First Trust
Monday Morning OUTLOOK
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Revolution

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Elections have consequences and the impact on U.S. economic policy of last week's election will be enormous. We're sure we'll be writing about all of these issues in much greater depth over the next several months, but, for now, here's a broad outline of what to expect.

One of the Republicans' first tasks will be **repealing much (but not all) of the Affordable Care Act**, also known as Obamacare. To get that done, they will use the budget reconciliation process in the US Senate, where they don't need to break a filibuster with 60 votes; instead, they only need a simple majority. The budget process can be used to eliminate (1) penalties for not getting insurance, (2) subsidies for buying government-approved overly-broad insurance packages, and (3) the expansion of Medicaid.

Although you may hear about "compromises" on children staying on parent's insurance plans and pre-existing conditions, those aren't really compromises. Rules that aren't budget related can't be repealed thru a budget bill. But expect the Department of Health and Human Services (maybe headed by Bobby Jindal) to change some rules to substantially slim down health insurance, to make it look more like catastrophic insurance, and, therefore, much less expensive.

On net, this means not only a big cut in government spending but lower effective marginal tax rates. Right now, large Obamacare subsidies remove an incentive to earn more money. The dollar value of working more hours and earning more income is offset by the loss of subsidies.

Next: A **big supply-side tax cut**, particularly on capital investment. Look for a big drop in the tax rate on regular corporate profits. The only problem will be getting enough Democratic votes for a supermajority in order to make these changes permanent. With only a simple majority, tax cuts are limited to just 10 years, just like under President Bush.

On entitlements, several years ago, House Speaker Paul Ryan developed a plan to **block-grant Medicaid to the states**, similar to how the welfare system was block-granted to the states in 1996 under President Clinton. Look for that to happen later in 2017, especially if the GOP decides to temporarily leave Medicaid alone when it repeals other parts of Obamacare. Ryan also has a plan to turn Medicare into a more efficient and less expensive insurance subsidy system rather than a fee-for-service system. The one area of inaction will be Social Security, where changes require 60 votes in the Senate.

For the financial sector, look for a new Labor Secretary to halt the **DOL/Fiduciary Rule** in its tracks before April 10, or, in the alternative, Republicans to use the budget process to prevent it from getting enforced. The Fiduciary Rule is a beehive of potential class-action lawsuits and it will end up limiting the ability of smaller investors to get good financial advice.

Repealing all of **Dodd-Frank** would require 60 votes in the Senate, more votes than the GOP has to achieve that goal. But look for more flexibility for small and medium-sized banks. Republicans will also strangle the **Consumer Financial Protection Bureau**, by not defending it against a recent Supreme Court ruling that called its structure unconstitutional, by not appointing leaders, and by cutting off its revenue flow.

A Trump Administration is going to be very friendly to the **fossil fuel industry**. Look for faster approval for pipelines and less regulation of CO_2 emissions. There's already talk of a Keystone pipeline revival, which would have been impossible under President Clinton. The US is well on its way to being a net petroleum exporter in the next few years.

Two areas of problems are **protectionism** and **infrastructure**.

We understand the temptation to do protectionism. China steals our intellectual property, subsidizes its steelmakers, and often forces our companies to work with local firms when working in their country. And maybe the threat of protectionism will get them to stop these practices. Tariffs would also help some US companies and their workers. But protectionism would also raise prices for consumers. So, for example, if steel or aluminum prices rise, automakers pay more and your cars and trucks are going to cost more, leaving less money to spend on other products.

Over time, protectionism would hurt the economy and stock market, which would erode political capital. Recent comments, though, suggest Mr. Trump is going to tread lightly on trade issues for the time being, a hopeful sign. To offset this, look for Trump to be very tough on

immigration issues, moving to strictly enforce the E-Verify system to make sure workers are legally here, and limiting entry from countries with hostility toward Western Civilization. Jeff Sessions is an immigration hawk and his former staffers are well placed on Trump's transition team.

Washington has always been enamored with more infrastructure spending. It can be an easy political sell and Trump and his advisors like the idea. But stimulus spending didn't work under President Obama and it wouldn't work now. Boosting government spending would be a mistake and would weaken the economy long-term. We're hoping Trump pares back his infrastructure promises, leaves it to the states, or somehow keeps unions from milking the spending programs like they always do. The way to do that is suspend Davis-Bacon.

President-elect Trump also has a chance to systematically shift policy in a free-market direction in other ways. Earlier this year, **government worker unions** breathed a sigh of relief as the Supreme Court deadlocked 4-4 in the case of a California state worker who said being required to pay union dues violated her First Amendment rights. Justice Scalia likely would have agreed with the worker, but died before the ruling was made.

The tie went to the union's favor because the union won in the lower federal court. But, right now, there's already another similar case winding its way through the courts. Just one conservative appointment and every government worker in the entire country will no longer be required to pay a union a dime.

Just imagine what US elections will be like when government unions have almost no money to spend or organize. This may be a nightmare for some, but for those who support free markets, it will be a dream come true.

Bottom line: economic policies are likely to tilt toward free markets, which will boost growth, jobs, incomes and equity values. If that's what happens, a second term is highly likely.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-15 / 7:30 am	Retail Sales – Oct	+0.6%	**+0.5%**		+0.6%
7:30 am	Retail Sales Ex-Auto - Oct	+0.5%	**+0.4%**		+0.5%
7:30 am	Import Prices - Oct	+0.4%	**+0.8%**		+0.1%
7:30 am	Export Prices - Oct	+0.1%	**+0.2%**		+0.3%
7:30 am	Empire State Mfg Survey – Nov	-2.0	**-2.0**		-6.8
9:00 am	Business Inventories - Sep	+0.2%	**+0.2%**		+0.2%
11-16 / 7:30 am	PPI – Oct	+0.3%	**+0.2%**		+0.3%
7:30 am	"Core" PPI – Oct	+0.2%	**+0.1%**		+0.2%
8:15 am	Industrial Production – Oct	+0.2%	**0.0%**		+0.1%
8:15 am	Capacity Utilization – Oct	75.5%	**75.3%**		75.4%
11-17 / 7:30 am	Initial Claims – Nov 12	257K	**257K**		254K
7:30 am	CPI – Oct	+0.4%	**+0.4%**		+0.3%
7:30 am	"Core" CPI – Oct	+0.2%	**+0.2%**		+0.1%
7:30 am	Housing Starts – Oct	1.155 Mil	**1.168 Mil**		1.047 Mil
7:30 am	Philly Fed Survey – Nov	7.8	**7.6**		9.7