Electing the economy

Why investors believe this election is critical for their financial future

- The economy
- Foreign policy
- Taxes
- National debt
The focus of this presidential election has ranged across a wide variety of topics, from immigration and healthcare to education and foreign policy.

But the number one issue that resonates with wealthy investors is the economy. A thriving economy, they reason, will put the country on stronger footing.
In this edition of *UBS Investor Watch*, we found that wealthy investors see much at stake in the upcoming election. Across political parties, investors overwhelmingly believe America is losing its competitive edge and ability to extend economic opportunity to future generations. However, they are sharply divided along party lines on just what it will take to fix the economy.

Regardless of who wins in November, investors believe their financial well-being will be impacted—either positively or negatively. On the one hand, investors fear the worst if their preferred candidate loses. On the other, they feel optimistic that a victory for their candidate would boost the stock market.

Election uncertainty has implications for how investors approach their portfolios. More than half are considering making portfolio changes based on the outcome, and some have already done so.

Clearly, when investors head to the polls on Election Day, they will be hoping for the economy to emerge the true victor.
Investors see this election as a watershed event…

Across the political spectrum, investors share similar concerns about the country and the upcoming presidential election. Nearly all believe the political environment is highly dysfunctional and 58% believe the country is seriously on the wrong track. Overwhelmingly, investors agree that the election will have a major impact on the direction of the country.

**This time it’s different**

*Percentage who agree with each statement*

- This election will be a **game changer** with a major impact on the direction of the country: 77%
- This election is **more significant** than others in recent history: 75%
- I can’t remember an election with **candidates more different** from each other: 81%

“Every four years we say this is THE important election, but this one really is.”

– Male, 63

“Long-term trends are against a healthy and well-balanced economy, and we’re losing our leadership position on the world stage.”

– Male, 77
…and are deeply concerned about its impact on the country

Regardless of who wins in November, investors aren’t putting much faith in the new president to substantially improve the current situation. The vast majority of investors are nervous about what will happen after the election and fear the worst if the opposing candidate wins.

Concern about the election outcome is high

Percentage who agree with each statement

- **92%** The government is not addressing the big issues affecting our country’s future
- **74%** I am nervous about what will happen after the election, regardless of who wins
- **89%** I feel negatively about the direction of the country if the opposing candidate wins

“Our country is, and has been, in trouble. I don’t see any positives coming out from either candidate. This election makes it difficult for people to trust their government.”

– Female, 44

“This is probably the strangest election in history, with so many people not wanting to vote for either candidate because of their strong feelings about both.”

– Female, 73
The economy is the number one concern for investors...

Investors see the economy as the biggest issue in the election, outranking even healthcare and national security. Almost all believe the political environment in Washington is actually hurting the country’s economy.

Regardless of party affiliation, the economy is the main issue

**Percentage rating very or extremely important**

84%  The economy

79%  Healthcare

78%  National security

73%  Foreign policy

70%  Terrorism

64%  Education

63%  The national debt

61%  Taxes

59%  Social Security

57%  Immigration

“I am afraid of more debt slowing down our economy and the general negative feeling right now. There seems to be a lot of frustration and anger."

– Male, 27

“My biggest concern is stagnant wages, which means less disposable income after inflation, which equals less consumer spending.”

– Male, 35
…and they believe the American dream is in jeopardy

Faith in the American dream of economic opportunity seems to be wavering. Most investors believe America has lost its competitive edge in an increasingly global marketplace. Others feel it’s harder today to rise up from humble beginnings. Only one third believe future generations will have a better quality of life than we do today.

Investors are pessimistic about the country’s future

Percentage who agree with each statement

- America has lost its competitive edge: 68%
- It’s harder today for someone in America to rise up from humble beginnings: 57%
- Future generations will have it better than we do: 33%

“I am concerned about the financial well-being of my children and grandchildren. I am worried that my grandchildren won’t be able to find jobs.”
– Female, 60

“My two sons live in a world where they will not be as lucky as I was, even though they are smarter and work harder than I did. The American dream dies a little more with each generation.”
– Male, 69
Investors are evenly split among Republicans, Democrats and Independents…

Wealthy investors are divided relatively evenly across political parties.

Nearly one third of wealthy investors are Independent

**Question:** “What is your political affiliation?”

<table>
<thead>
<tr>
<th>Affiliation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democrat</td>
<td>27%</td>
</tr>
<tr>
<td>Republican</td>
<td>34%</td>
</tr>
<tr>
<td>Independent</td>
<td>31%</td>
</tr>
</tbody>
</table>

The WWII generation and Baby Boomers lean Republican. Millennials are the only generation that leans Democratic.

<table>
<thead>
<tr>
<th>Generation</th>
<th>Democrats</th>
<th>Republicans</th>
<th>Independents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swing/WWII</td>
<td>25%</td>
<td>36%</td>
<td>32%</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>26%</td>
<td>34%</td>
<td>32%</td>
</tr>
<tr>
<td>Gen X</td>
<td>25%</td>
<td>29%</td>
<td>32%</td>
</tr>
<tr>
<td>Millennials</td>
<td>39%</td>
<td>29%</td>
<td>23%</td>
</tr>
</tbody>
</table>
Regardless of party affiliation, the vast majority of investors believe investments in infrastructure (87%) and research (85%) will help jumpstart the economy. Otherwise, wealthy investors are deeply divided along party lines when it comes to potential economic solutions. For example, Democrats support investing in clean energy while Republicans and Independents would rather balance the budget.

Little consensus on how to improve the economy

Percentage who agree the following would positively impact the U.S. economy

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Democrats</th>
<th>Republicans</th>
<th>Independents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance the budget</td>
<td>61%</td>
<td>86%</td>
<td>78%</td>
</tr>
<tr>
<td>Invest in clean energy</td>
<td>45%</td>
<td>85%</td>
<td>61%</td>
</tr>
<tr>
<td>Lower taxes for everyone</td>
<td>40%</td>
<td>73%</td>
<td>52%</td>
</tr>
<tr>
<td>Lower taxes for middle class, raise for wealthy</td>
<td>45%</td>
<td>82%</td>
<td>60%</td>
</tr>
<tr>
<td>Increase the minimum wage</td>
<td>24%</td>
<td>77%</td>
<td>43%</td>
</tr>
<tr>
<td>Strictly enforce immigration laws</td>
<td>35%</td>
<td>72%</td>
<td>52%</td>
</tr>
</tbody>
</table>
Investors are preparing their portfolios for the worst…

Eight out of 10 investors believe the outcome of the election will directly affect their financial well-being. Some, particularly Millennials, have already reduced their investments or even pulled out of stocks entirely. The majority of investors are considering making allocation changes or reducing investments based on the election outcome.

Despite their level of concern, only one out of five investors has discussed the impact of the election with their financial advisor. However, most are open to having the conversation.

Most investors are considering making portfolio changes due to the election

<table>
<thead>
<tr>
<th>Make sector adjustments</th>
<th>Reduce investments</th>
<th>Pull out entirely</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Have already done it</td>
<td>Considering it</td>
<td>Will not do it</td>
</tr>
<tr>
<td>57%</td>
<td>47%</td>
<td>25%</td>
</tr>
<tr>
<td>34%</td>
<td>43%</td>
<td>70%</td>
</tr>
</tbody>
</table>

“I have already made some changes to a slightly more conservative portfolio. My guess is that investments will drop precipitously, since uncertainty always has a negative effect on the market.”

– Female, 67

“The candidates have very different views on the economy, regulations and world trade, so investors don’t really know what to expect for the future.”

– Female, 63
…but are optimistic about the market if their candidate wins

While presidential elections historically have had little impact on the stock market, investors are convinced that this time will be different. They are generally bullish about “their” candidate and bearish about the opponent.

**Investors expect the election to impact the stock market**

*View of impact on stock market by election outcome*

If the candidate I **support** wins

- Positive impact: 61%
- No impact/not sure: 33%
- Negative impact: 6%

If the candidate I **oppose** wins

- Positive impact: 26%
- No impact/not sure: 64%
- Negative impact: 10%

“The president’s policies will impact the stock market, industrial performance, jobs and taxes.”

– Female, 73

“If my candidate wins, I think Wall Street will breathe a sigh of relief. I’ll most likely jump on the bandwagon and invest more.”

– Male, 47
About the survey: UBS Wealth Management Americas surveys U.S. investors on a quarterly basis to keep a pulse on their needs, goals and concerns. After identifying several emerging trends in the survey data, UBS decided in 2012 to create the UBS Investor Watch to track, analyze and report the sentiments of affluent and high net worth investors.

UBS Investor Watch surveys cover a variety of topics, including:
- Overall financial sentiment
- Economic outlook and concerns
- Personal goals and concerns
- Key topics, like aging and retirement

For this sixteenth edition of UBS Investor Watch, 2,344 affluent and high net worth investors responded to our survey from June 6 – 14, 2016. The core sample of 1,912 investors has at least $1 million in investable assets, including 453 with at least $5 million. With 90 survey respondents, we conducted qualitative follow-up interviews.

This UBS Investor Watch also includes an oversample of 580 Millennials:
- Respondents ages 21 – 29 who have at least $100,000 in household income or $100,000 in investable assets
- Respondents ages 30 – 36 who have at least $250,000 in investable assets

For more investor insights, visit ubs.com/investorwatch.