FISHER INVESTMENTS™

Editors' Note: Our political commentary is nonpartisan and non-ideological by design as political bias is a dangerous investing error. We favor no political party or candidate and assess politics solely for potential market impact.

The voters have spoken and Donald Trump will be America's next President. The Republicans will keep both houses of Congress, losing only a handful of seats. S&P 500 futures plunged in overnight trading, but short-term volatility is normal and US markets have since stabilized, closing the day in positive territory. Markets move most on the gap between reality and expectations. People fear Trump's campaign pledges, but politicians' promises rarely become reality. As Trump does less than people fear, we expect markets to get plenty of relief, supporting a positive surprise for stocks in 2017.

Tuesday night's theatrics remind us of the Brexit vote: Now, as then, the real losers are the pollsters, media and political sages who presumed polls were airtight. As markets closed Monday, most pointed to gains in the S&P 500 and record inflows into the biggest US-listed Mexican ETF as signs Clinton would win—just as UK stocks' gains on June 23, Brexit day, supposedly telegraphed a Remain win. When Leave pulled ahead as votes were tallied, the pound and equity futures fell—just as S&P 500 futures dropped Tuesday night, as a Trump victory grew likelier. In the two trading days after the Brexit vote, world equities fell –7.1%, and UK markets lost –5.6%.[i] But on day three, the tide turned. Investors who based their forecasts and decisions on polls overcame their shock, and equities recovered. The immediate reaction to Brexit did not indicate the ultimate outcome, and nor does the immediate reaction to Trump. Markets will readjust and move on. The more they see Trump cannot do as much as he says, the more positively they should react.

Expectations Versus Reality and a Bit of History

While politics are just one driver—and it is premature to forecast economic and sentiment drivers—political winds should boost equities next year as markets treat Trump the way they would normally treat a new ***Democratic*** president.

Historically, when Democrats win, returns are below-average in the election year—just 7.4%, since 1928—and stronger in the inaugural year, averaging 16.2%.[ii] Under Republicans, it is the opposite—stronger returns in the election year (15.5% on average) and weaker the next (0.7%).[iii] Presidents' tendency to break campaign pledges receives much of the credit for this, in our view. Usually Democrats run on anti-business platforms, making investors run for the hills, and then relieve markets when they do not see most of those promises through. Either they moderate, already eyeing re-election campaigns and the need to keep Independents in the fold, or Congress gets in the way. Republicans, meanwhile, usually make pro-market promises, boosting sentiment when they win, but disappointing investors the next year when they, too, get very little done.

Trump is not your typical Republican, to say the least. "Market-friendly" does not describe most of his campaign pledges. Anti-trade talk scared Corporate America. No Fortune 100 CEO endorsed him. Hostile Wall Street Journal op-eds were a regular occurrence. His corporate tax cut might appear pro-businesses; however, he also stated that he would end deferred taxation of US firms' overseas profits, instead taxing them immediately. Most investors saw little to cheer and everything to fear—just as they typically do with new Democratic presidents.

That sets expectations at rock-bottom, which equities prefer. It will not take much for markets to enjoy a positive surprise—a President Trump that does less than feared and is less bad than feared should do it. When markets expect disaster, anything less than disaster is a relief, and relief brings rallies. Returns this year are fully consistent with a feared election outcome, which we believe tees up markets for big, political surprise potential in 2017.

Exhibit 1: History of Returns Under Democrats

DEMOCRAT WINS ELECTION		
ELECTION YEAR	ELECTION YEAR RETURN	INAUGURAL YEAR RETURN
1932	-8.9	52.9
1936	32.8	-35.3
1940	-10.1	-11.8
1944	19.7	36.5
1948	5.1	18.1
1960	0.5	26.8
1964	16.4	12.4
1976	23.7	-7.4
1992	7.6	10.1
1996	23.0	33.4
2008	-37.0	26.5
2012	16.0	32.4
AVERAGE	**7.4**	**16.2**
MEDIAN	**11.8**	**22.3**
POST-WAR AVERAGE	**6.9**	**19.0**

Source: Global Financial Data, as of 11/04/2016.

Gridlock

With Republicans maintaining control of Congress, it may seem strange that we expect gridlock. But there are other forms of gridlock besides the traditional cross-party variety. Under Trump, we should get a rarer kind: intraparty gridlock.

A good-sized chunk of the GOP's Congressional firmament was part of the #NeverTrump movement. Several refused to endorse him. Some publicly said they would vote for Hillary Clinton. Trump likely does not forget these individuals. Those who were at war with him during the campaign will be at war with him in Congress. They might be relegated to the periphery within the Republican Party hierarchy, but they will fight back. They can still point to their victories, fueling a powerful resistance bloc within the GOP.

A GOP, we should add, that will not have a filibuster-proof majority. Even if all the #NeverTrumpers unified behind Trump, Democrats could talk any sweeping new laws to death.

Then, too, Trump is not winning with a huge mandate as it appears Clinton won the popular vote. However lopsided the Electoral College might ultimately look, it was close. America did not broadly tip one way—this was not a landslide akin to the Reagan or Obama eras. It was narrowly split between urban and rural voters, much as Brexit was.

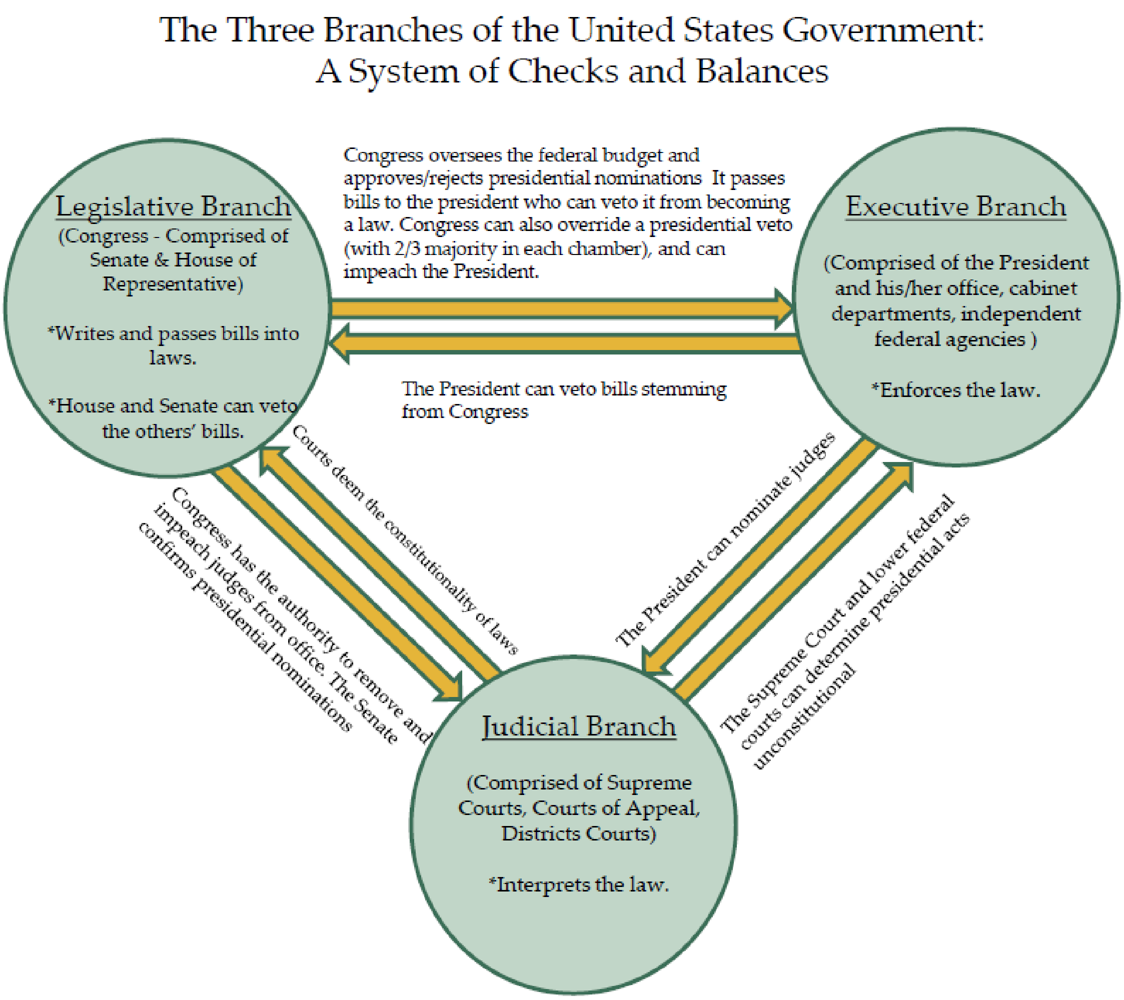
Ronald Reagan once said truly great presidents might get three or four major initiatives passed—presumably hugely popular leaders with big mandates and strong operating skills. If they are less skilled, have less support or waste political capital on partisan bickering and party in-fighting, they accomplish even less. President Obama enjoyed a Democratic supermajority during his first two years, and he only passed two big laws—Dodd-Frank and the Affordable Care Act—and both were watered down significantly from initial proposals. A President Trump with a thin Republican majority and intraparty resistance probably does even less.

Overrated Presidential Politics

It is crucial not to overrate the presidency in a market outlook. Not only do candidates often eschew promises once in office, presidents cannot assert their positions unilaterally—and political realities often prevent many promises from advancing. While election rhetoric is hot, it is important to remember the scope of presidential authority.

America's system of checks and balances curbs presidential power. The president (Executive Branch) is tasked with enforcing laws through regulation and direction—not unilaterally crafting them. The courts (Judicial Branch) can interpret laws. Only Congress (Legislative Branch) can write and pass laws. In that sense, the Congress and Supreme Court were essentially conceived to limit the president from doing whatever he or she wants outside of the law.

Exhibit 2: A System of Checks and Balances



Source: USA.gov

The Executive Branch can act outside Congress through the issuance of executive actions or the reinterpretation of rules, but as recent events demonstrate, this shouldn't be mistaken for unchecked power. The Constitution limits the scope of presidential rulemaking, and the Judicial Branch has a long record of maintaining this balance. Not just the Supreme Court—the lower Federal Courts and the 50 state court systems are also capable of keeping an overreaching president in check. Two June decisions illustrate this perfectly; one involving Department of the Interior regulations governing fracking on federal lands, the other regarding President Obama's shielding select undocumented immigrants from deportation. In both cases, several states challenged the federal government's authority on constitutional grounds and the courts agreed. Any time one branch exceeds the scope of its responsibility or the extent of its authority, the other two branches act as counter weights.

Trade policy may be a wild card, as Congress has ceded some authority to the president, but that is not reason to be bearish today. US presidents have a long history of spouting anti-trade rhetoric on the campaign trail, then backtracking once in office. Bill Clinton campaigned against NAFTA, then signed it. Likewise for Barack Obama and the free-trade deals with South Korea and Colombia. Threatening tariffs against China over currency manipulation and "dumping" subsidized exports is basically a campaign requirement, but politicians rarely ever follow through.

Political reality could easily get in the way of Trump's trade pledges. Legally, perhaps he could pull the US from NAFTA. But alienating all those in the services, logistics and retail sectors whose jobs depend on NAFTA would be an odd move indeed. Remember, a first-term president's goal is always to be re-elected. Everything else comes second. In other words: Watch what he does, not what he says.

As previously mentioned, politics are only one driver of demand for equities, the others being economics and sentiment. America is also only about 25% of world GDP, so actions taken by the US government do not have the reach to unilaterally affect the world economy. Markets will realize the limits to presidential power.

Portfolio Considerations

The sharp selloff in the Mexican peso had the most meaningful immediate impact on Global and EM portfolios given our exposure to Mexico. Mexico was down on concerns a Trump presidency will result in major changes to NAFTA—which we do not necessarily agree with. We remain bullish on Mexico tied to pro-growth domestic reforms and strong economic drivers.

Policy Considerations

- Tax Reform - Tax reform (including corporate tax cuts) may have a higher probability of passage since Trump and establishment Republicans generally have similar views on taxation.
- Trade Policy - While some cosmetic concessions may pass to appease Trump supporters, we believe major changes in trade policy (including NAFTA) are lower in probability given the divergence of opinion on trade among Republicans.

Outlook

Globally, we expect the bull market will continue as concerns over the US election, Brexit, Chinese growth and energy prices abate. We expect Trump's impact on portfolios to be limited. Most importantly, we believe sentiment is overly dour on fears about what Trump could do, and the surprise over the next 12-18 months is he won't do many of the things investors fear most.

The election results do not change our sector or regional views. We continue to favor countries undergoing structural reforms and sectors with high gross profit margins, while we prefer to avoid regions and sectors most dependent upon commodity prices.

[i] Source: FactSet, as of 06/30/2016. MSCI World returns with net dividends (in USD) and MSCI UK total returns (in GBP), 06/23/2016 – 06/27/2016.
[ii] Source: Global Financial Data, as of 01/06/2016. S&P 500 total returns in election and inaugural years, 1928 – 2015.
[iii] Ibid.

FISHER INVESTMENTS™

Fisher Investments (FI) is an investment adviser registered with the Securities and Exchange Commission. As of October 31, 2016, FI managed over $69 billion, including assets sub-managed for its wholly-owned subsidiaries. FI and its subsidiaries maintain four principal business units – Fisher Investments Institutional Group (FIIG), Fisher Investments International (FII), and Fisher Investments 401(k) Solutions Group (401(k) Solutions). These groups serve a global client base of diverse investors including corporations, public and multi-employer pension funds, foundations and endowments, insurance companies, healthcare organizations, governments and high-net-worth individuals. FI's Investment Policy Committee (IPC) is responsible for investment decisions for all investment strategies.

For purposes of defining "firm," Fisher Investments was established as a sole proprietorship in 1979, incorporated in 1986, registered with the SEC in 1987, replacing the prior registration of the sole proprietorship, and succeeded its investment adviser registration to a limited liability company in 2005. "Years with FI" is calculated using the date on which Fisher Investments was established as a sole proprietorship through

FI is wholly-owned by Fisher Investments, Inc. Since inception, Fisher Investments, Inc. has been 100% Fisher-family and employee-owned, currently Fisher Investments, Inc. beneficially owns 100% of Fisher Investments (FI), as listed in Schedule A to FI's Form ADV Part 1. Ken Fisher beneficially owns more than 75% of Fisher Investments, Inc., as noted in Schedule B to FI's Form ADV Part 1.