

WHAT FISCAL PACKAGE CAN PASS IN 2017?

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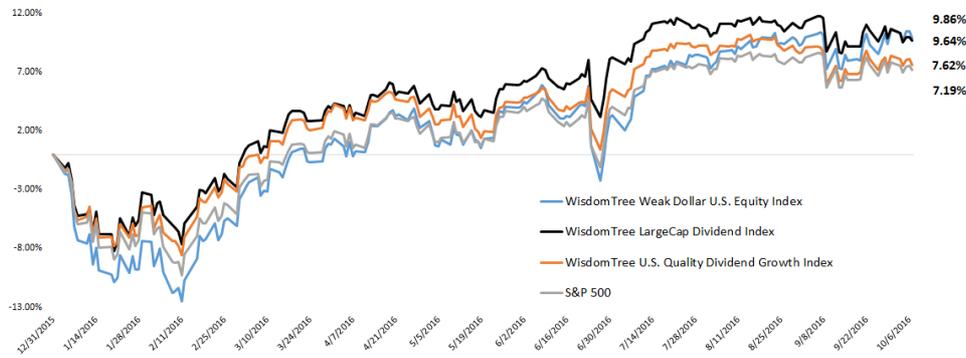
Back in August 2015, on the eve of the first Republican primary debate, I wrote about how [the ascent of Donald Trump could impact the political conversation in America](#). Trump's experience inside a professional wrestling ring, I argued, would give him a unique advantage inside the political arena. In a few weeks, voters will put an end to what has been the most depressing presidential campaign in our lifetime; shortly thereafter, the nation's focus will shift from personalities to the legislative priorities of the next president. Until we know the configuration of Congress, predicting the impact of the U.S. election on the financial markets is premature. I do believe that generally, absent a foreign policy crisis, economic forces and [monetary policy](#) will continue to have a bigger impact on markets than domestic policy. The impact that 535 lawmakers and one president have on the economy is often far less than the economic choices made by 320 million individual Americans. Changes in fiscal, tax, energy, education, health and regulatory policy all matter when measured over years or decades. But in the near term, the next six to 12 months, they have only an indirect impact on the direct inputs that move asset prices: [interest rates](#), corporate profits, the dollar and the price of oil.

If Clinton Wins This is another way of saying I believe U.S. equity and bond markets will be impacted more by fundamentals, by central banks and by *what can pass Congress* in the next two years than by who wins the election. If Secretary Clinton wins and the Republicans maintain control of at least the House of Representatives, many of her campaign promises will be dead on arrival. We will likely see something similar to a third Obama term with respect to domestic policy—that is, gridlock in Washington on the legislative front, more activism on the regulatory and judicial fronts, tolerance of the status quo with respect to legal and illegal immigration, and continued institutional support for the global trading system and for America's strategic commitments overseas that help sustain it. That is, I see continued slow growth in [gross domestic product \(GDP\)](#), stalled productivity and labor participation growth and perhaps another 12 to 18 months left in the current expansion.

If Trump Wins If Donald Trump wins, I believe the markets in the U.S. and overseas will experience an initial sell-off, as betting odds in mid-October were likely underestimating the chances of a Trump victory. With a President-elect Trump, I think we get greater [volatility](#) in stock and bond markets, if only because there is much greater uncertainty about where the country will be headed—and how it will be governed. So, one takeaway is to be prepared to sell volatility and take advantage of the higher premiums that should result.

Implications for Fiscal Policy The answer to the question "What impact would Trump or Clinton have on the economy?" comes down to what legislation House speaker Paul Ryan wants to introduce, what he believes can pass the House and Senate and what a new president would ultimately sign. If Trump is elected, I believe the preferred path forward for Speaker Ryan will be broad tax reform that lowers tax rates for individuals and businesses, encourages private investment in the U.S., provides incentives for companies to repatriate foreign profits and, to the extent possible, curbs growth in future entitlement spending. A cut in the corporate tax rate could immediately increase the profits generated by corporate America, which could send stock prices higher. If Secretary Clinton is elected, there is a chance for a smaller fiscal package that could combine additional infrastructure spending with international tax reform that encourages companies to repatriate profits. But a larger budget deal next year that includes tax increases to reduce the federal budget deficit, similar to what President Bill Clinton achieved in 1993, remains unlikely with a Republican House, unless the package is overwhelmingly skewed toward spending cuts. If the Democrats win back both houses of Congress and Secretary Clinton wins, I believe the U.S. stock market will correct from present levels, discounting the likelihood of new tax hikes in 2017. The more probable outcome is that the Republicans hold at least the House, and therefore a President Clinton will likely be unable to pass the higher tax rates she has proposed on [capital gains](#), estates, financial transactions, higher incomes and [carried interest](#). However, bipartisan support may well exist for lowering the corporate tax rate on foreign profits. Such a tax cut would actually incent companies to bring back foreign cash into the U.S. and could be a source of new tax revenue for the federal government. Congressional Democrats could support such a measure, especially if it is coupled with greater infrastructure investment, something Secretary Clinton has advocated. With more than \$2 trillion in corporate cash

stashed overseas, companies could use such repatriated profits to increase hiring or capital spending, or more likely, to increase [dividend](#) payments and share repurchases. **Playing the Repatriation Trade** Much of that overseas cash is concentrated in U.S. multinational technology, health care, industrial, and global financial companies. Three predominately large-cap exchange-traded funds that provide investors exposure to such multinationals with substantial revenues and profits generated overseas are the [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), the [WisdomTree LargeCap Dividend Fund \(DLN\)](#) and the [WisdomTree Weak Dollar U.S. Equity Fund \(USWD\)](#). As one can see from the chart and table below, the underlying WisdomTree Indexes for these Funds have been quietly outperforming the [S&P 500 Index](#) in 2016. **Year-to-Date Cumulative Returns**



Index	WT Index Inception	Average Annual Returns as of 9/30/2016					
		YTD as of 10/7/2016	1-Year	3-Year	5-Year	10-Year	Since WT Inception
WisdomTree Weak Dollar U.S. Equity	6/1/2015	9.86%	18.42%	n/a	n/a	n/a	3.43%
S&P 500		7.19%	15.43%	11.15%	16.35%	7.23%	4.37%
WisdomTree LargeCap Dividend	6/1/2006	9.64%	18.17%	11.14%	15.33%	6.83%	7.36%
S&P 500		7.19%	15.43%	11.15%	16.35%	7.23%	7.58%
WisdomTree U.S. Quality Dividend Growth	4/12/2013	7.62%	15.58%	11.02%	n/a	n/a	11.59%
S&P 500		7.19%	15.43%	11.15%	16.35%	7.23%	11.60%

Sources: WisdomTree, Bloomberg, as of 10/7/16. Past performance is not indicative of future results. You cannot invest directly in an index.

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standardized performance for [DGRW](#), [DLN](#) and [USWD](#). **Conclusion** Once investor focus shifts to what fiscal measures a new president can pass through the next Congress in 2017, keep an eye on international tax reform that encourages the repatriation of U.S. corporate profits held overseas. Should such tax reform gain speed, be on the lookout for ways to play the “repatriation trade,” which could accelerate the pace of dividend payments and share [buybacks](#) for selected U.S. multinational companies. WisdomTree believes that DGRW, DLN or USWD could provide unique access vehicles to this theme.

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DEFINITIONS

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Capital gains : Positive difference between the sale price of an asset and the original purchase price.

Dividend : A portion of corporate profits paid out to shareholders.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Buyback : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.