changes in the Fed funds rate trajectory. The ongoing slow correction in inflation expectations and term premium towards historic averages are not considered to be transitory and imply higher treasury yields in the absence of market disruptions and outside shocks.

While we do not rule out periods of massive selloffs, we believe that these are likely to be transitory bursts of confidence. In other words, yields will exhibit high volatility with a moderate upward trend. If inflation is higher than expected and the Fed pursues a more aggressive policy, the increase in yields will be higher. However, yields could also remain relatively low if growth and inflation remain at current levels and the Fed delays future rate increases or if there are negative market surprises. In sum, our baseline scenario expects long-term yields to edge up, albeit at a slower pace than short-term rates, which implies a steepening pace much slower than in other expansion cycles.

The downside scenario also incorporates the return to risk-off sentiment due to possible global disruptions (hard Brexit, unfavorable election outcomes, etc.). In the upside scenario, domestic market attributes, such as a faster rise in inflation expectations and term premium, are considered.

Free trade or fair trade?

As a great admirer of Ronald Reagan, Trump borrows heavily from the conservative icon's trade policies. Despite being a cheerleader of the "free market," Reagan's vision on international trade was not unambiguous: he stressed that "fair trade" was as important as "free trade." Early indications are that Trump will stay true to his campaign promises, suggesting that a 45% tariff on Chinese imports and a 35% tariff on Mexican imports are probable. As goods and services from China and Mexico account for 30% of total U.S. imports, our estimate suggests that core inflation will go up by 1.8pp under incomplete import prices pass-through. When implemented, all things being equal, we expect the tariffs alone could reduce real output by 1.3pp in the first year.

An alternative to select tariffs is the GOP (Brady-Ryan) proposal for corporate reform which is underpinned by a cash flow-based border-adjustment tax (BAT) plan. The basis for this tax is not protectionist, as it is assumed that, while the design is similar to an implicit tariff, the border-adjustment should not distort trade flows given that the tax is symmetric with respect to imports and exports and that the import tax is fully compensated by appreciation in the exchange rate. In other words, importers will be no worse off because a 20% tax on imports would be offset by a 20% decrease in the cost of imported goods. The nature of foreign exchange markets and the likelihood that other countries could try to offset or mitigate these effects suggest that the theoretical underpinnings may not be borne out. In fact, William Dudley, the President of the New York Fed, alluded to the possibility of many "unintended consequences."

A sudden 10% appreciation of USD can lower net exports by 1%

How the exchange rate responds is highly uncertain. Trump has complained that the strong dollar is "killing us." However, Trump's efforts to bring more foreign investment to the U.S. will add pressure on the appreciation of the dollar. In our estimation, a sudden 10% appreciation of USD can lower the net exports to GDP ratio by 1% in three years. That is, we may expect a higher current account deficit if Trump successfully attracts more foreign investment. On the other hand, the strength of the USD is also correlated to the current account deficit, and thus, if the current account trajectory is perceived by markets to be unsustainable, the exchange rate would depreciate. Notwithstanding any major policy interventions, it appears that any explicit exchange rate policy is unlikely, as focusing too narrowly on the trade deficit could bring unintended consequences to the economy.

Fiscal: To stimulate or not to stimulate

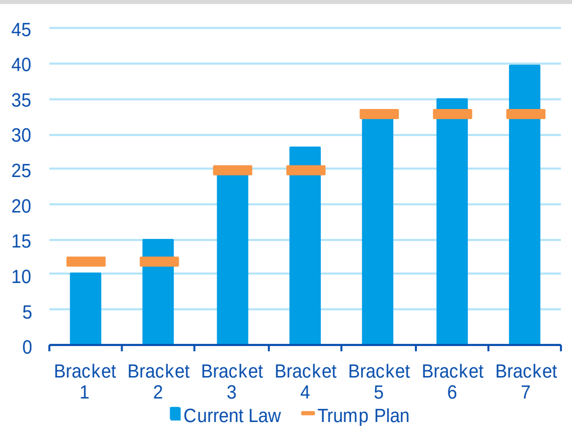
Trump's promise of fiscal stimulus has included both tax cuts and infrastructure spending. On tax, his current proposals are similar to the GOP's plan (Ryan-Brady) presented in mid-2016, which seeks to broaden the tax base and lower the marginal rates by collapsing the number of brackets in exchange for the elimination of a majority of the current deductions. On corporate taxes, Trump seeks to lower the average rate of corporate taxes to 15%, whereas the GOP has promoted a 20% rate that will be assessed on a cash flow basis and include a border-adjustment. Since the election, the topic of infrastructure investment has received little attention from the Trump administration, but if implemented, it will likely be a combination of tax credits and public-private partnerships (PPPs) so that the impact is budget-neutral.

The economic impact of fiscal stimulus has a twofold effect on short-term and long-term growth — a direct positive effect on investment and consumption and an indirect negative effect through rising public debt. This leads to a wide range of outcomes. Multiplier estimates range from 0.4 to 3.6 for the first year, 0.2 to 2.3 for the second year and smaller in later years. It is not obvious whether tax policy can have a permanent effect on economic choices in the long-run, as Trump's tax policy adds around 2.5% annually to the national debt to GDP ratio, which, in expectation of higher future taxes, would reduce the incentives to work, save and invest and increase the proportion of savings devoted to debt repayment which would crowd-out private investment.

Multipliers from Trump stimulus could be 0.4-3.6 in first year

Figure 3.13

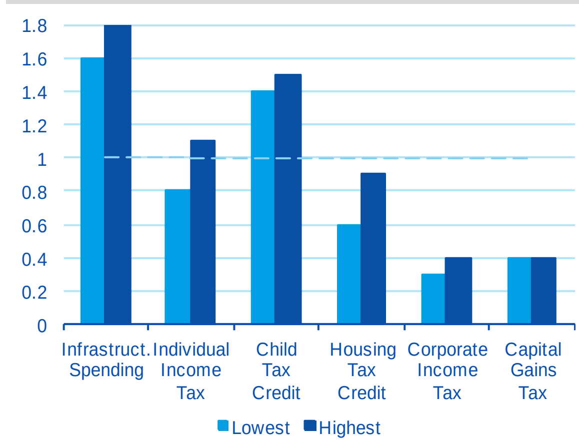
Current & Proposed Income Tax, marginal %



Source: BBVA Research & TPC

Figure 3.14

Economic Multipliers



Source: BBVA Research & CBO

Economic impact of tax cuts: U.S. tax reform is long overdue according to many economists, since the tax code is complex and contains many loopholes. While any tax reduction will reduce total government revenue, all things equal, tax cuts can be partially self-financed through an increase in the taxable base and growth. Estimates of the effect of increasing the taxable base suggest that the lost tax revenue effect can be lessened by 25-50% within a stable monetary policy environment. Simulations of different simplified tax policies have shown that the long-run effects on aggregate growth are consistently positive, while in the short-term, there will be groups that have to bear the burden. The positive economic impact is much lower when income tax reforms incorporate adjustments or transitional relief mechanisms to minimize the adverse distributional effects.

The short-term cuts to the individual income tax, in combination with changes to deductions and additional child care, should serve to boost GDP growth. The rise in households' take-home pay should result in additional consumption expenditures and greater economic activity. However, this economic impact would be weak, as most tax reductions would accrue to high income households, whose expenditures, relative to lower income ones, are less sensitive to the increase in income. The estimated multiplier ranges are wide, and the effect is highest in the first year, with an average short-term annual impact between 0.8% and 2.6%.

Moreover, Trump's plan would have a lasting positive effect on potential output growth by increasing the labor force participation rate. The tax reform would attract back into the labor market those individuals who have chosen to leave the labor force but are sensitive to changes in after-tax wages. It has been shown that, for both men and women who are not in the labor force and who are not the sole earners in the family, employment decisions are sensitive to an increase in income and child care reimbursement incentives. However, child care expense incentives will not affect low income families who would struggle to pay upfront and be reimbursed later.

In terms of corporate tax reform, the U.S. effective corporate tax rate is 35% — the highest among the developed nations. Many foreign countries have already undergone a cut in corporate taxes driven by the globalization of capital mobility. This has led to competition among countries to attract capital and has put downward pressure on corporate income tax rates. Nevertheless, the European Commission and the OECD have considered such a "race to the bottom" competition in corporate taxes to be harmful, with the potential to restrain government activity due to loss of revenue.

In the short-run, a decrease in the corporate tax rate can impact not only business at large but also households, altering the incentives to save and invest. Trump's plan would initially increase investment and boost GDP growth above its potential level. However, the plan will also substantially increase the budget deficit, yielding tighter monetary policy and higher interest rates, which would eventually crowd-out investment and decrease GDP growth to its potential level. On average, the annual multiplier for a 1% decrease in the corporate tax rate is much lower — 0.3% to 0.4% — compared to the multiplier for individual income tax cuts.

Major challenge to corporate tax reform will be gap between realized and statutory gains

One major challenge to corporate tax reform is the gap between the realized gains in the corporate sector and the statutory reductions. For instance, some estimates for the current effective corporate tax rate are as low as 23%, so a cut to 20% might not offer enough of an incentive to alter a firm's decision making. Similarly, the incentives for firms that receive a significant portion of their income from abroad may be less attractive given that supporting a repatriation tax of between 5-10% and a higher effective tax rate would reduce profitability. In the end, while there is broad agreement that corporate tax reform is needed, it seems there is a growing divide between the White House, Congress and within the private sector on what is the optimal policy.

However, if Trump's plan to reduce corporate income tax incentivizes multinational corporations to retain profits domestically and invest, reduces complexity and discourages firms from exploiting tax loopholes, there could be considerable long-term benefits. Overall, the reduction in the corporate tax rate will enable the economy to compete for profitable projects that generate higher welfare and more social benefits and are more mobile. Nevertheless, the overall success of the corporate tax reform also depends on related complementary factors, such as unobstructed capital flows and political stability.

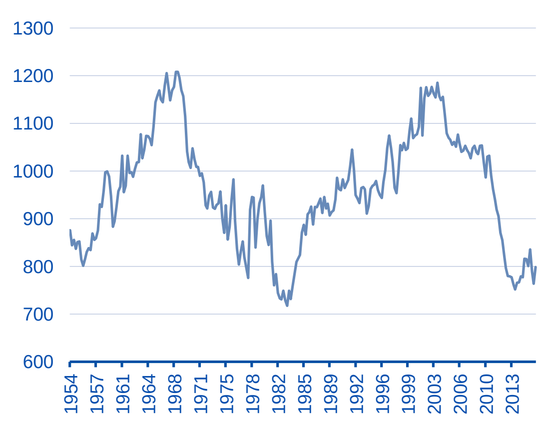
Economic impact of infrastructure spending: There is wide belief that rebuilding U.S. infrastructure is vital for long-term growth and that the highest economic returns come from infrastructure investment. While evidence suggests that there is a large infrastructure gap, it is unclear how large the infrastructure deficit is, what the level of appetite from the private sector is, what the financing sources behind these projects will be and if the investment will be directed towards high value-added projects. In addition, the magnitude of the impact will depend on the slack in the economy and monetary policy.

In fact, the fiscal multiplier of each new one billion dollars of across-the-board infrastructure spending focusing on transportation and utilities investments can be as high as 1.6 and can create up to 1,200 jobs. The long-run macroeconomic effect of infrastructure spending depends on whether there is a plan to continue these expenditures for an extended period. For example, extending the period of spending to include an additional quarter of a trillion dollars yields a 0.3% acceleration in productivity and thus higher potential GDP growth rates and lower NAIRU.

The impact on economic activity is positive if financing does not decrease take-home pay including transfer payments (food stamps, unemployment insurance) and aid to states. However, raising revenue through higher taxes on businesses or any other means will shrink the short-term economic impact. The overall impact of infrastructure spending would also be lower if the economy is operating near full capacity and slack in the labor market is low. In this case, infrastructure investment could put upward pressure on wages and inflation, generally prompting a faster pace of monetary policy tightening, which increases borrowing costs and reduces private investment.

Figure 3.15

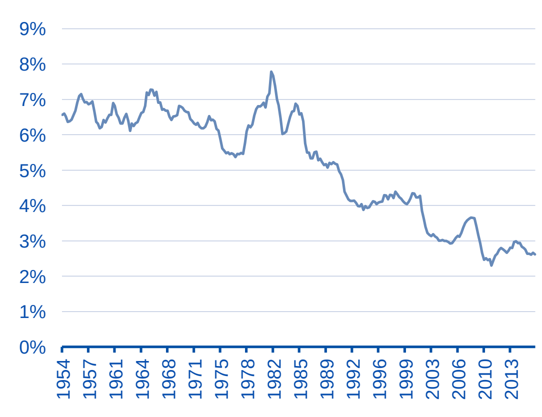
Per Capita Public Investment in Structures, $Constant



Source: BBVA Research, BEA & Haver Analytics

Figure 3.16

Private Investment in Structures, % of GDP



Source: BBVA Research, BEA & Haver Analytics

It is even harder to measure the net economic impact of Trump's intent to carry out PPPs and to partially finance infrastructure spending by means of tax breaks to private investors who want to finance the projects. Since developers will seek projects that can generate revenue, the projects that get executed would be new construction (for example, toll roads and toll bridges) rather than those involving repairs to existing infrastructure, which have been illustrated to carry a higher spending multiplier.

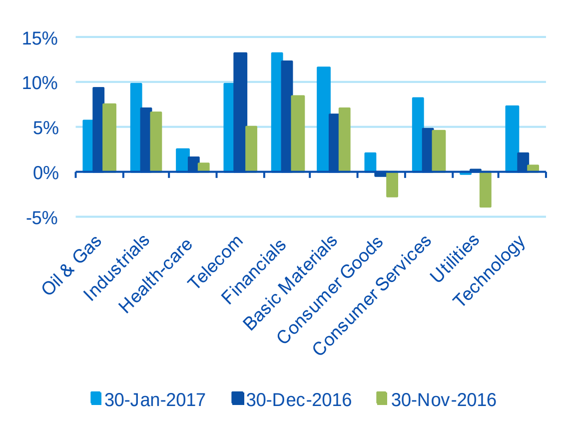
Additionally, the domestic and international evidence of the benefits and efficiency of PPPs is mixed. The major criticism to PPPs arises from the fact that infrastructure projects are complex and interdependent; thus, poor contract designs and optimistic revenue assumptions can carry sizable fiscal costs. There have been 36 privately financed road projects started in the U.S. over the last 25 years, of which 14 have been completed, one has required a public buyout, three have declared bankruptcy and the remaining 18 are still in the construction stage. As a result, any impact from nontraditional public infrastructure will take time.

Industries: Who holds the winning hand?

In terms of the winners, construction-related industries such as building materials, machinery, primary metals, architecture, engineering and related services stand to benefit from increased infrastructure spending. Deregulation in the energy sector and the opening of federal lands and waters could boost investments in oil and gas exploration. The new administration is also supportive of mega-pipelines and drilling projects that were rejected by the Obama administration. The coal industry will be relieved from stricter regulations on CO2 emissions; however, it will still struggle to compete with natural gas. Likewise, export-oriented policies could have a positive impact on sectors that are net exporters such as civilian aircraft, petroleum products, testing instruments, plastic materials and some basic commodities like soybeans, corn, wheat, natural gas and aluminum. Meanwhile, greater emphasis on law and order and national defense would benefit security equipment, criminal justice and other defense-related sectors.

Figure 3.17

Change in Dow Jones Sector Indices, % change since November 7th



Source: BBVA Research, Dow Jones & Bloomberg

Figure 3.18

Oil & Gas Table

Corporate Tax Reform	• U.S. oil industry incentivized to **export more crude oil** and products and import less; refiners would shift toward **domestic crude sourcing**
Keystone and Dakota Access Pipelines	• Advancing pipelines is expected to decrease costs of moving oil to refineries and **lower breakevens** • However capacity to generate further **investments** in oil and gas will be challenged by the current levels of oil prices
Deregulation	• Withdrawal from CPP, COP21; elimination of Climate Action Plan • Suspending social cost of carbon calculation • Possibility of **turning over federal lands** to local control, which could facilitate drilling

Source: BBVA Research

In contrast, the potential elimination of the Clean Power Plan and the fiscal incentives that supported wind and solar will put a break on the expansion of renewable energy projects in the country, creating downside risks for alternative energy sectors. In addition, the repeal of the Affordable Care Act would increase the number of uninsured, reducing the demand for healthcare and increasing the risk pool. This could affect profitability for some healthcare providers. However, big healthcare conglomerates, pharmaceuticals, medical equipment companies and insurance companies that face limited competition may be able to absorb these pressures.

Meanwhile, protectionist trade policies could disrupt global value chains in industries like autos, computers, pharmaceuticals, apparel, telecommunications and household appliances. These policies will also impact sectors heavily dependent on imported inputs like crude oil, steel and agricultural products. Likewise, more stringent immigration policies that lead to the massive deportation of undocumented workers could disrupt agriculture, retail trade, restaurants, construction and home services.

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