Addressing the Impact of the 2016 U.S. Elections

In the aftermath of any presidential election with a change in party leadership, it is often difficult to distinguish campaign promises and policies from what is actually achievable within the Beltway. Time is a great clarifier of the point at which what was promised intersects with what is possible.

With the recent election, achieving clarity is even more challenging because, in many instances, the campaign promises weren’t specific policies at all, but often broad statements regarding such matters as renegotiating trade pacts, reducing taxes, increasing infrastructure spending, and cracking down on offshoring operations with the intent of selling products in the U.S. market. These statements of policy intent often leave the details to be worked out later. Therefore, business leaders in all sectors of the United States as well as executives across the globe hoping to sustain their ties with the U.S. economy are looking forward to transparency as to the new government’s direction, hopefully as soon as in the first 100 days of President-elect Donald Trump’s term.

Another point bears mentioning. While Washington will have an all-Republican government, the implementation of a common agenda of policy proposals will be challenged by the dynamics between the President-elect and the Congressional Republican establishment. It is up to the President-elect to demonstrate that he can effectively harness the power of the Oval Office to deliver on his campaign promises. The Washington establishment is very likely to present stiff headwinds on certain issues.

Bottom line: While there is pent-up demand for major legislative action on a wide range of issues, the divide between President-elect Trump and his party’s leadership must be bridged to maximize success in the next two years. Such is the case for almost any president-elect.

That said, the question arises as to the likely focus of the first 100 days. The following are 10 likely priorities of the new administration:

1. Strategy for dealing with the Affordable Care Act (“Obamacare”), which was a lynchpin of the campaign: Should it be fixed, or dismantled and replaced?
2. Reversal of executive orders, particularly those involving immigration
3. Clarifying immigration policy, with initial emphasis on securing the border
4. Tax reform strategy to simplify the tax code and reduce taxes
5. Filling the current U.S. Supreme Court vacancy to break the stalemate on the current court
6. Clarifying trade policy

7. Repeal, cessation or roll back of the Iran nuclear deal

8. Cracking down on offshoring

9. Infrastructure investments (including the “Wall”)

10. Abandonment of the Paris climate accord

Needless to say, there are many questions to be answered as the new administration gets underway. Below we comment further on the potential implications of a Trump administration on various industry sectors and select policy areas. In addition, we offer suggestions as to what companies should do now as they begin to address the risks associated with changing political realities.

**Impact on Select Industry Sectors**

No question there will be winners and losers in the Trump sweepstakes. Below is an analysis and supporting commentary:

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**Likely Winners**

- **Airlines**: Trump is expected to be more sympathetic to U.S. airlines’ claims of unfair competition from state-controlled carriers.

- **Construction**: If Trump follows through on his promise to fix our inner cities and rebuild highways, bridges, tunnels and other infrastructure (the “Wall”), then the construction industry should benefit significantly.

- **Defense**: Protecting the U.S. borders was a main theme of the Trump campaign. To that end, increasing defense funding and securing our borders will be top priorities for the administration, which will benefit the defense industry and its suppliers. Increasing the size of the Army, expanding the Navy fleet, adding more combat jets, and preparing for cyber warfare are likely to be on the list.

- **Oil and Gas**: It is clear that fossil fuels in the United States have a better future with the president-elect than with the Obama administration, as the Trump administration will let the

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¹ Some of the information in this section was obtained from the article, “Trump Victory: Corporate Winners and Losers,” Richard Milne, Financial Times, November 9, 2016, available at www.ft.com/content/8de13154-a677-11e6-8898-79a99e2a4de6 (subscription required).
market figure out the best and cheapest sources of energy and thereby eliminate subsidies to renewables. Candidate Trump pledged to make the United States “energy independent” by opening new areas of the country, including federal land, to oil and gas development, and changing environmental policy and greenhouse gas performance standards that have driven closures of U.S. coal-power plants, stymied demand for coal, restricted the U.S. fracking industry, blocked the Keystone pipeline and hamstrung refineries. Reversing the decline of coal will be a formidable challenge, as its demise is largely due to the abundance of natural gas, which has flooded the market since the development of fracking.

On the international front, it is reasonable to expect the Trump presidency to increase geopolitical tensions given Trump’s position regarding the Iranian nuclear deal. A major oil producer, Iran has just returned to global crude markets. New sanctions on Iran could curb investment in Iran’s energy sector, impacting supply. However, actions by other members of the Organization of the Petroleum Exporting Countries (OPEC) will have the most influence on market supply and prices.

- **Pharmaceuticals**: The new administration is expected to take a more lenient approach to drug pricing than a Democratic administration. Trump did say that soaring drug prices needed to be addressed, but unlike Hillary Clinton, he did not offer any policy proposals other than to remove entry barriers for drug providers that offer safe, reliable and cheaper products. No immediate action is expected because of other priorities (although, during the campaign, Trump suggested giving Medicare powers to negotiate drug prices to limit price increases). Trump is also expected to support “Right to Try” legislation that has been enacted in some states and enables greater speed to market on new drugs, which should encourage innovation and development in the industry.

**Likely Losers**

- **Automotive**: The auto industry will be impacted in two ways: Carmakers that import parts or have factories in Mexico will be impacted from a withdrawal from the North American Free Trade Agreement (NAFTA) and the “Wall.” For example, during the campaign, Trump proposed tariffs of 35 percent on cars imported to the United States from Mexico. Second, Japanese carmakers will be hard hit if the yen strengthens relative to the U.S. dollar.

- **Consumer Products**: The Trump administration’s approach to reforming cross-border trade, tax policy and labor laws will be under close scrutiny by retailers and consumer advocates. There are several reasons why:
  
  - A repeal of trade agreements would likely cause shortages in raw materials, impacting the availability of consumer products. Shortages would likely increase prices, offsetting increases, if any, in disposable income from tax reform.
Globalization has been a market force for a long time. Retail supply chains are global. U.S. companies have worked for many years to tap into foreign markets. If trade cases are brought against a country – say, China – for allegedly using unfair subsidies to benefit their companies, this action can affect companies that rely on suppliers in that country to make their products as well as the country’s consumers to buy those products.

**Shipping:** Shipping is an industry that thrives on global supply chains and low trading barriers for goods. Shipping could be adversely affected by trade policy if it spawns a wave of protectionism and unwinds the decades-long trend toward globalization.

**Technology:** With revenue more heavily weighted on sales outside of the United States, Silicon Valley has made it clear it is not a fan of Trump’s proposed policies. Among the issues technology companies have with these policies:

- Technology-friendly trade agreements may get disrupted and tariffs for moving jobs offshore to low-cost countries may get imposed.

- Silicon Valley has long championed an expanded H-1B Visa program to enable access to highly skilled workers not available in the United States in the volume required. Some technology executives believe a Trump administration may stifle innovation by opposing these visas. That could dampen start-ups as well as affect projects in both the private sector and in the federal government.

- The security versus privacy issue is in play, given Trump’s criticism of Apple’s unwillingness to break the encryption on the iPhone of the San Bernardino terrorists.

- From an industry perspective, we can expect to see more cyber legislation as well as initiatives to enforce stronger protections and retaliation against cyberattacks.

That said, some technology companies will benefit from proposed infrastructure investments.

**Telecommunications:** There is concern over the proposed ATT/Time Warner merger because Trump said he would block this deal. Trump has been critical of Federal Communications Commission (FCC) regulations, so we could see changes there. For example, his appointment to head the FCC could impact policies toward net neutrality. The Republicans have attempted to push legislation to curtail the FCC’s ability to enforce net

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neutrality but the effort failed because of the threat of a presidential veto by President Obama. That obstacle no longer exists.³

**Mixed:**

- **Banking:** We can expect to see lighter touch regulation, which Trump will be able to influence by appointing new heads of the various agencies (not usually something at the top of the list for a new president) and implementing a moratorium on new regulations. During the campaign, Trump said he would repeal the Dodd-Frank Act and reinstitute Glass-Steagall, so it is not clear what his real position is. In reality, it’s more likely that there will be some tweaking/roll-back of Dodd-Frank, but not a repeal. Smaller, community and regional banks are most likely to get regulatory relief. In the end, the financial services industry needs a strong economy, so the impact of Trump policies on the economy overall has to be monitored.

- **Healthcare:** During the campaign, much was said about repealing the Affordable Care Act (ACA). If it were repealed without an alternative to replace it, the pool of insured customers will be reduced, and that is unlikely to happen with 20 million people having health coverage because of the Act and the lack of a super Republican majority in the Senate. Since the election, discussion has turned to alternatives to repealing the Act in its entirety. Options include:
  
  - Modify ACA through rule-making and smaller legislative changes.
  - Undermine ACA by dropping the present administration’s appeal of a lower court’s ruling against an executive order allowing for federal “cost-sharing” payments to insurers giving deep discounts to many of their customers.
  - Suspend and alter ACA regulations to, for example, allow offerings of benefit plans that don’t meet ACA minimum requirements.
  - Alter the dynamics of how the ACA exchanges work.
  - Neglect ACA by not funding it in the budget process.

One possibility is tax-free health savings accounts, which Trump proposed during the campaign to enable individuals to save money to pay for healthcare costs while deducting the cost of their premiums for tax purposes. He also advocated requiring price transparency from all providers (e.g., doctors, clinics, hospitals and other healthcare organizations) and increasing competition among payers by allowing them to market and sell policies across state boundaries (i.e., payers would be allowed to offer insurance in any state so long as their

plans comply with state requirements). Trump believes that competition would reduce insurance costs and increase consumer satisfaction. Trump is also committed to reforming the veterans healthcare delivery system. How that initiative impacts the broader healthcare industry bears a close watch. On the plus side, the Trump administration may view industry mergers more kindly than his predecessors.

**Manufacturing:** As with construction contractors, materials and heavy equipment manufacturers will benefit from renovating the inner cities and rebuilding highways, bridges, tunnels and other infrastructure (the “Wall”). However, as discussed further below, fair trade will be a priority for the Trump administration. Industrials offshoring their operations to other countries and selling products back to the U.S. market at prices that remaining U.S. competitors cannot match are likely to be targeted. Global supply chains of U.S. industrials may also be affected.

**Insurance:** The story here is similar to the banking industry – optimism that there will be a lighter regulatory hand (e.g., roll-back or at least delay of the fiduciary standard, less concern about non-bank SIFIs), but the state of the economy is the main driver.

**Utilities:** With large utility investments in plants, pipelines and other infrastructure, today’s investments will shape the power generation mix for many years. Under the Clean Power Plan (CPP) aimed at combating global warming in accordance with standards set by the Paris climate accord and with the current renewables incentives, U.S. utilities are opting to replace retiring coal plants with wind and solar facilities. However, if Trump strikes down the CPP, it would impact those strategic decisions. While Trump has also stated he favors nuclear energy, many in the nuclear industry support the CPP because it reduces the use of coal. How much of an overall effect the Trump administration would have on utilities is unclear, but it would certainly alter the competition model in the various ways to generate power – coal, natural gas, nuclear, wind and solar.

**Impact in Select Policy Areas**

The new administration’s focus on rebuilding infrastructure and renegotiating trade agreements, tax reform, fiscal policy and immigration may directly or indirectly affect the **overall health of the U.S. and global economy**. Notwithstanding the new administration’s goal to boost economic growth, potential fiscal expansion could boost deficits and inflation. Any effort to transition away from globalization may mean lower returns on capital, lower real interest rates and a weaker dollar. Tax reform may result in reduced rates on or elimination of taxation of unrepatriated earnings, which are estimated as high as $2.1 trillion (see below). Sweeping changes in some areas, such as trade policy, will be complicated by divisions within the Republican establishment in Congress.

The Trump presidency also could impact the Federal Reserve. During the campaign, Trump expressed criticism of the monetary-policy choices of the Fed’s Chair, Janet Yellen. Trump’s appointments to the
Fed over the near-term bear watching because hawks prone to raise rates could push the U.S. economy into recession. On the other hand, dove appointments would support faster growth in output and rising inflation.

**Tax reform** is expected to be a top priority, resulting in reduction of the number of tax brackets, lowering of effective tax rates and simplification of the tax code. Trump has proposed reducing the corporate tax rate to 15 percent (from 35 percent) to encourage more start-ups, expand existing companies, fund improvements in corporate infrastructure, and make the country a much more competitive tax environment for multinational corporations. In addition, the president-elect may offer a one-time tax rate of 10 percent for repatriated profits of U.S. international companies. Unrepatriated earnings are estimated at $2.1 trillion. Repatriation of these profits will allow more money earned abroad to serve as seed funding for a wave of economic expansion in the United States. This includes but is not limited to funding new infrastructure projects.

**Trade** will likely be a contentious issue during Trump’s presidency. During the campaign, the president-elect criticized the NAFTA, the Trans-Pacific Partnership (TPP, an agreement to lower or eliminate tariffs between the United States and 11 other countries, including Japan and Vietnam), and the trading partnership with China. One of his primary concerns is with U.S. companies offshoring operations to other countries and selling products back to the U.S. market at prices remaining U.S. competitors cannot match, with the result of eliminating U.S. jobs. If U.S. tariffs are imposed, it may result in offshored operations serving other global markets. Of course, if the United States were to unilaterally impose temporary trade restrictions, other countries may respond in kind with punitive restrictions of their own, which would put a damper on global trade and usher in a new era of dangerous protectionism.

**Immigration** was another contentious campaign issue. According to one estimate, the cost of immediately and fully enforcing current immigration law, as Trump has suggested, would range from $400 billion to $600 billion and require many years to implement. In addition, it would shrink the labor force by 11.2 million workers, an impact that would be especially felt in the agriculture, construction, retail, and food and drinking services sectors.4

**Security** will be a priority during the Trump presidency. As noted earlier, protecting the U.S. borders and expanding our armed forces will be a priority for the new administration. AML/sanctions regulation and cyber regulation will remain priorities given their linkage to national security and fighting terrorism, and we could see some reversal of policy with countries like Iran and Cuba; i.e., reinstituting some of the curbs that were lifted by the Obama administration.

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What Do Companies Do Now?

Now that the uncertainty around who will occupy the White House and control Congress is cleared up, companies need to address the risks associated with changing political realities. Following are six suggestions companies can consider now:

(1) **Watch developments on trade closely** – The new administration appears to be committed to a reset of NAFTA and TPP. It is focused on addressing trade issues with China, e.g., currency manipulation, exclusion of U.S. products from government purchases and subsidization of Chinese companies. How these policy initiatives play out can significantly affect companies’ operations in or exports to these foreign markets and even suppliers based in these markets.

(2) **Evaluate strategic assumptions** – Every organization’s strategy has underlying assumptions, explicit or implicit, about the future. As most observers handicapped the odds in favor of a Clinton presidency, it is likely that many companies factored that assumption into their strategic thinking. Now that the election results are history, it makes sense to assess the underlying strategic assumptions in light of likely actions by a Trump administration and a Republican Congress. If it’s possible that one or more assumptions might be rendered invalid, then senior management should assess the ramifications to the strategy and business model and evaluate strategic options. As suggested in point (3) below, scenario analysis may be useful in this regard.

(3) **Consider the implications of plausible scenarios germane to your sector and begin preparing for the possible** – Define appropriate scenarios, taking into account the impact of the new administration’s various trade, regulatory, tax reform, immigration and other policy initiatives on the company’s markets, channels, customers, employees, supply chains, cost structure and business model. Use the scenarios to understand the potential impact on the business and formulate strategic alternatives to capitalize on market opportunities and address emerging risks. Update the analysis as the president’s team is identified and policies are clarified through inauguration and the first 100 days.

(4) **Prepare for more discretionary spending capacity** – The new administration is looking to reduce corporate tax to as low as 15 percent, make it easier for U.S. firms to repatriate profits earned and taxed abroad, eliminate the corporate alternative minimum tax, and provide special deductions for firms engaged in manufacturing in the United States. What happens to the company’s cash flow if these proposals come to fruition? How will the company deploy the additional cash flow and/or repatriated funds – undertake new investments, pursue M&A targets, pull deferred projects off the back burner, enhance compensation structures to retain talented employees, expand facilities, upgrade systems, and/or increase dividend rates?

(5) **Update M&A plans/strategy** – The combination of a more favorable tax environment, access to foreign earnings and the trend toward deregulation is likely to encourage more M&A
transactions. Companies should take these changing dynamics under consideration and assess their M&A appetite in view of their overall corporate strategy and the economic climate.

(6) **Diversify if revenue mix is dependent on government funding** – Defense contractors can capitalize on defense spending, and materials companies, heavy equipment manufacturers and construction contractors can focus on infrastructure spending opportunities. Other companies with a high dependency on government contracts and funding or close ties with federal agencies that may be placed under tight budgetary constraints may want to evaluate opportunities to deploy their core competencies in markets outside of the public sector. The new administration’s priorities will strain budgets that in the past called for subsidies, discretionary spending and myriad projects. The president-elect campaigned on eliminating waste as a way of reducing deficits, and that means reining in spending. It is not unreasonable to surmise that the new administration and the Republican Congress will at least restrain growth in budgets for areas that are not deemed a priority.

As priorities and policy direction clarify over time, companies can firm up their responses to the resulting changes in the operating environment. At the present time, the point is that it is never too early to start considering alternatives to current strategies.

**Summary**

Following are a few quotations from President-elect Trump’s 1987 book, *The Art of the Deal* (page reference noted parenthetically):

- “My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I’m after.” (45)

- “I play into people’s fantasies. People may not always think big themselves, but they can still get very excited by those who do. That’s why a little hyperbole never hurts. People want to believe that something is the biggest and the greatest and the most spectacular.” (58)

- “You can’t con people, at least not for long. You can create excitement, you can do wonderful promotion, you can get all kinds of press ... but if you don’t deliver the goods, people will eventually catch on.” (60)

- “I have an almost perverse attraction to complicated deals, partly because they tend to be more interesting.” (200)

- “Committees are what insecure people create to put off making hard decisions.” (281)

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As they seek to better understand the president-elect and what he might do once he is in office, the question business leaders and markets will want answers to is how the new president and his administration will respond when policy positions are opposed, market responses are negative and unintended consequences are better understood. Will it be everything or nothing, or will it result in an effort to compromise for something in the middle? The focus on increasing economic growth is unmistakable. Yet, will the new administration be willing to be flexible in its positions, rethink priorities and reach out for compromise to get something accomplished? In these exciting times, only time will tell. In this fluid environment, the six points we suggest above will help companies confidently face this challenging future.

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