As President-elect Donald Trump sets his agenda for his first 100 days in office, undertaking regulatory reform will be one of his top priorities.

Some companies stand to benefit from the potential lifting or relaxation of regulatory constraints. Based on our analysis, financial services, energy infrastructure, and health care are the most directly impacted sectors by Trump’s regulatory reform agenda. We could also see knock-on effects in real estate/housing, manufacturing, technology, and consumer products.

We caution that there is little clarity around the details and timing of the changes that may unfold. While the President-elect has been outspoken about the repeal or removal of existing rules and regulations, he has been less vocal about his specific plans to replace them.

In assessing the potential impact of regulatory reform, we took into account three factors: 1) priority on Trump’s agenda; 2) the probability of success; and 3) degree of impact on the companies affected.

As President-elect Donald Trump sets his agenda for his first 100 days in office, one item at the top of his to-do list will be undertaking regulatory reform. Both on the campaign trail and during his transition period, Mr. Trump has reiterated his commitment to relieving the regulatory burden on certain industries in order to create jobs and revitalize the US economy. Some companies stand to benefit from the potential lifting or relaxation of regulatory constraints. Identifying these companies is a complex task, as only scant details exist around many of the President-elect’s proposals, and uncertainty remains over the feasibility of his plans.
The US government’s system of checks and balances limits the future President’s power to turn his rhetoric into law. Therefore, the likelihood of success for individual regulatory reforms will depend on the procedure needed to enact them. For example, the reversal of executive orders requires just the stroke of Mr. Trump’s pen, whereas eliminating regulations via legislation entails the approval of Congress.

In assessing the potential impact of regulatory reform, we took into account three factors: 1) priority on Trump’s agenda; 2) the probability of success; and 3) degree of impact on the companies affected. We did not include the potential effects of tax reform as part of this review and will cover it in a separate report. Based on our analysis, financial services, energy infrastructure, and health care are the sectors most directly impacted by Trump’s regulatory reform agenda. We could also see knock-on effects in real estate/housing, manufacturing, technology, and consumer products.

**What’s priced in?**
The market reaction to Donald Trump’s victory has far exceeded cautious expectations, with the S&P 500 up more than 6% in the two months post-election. We have seen the market discriminate among sectors, with financials and telecom leading and consumer staples and utilities underperforming. The energy sector has also performed well since the election, finishing 2016 as the best-performing sector. Meanwhile, healthcare performance has been mixed – managed care organizations and biotech firms have outperformed while hospitals and medical equipment makers have lagged – as investors attempt to decipher what a repeal and replacement of Obamacare means for the sector.

While the strength of the overall market is in part due to a revival of “animal spirits” with the market anticipating a more “business friendly” administration, other factors have significantly influenced sector performance. For example, within financials, we attribute most of the market rally to the move up in interest rates and prospects for tax reform, with regulatory reform being a distant third driver; and within energy, we see the stabilization of oil prices as the biggest contributor to last year’s outperformance. Overall, while investors may be anticipating regulatory reform to some degree, it’s appears to be a tailwind that is not fully priced in at current levels for some companies.

**Financials...and housing**
We expect the regulatory burden on financial institutions to loosen for the first time since the financial crisis. While a complete repeal of Dodd-Frank – the financial services reform law adopted in the wake of the financial crisis – appears very unlikely, a less onerous regulatory interpretation of certain elements of the law as well as technical fixes to the legislation do seem likely. Modifications could include clarifications around proprietary trading activity which fall under the Volcker rule and the ability to reduce capital allocations to operating risk assets. In our view, removing the fear of rising regulatory restrictions and fines will encourage banks to enter new markets and pursue new business opportunities.

**Financials has been the top performing sector post-election**
Total return in % (11/8/16-1/12/17)

![Graph showing sector performance]

Source: UBS, Bloomberg, 13 January 2017
Trump’s appointments to senior regulatory positions – including Vice Chair of Supervision and Chair of Financial Stability Oversight Council (FSOC) – should also contribute to a less harsh supervisory and enforcement environment and a decline in new regulatory requirements going forward. Specifically, with FSOC under new leadership, we can expect to see the removal of nonbank SIFI (Systemically Important Financial Institution) designations, which could be positive for some large insurance companies. We may also see delayed enforcement of pending financial regulations, such as the Department of Labor’s fiduciary rule, which would benefit financial advisory firms. Greater clarity around the Fed’s annual stress tests could also be a favorable development for financial companies.

Finally, and perhaps most importantly for economic growth, easing regulatory burdens may spur banks to become more aggressive about extending credit to both businesses and consumers. Easier access to mortgage financing could lead to an uptick in home-buying (especially for the entry level segment), which would be a positive for some homebuilders and home improvement retailers.

No silver bullets in Energy
President-elect Trump is a strong supporter of the US oil and gas industry and has vowed to do away with Obama’s Clean Power Plan and to walk away from the Paris Climate Agreement. While it is yet to be seen if he will fulfill these promises, his positive stance on US energy production should be supportive of the sector overall. Mr. Trump has the power to rollback many environmental and energy-related regulations without legislative action, so we expect to see action in this space relatively quickly after he takes office. For example, the new President will likely approve the last remaining easement for the Dakota Access Pipeline shortly after he takes office. Beyond that specific project, we caution that the Federal government has limited authority to approve and site pipelines, and delays in pipeline siting are often at the state level. Therefore, we do not expect to see a sudden, broad-based uptick in pipeline development under the Trump administration.

We believe that energy prices will remain the primary driver of energy stock performance, suggesting that a regulatory-driven increase in oil and gas drilling is unlikely. In our view the energy infrastructure space, particularly Master Limited Partnerships (MLPs) with exposure to the Dakota Access Pipeline and natural gas transportation offer the best opportunities to benefit from potential de-regulatory tailwinds in the sector. We do not expect any “silver bullets,” but the more favorable government stance, coupled with strong industry fundamentals, and stabilizing energy prices (which should continue with the recent OPEC agreement) should position MLPs for outperformance in 2017.

Healthcare…repeal and replace?
The key question for the health care sector with Trump in office is whether the Affordable Care Act (ACA) will be dismantled, and if so, what the replacement plan will look like. In our view, the incoming Congress will likely repeal various pieces of the ACA early in the new administration, but will take care to ensure continued health
insurance coverage for the approximately 25 million Americans currently covered under ACA programs. While uncertainty is hanging a dark cloud over various subsectors within healthcare, we believe clarity around replacement initiatives will provide a boost to share prices over the next 12 months. In particular, we believe that ACA-driven Medicaid expansion will likely continue to persist in some form – and could even grow in Republican-controlled states that did not adopt Medicaid expansion. We also expect the new administration to encourage greater enrollment in Medicare managed care plans. All of these developments would be favorable for certain publicly traded managed care companies.

Another angle on health...
Cigarette makers could enjoy less stringent regulation with Mr. Trump at the helm. During his term, President Obama signed the Family Smoking Prevention and Tobacco Control Act into law, which gave the FDA the authority to regulate the manufacture, distribution, and marketing of tobacco products. If President-elect Trump makes changes to the leadership of the FDA, this would create a more favorable environment for tobacco companies. Specifically, we could see easier approval of new tobacco products and technologies and the allowance of “reduced harm to health” claims for certain products. This would be a significant tailwind for well-positioned tobacco companies.

Uncertainties abound
In summary, we expect a more relaxed regulatory environment under a Trump presidency, but there is little clarity around the details and timing of the changes that may unfold. While the President-elect has been outspoken about the repeal or removal of existing rules and regulations, he has been less vocal about his specific plans to replace them. Despite these uncertainties, we believe that certain companies, particularly in the energy, financials, and healthcare sectors, should benefit from an easing of regulatory burdens and are in a position to outperform as Mr. Trump’s plans unfold.
Appendix

Terms and Abbreviations

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<td>Shares o/s</td>
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