Private Bank

U.S. Election Outlook:
POTUS vs Congress, Not Clinton vs Trump

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Our Base Case: Clinton over Trump, Republicans Control House

- Polls of the popular vote show candidates Clinton and Trump about 5 percentage points apart in favor of Clinton. This is close enough to change before November.

- A projection of the electoral college* votes from state polls shows Clinton with an 73% lead (341 electoral votes vs 197).

- *RealClearPolitics* estimates 356 electoral votes for Clinton vs 171 for Trump with a different definition of potential "swing" states.

- 40 U.S. states + DC have voted for the same party in each of the last four presidential elections. Of the remaining 10 "swing" states, current polls show Clinton leading in 8.

*see appendix for explanation of how the U.S. chooses its president with the electoral college

Polls of swing states and implied electoral college votes

270 electoral college votes to win majority

Historical Swing States

Current Swing State Polling			
Percentage of Individuals Favouring Clinton vs Trump		Clinton %	Trump %
Colorado	9	46.3	35.0
Florida	29	44.3	41.6
Indiana	11	38.7	47.3
Iowa	6	41.5	42.3
Nevada	6	43.3	41.0
New Hampshire	4	45.0	35.7
New Mexico	5	40.5	32.0
North Carolina	15	45.5	43.8
Ohio	18	43.8	40.0
Virginia	13	45.7	40.7
Swing States		**99**	**17**
Total National Estimate		**341**	**197**

Clinton 73% lead in electoral count

Real Clear Politics Swing States

Current Swing State Polling			
Percentage of Individuals Favouring Clinton vs Trump		Clinton %	Trump %
Arizona	11	41.3	44.0
Georgia	16	42.7	44.3
Michigan	16	46.0	38.7
Nevada	6	43.3	41.0
North Carolina	15	45.5	43.8
Oregon	7	43.0	39.0
Virginia	13	45.7	40.7
Florida	29	44.3	41.6
Iowa	6	41.5	42.3
Montana	3	No polls.	
New Hampshire	4	45.0	35.7
Ohio	18	43.8	40.0
Pennsylvania	20	46.5	40.0
Wisconsin	10	45.0	39.7
Swing States		**138**	**33**
National Projection		**340**	**187**

Clinton 81% lead in electoral count

Source: RealClearPolitics.com and Citi Private Bank as of September 6, 2016.

Base Case: Republicans maintain control of House, possibly Senate too

- There's been a fairly low correlation between Trump's polling results and individual House and Senate Republicans.
- Since 1960, no new U.S. President has simultaneously won over a switch in control of the House of Representatives.
- With the largest majority since 1928, even if Democrats win as many seats as 2008, control of the House wouldn't change.
- A "filibuster proof" Senate super majority is highly unlikely under even improbable election scenarios. (see "risk scenarios pages 17-18).
- Current polls show Democrats to add four senate seats which falls short of full majority

Polls Suggest *Low Association* between Congressional Republicans and Trump

Senate swing elections

Popular poll percentage for republican vs democrat (for particular senate seat)

State	Incumbent	Dem	Rep	Current	Poll Result	Change Implied
		Poll %				
AZ	John McCain	36	41	R	R	
CO	Michael Bennet	50	37	D	D	
FL	Marco Rubio	41	47	R	R	
IA	Chuck Grassley	41	49	R	R	
IL	Mark Kirk	No poll.		R		
IN	Daniel Coats*	48	41	R	D	+1 D
LA	David Vitter*	No poll.		R		
MO	Roy Blunt	No poll.		R		
NC	Richard Burr	45	44	R	D	+1 D
NH	Kelly Ayotte	45	44	R	D	+1 D
NV	Harry Reid*	41	41	D	R	+1 R
OH	Rob Portman	37	44	R	R	
PA	Patrick Toomey	42	41	R	D	+1 D
WI	Ron Johnson	51	40	R	D	+1 D

Safe vs swing house elections

	Republicans	Democrats
Current Seats	247	188
Safe Seats	221	181
Competitive Seats	26	7
Projected Change	-18	+18
2017 House	229	206

Source: ElectionProjection.com and Citi Private Bank as of September 6, 2016.

Current polling = 50 Republicans, 48 Democrats and 2 Independents in 2017 Senate.

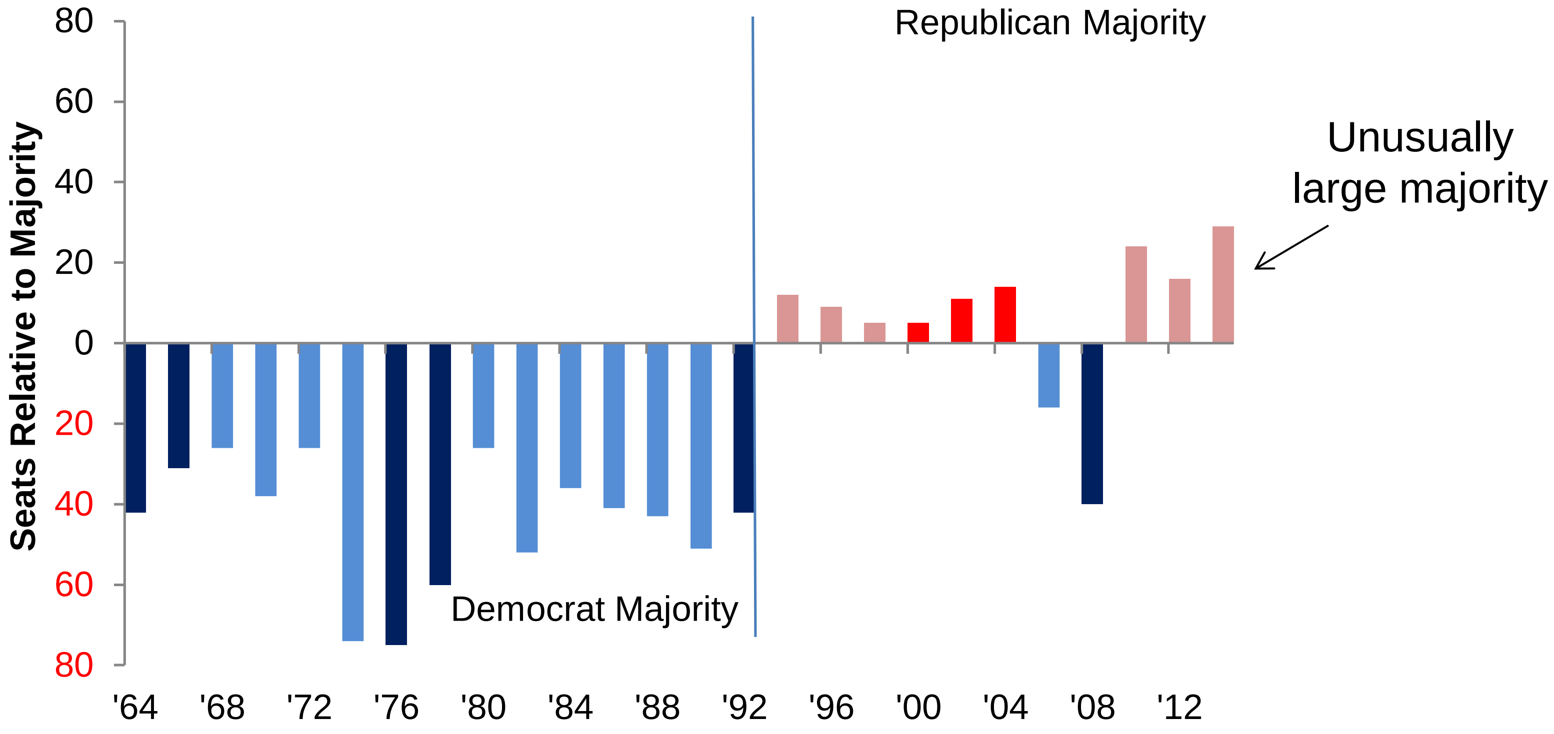
The 2016 Senate = 54 Republicans, 44 Democrats and 2 Independents (Caucus with Democrats)

Senate polls now tied between Democrats and GOP. GOP ahead in House.

Source: RealClearPolitics.com and Citi Private Bank as of September 6, 2016.

Control of the House of Representatives Usually Shifts Slowly

We see a high probability that the House and possibly the Senate will remain Republican even if Clinton wins the White House



Source: House of Representatives and Citi Private Bank as of August 22, 2016.

Base Case Scenario: Positive Market Reaction

- We would expect a positive market reaction to our base case scenario of Clinton + Republican House (possibly Senate) control.

- Divided government requires compromise and more centrist policies for legislation to pass. Alternatively, nothing gets done. How Congress and POTUS interact is the key question.

- “Full status quo” of divided government – the present situation - means the chance of major breakthroughs in U.S. policy would be very modest. Yet the chance of major policy-led disruptions would also be minimal.

U.S. Recessions are Very Common in New President’s First Year

- Of the eleven post-World War II U.S. recessions, eight have overlapped a new president's first year in office.
- Since 1920, recessions have been 3X more frequent in the first year of a U.S. presidents first term than in other years.
- Since President Obama took office, inflation-adjusted U.S. stock returns have been +12.4%. This reflects the depressed state of markets as his administration began in 2009. The next President will inherit neither a depressed U.S. economy or markets, limiting returns under virtually any policy outlook.
- However, a policy “status quo” would limit the impact of transition and recession risk.

How Could Things Go Wrong? The Rest of the World Matters!

- We consider security threats that might arise during the new president's first year in office to be among the unexpected and undiscounted risks.

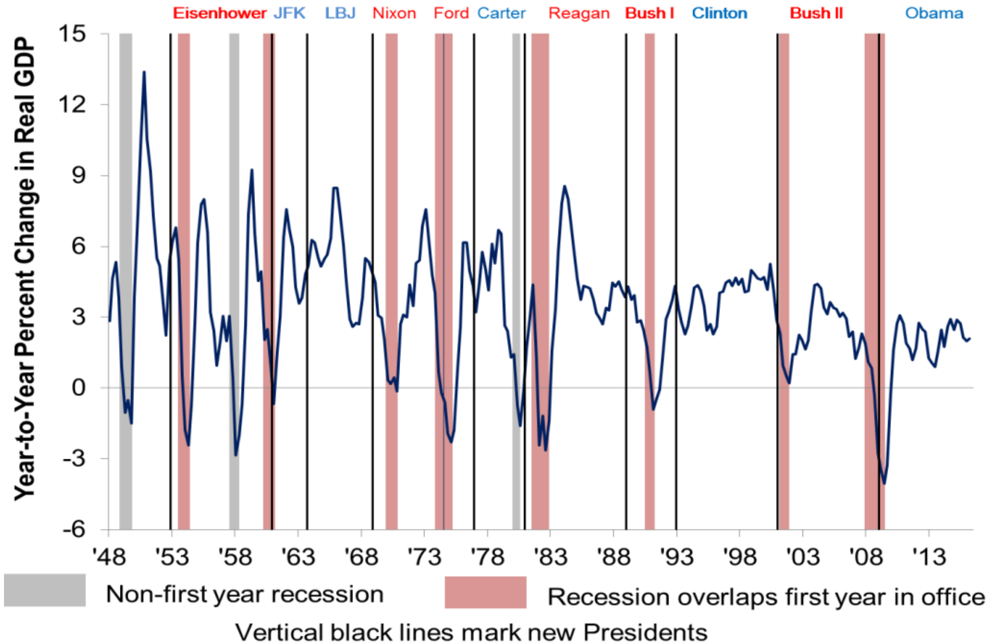
- In the improbable scenario of a Trump victory, significant global risks stemming from China are more likely to surface. (Both economic and geopolitical).

- The cohesion of NATO underpins European stability.

- The course of Russian sanctions would play out differently under the two candidates.

Significant policy transitions introduce economic risk.

Eight of the **eleven** post-World War II recessions overlapped a new President's first year in office. These are the rule not the exception.



Party	President	Inauguration Date	Recession Periods	First Year Recession Overlap?	Comment
D	Truman	Apr 1945	1 Nov 48-Oct49	No	
R	Eisenhower	Jan 1953	2 Jul 1953-May 54	Yes	
			3 Aug 57-Apr 58	No	
D	Kennedy	Jan 1961	4 Apr 60-Feb 61	Yes	Begins during prior admin.
D	Johnson	Nov 1963			
R	Nixon	Jan 1969	5 Dec 69-Nov 70	Yes	
R	Ford	Aug 1974	6 Nov 73-Mar 75	Yes	Spans appointment.
D	Carter	Jan 1977	7 Jan-80-Jul 80	Yes	Ends prior to Reagan's election.
R	Reagan	Jan 1981	8 Jul 81-Nov 82	Yes	
R	GHW Bush	Jan 1989	9 Jul 90-Mar 91	No	
D	Clinton	Jan 1993			
R	GW Bush	Jan 2001	10 Mar-2001-Nov 200:	Yes	
			11 Dec 2007-		
D	Obama	Jan 2009	--Jun 2009	Yes	Begins during prior admin.

Source: Haver Analytics as of July 25, 2016.

U.S. Democrats Have Tended to Take Office Amid Depressed Market Values and then Enjoyed Stronger Real Returns vs Republicans.

Annualized real S&P 500 total return and GDP growth by Presidential term

	Annualized Real S&P 500 Total Return (%)	Annualized Real GDP Growth (%)	Party
Truman	9.7	4.8	D
Eisenhower	13.3	2.5	R
Kennedy	9.9	5.3	D
Johnson	7.9	5.1	D
Nixon/Ford	-2.1	2.7	R
Carter	1.3	3.2	D
Reagan	9.4	3.6	R
Bush	11.0	2.2	R
Clinton	14.2	3.8	D
Bush II	-5.3	1.8	R
Obama*	12.4	1.7	D

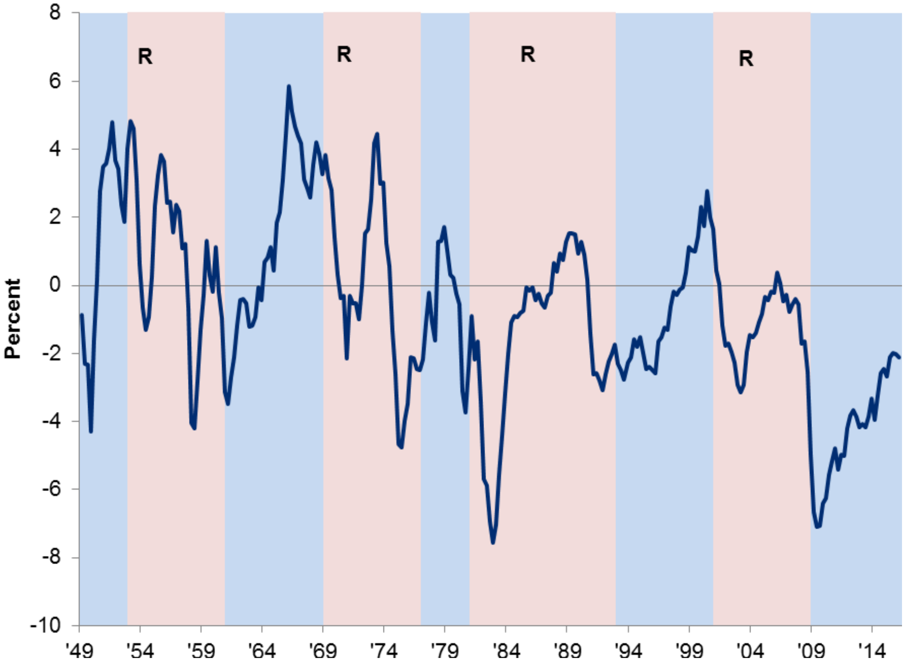
*Obama result is through 2Q 2016.

Republican Weighted Average	4.6	2.6	
Democrat Weighted Average	10.1	3.7	

Source: Haver Analytics as of July 22, 2016. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results.

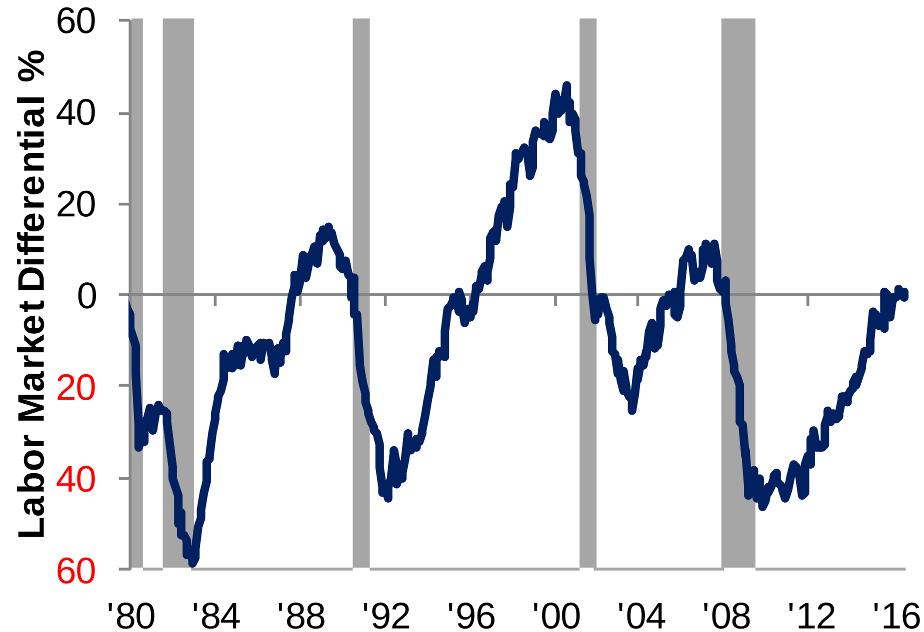
Clinton would not take office amid a deeply depressed economy. Returns are highly likely to lag Obama's tenure.

U.S. "output gap" and presidential party in power



Haver Analytics as of July 25, 2016.

Consumer Rating of Labor Market: Net % consumers reporting jobs are easy to get minus hard to find



Source: Haver Analytics as of August 22, 2016.

Post-election market expectations if our base case is correct

- Relief rally in global markets, particularly rates markets as the fiscal outlook would change very little.
- Drop in implied volatility which typically trends higher in the two months prior to U.S. Presidential elections. Market volatility may trend higher soon.
- Mexican peso rallies vs USD and other EM FX: It has underperformed broad EM currencies by 7 percentage points in 2016-to-date on fear of trade disruptions given a possible Trump win.
- Construction materials group appears vulnerable. No passage of massive infrastructure spending or “great wall” with Mexico.
- Relief rally in international focused equities. No trade disruptions.
- Possible challenge to muni bond relative performance. While it would take bi-partisan compromise, either limits to tax deductions or a cut in the corporate tax rate would weaken muni demand somewhat. Amid other factors, we believe muni debt will remain a core asset holding providing good relative value for higher income U.S. tax payers.

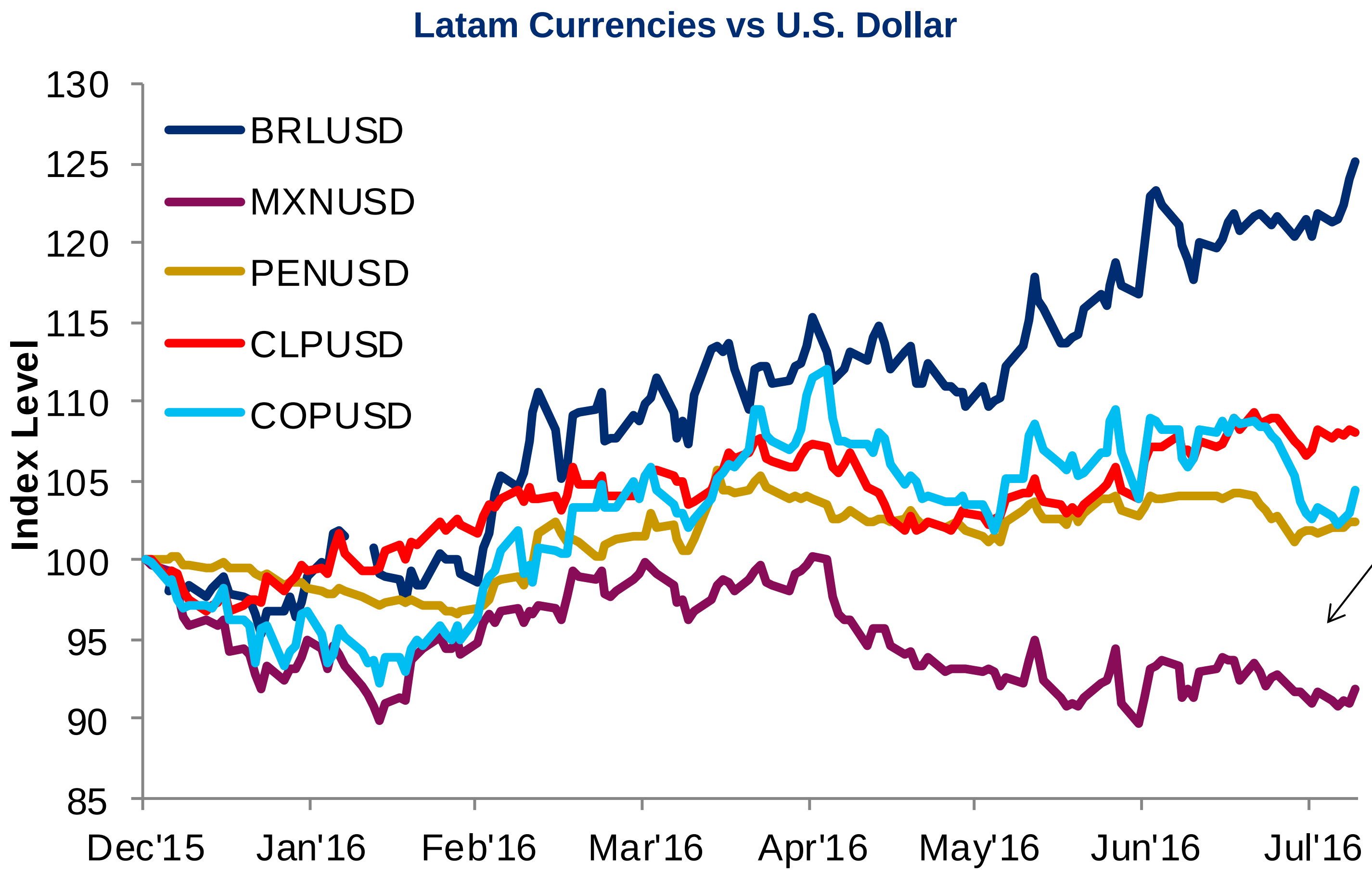
U.S. equity market groups that have varied with Clinton vs Trump polling

Clinton	Correlation	US Revenue Share
Communications Equipment	25%	57%
Metal & Glass Containers	24%	47%
Household Durables	21%	69%
Auto Components	21%	41%
Industrial Conglomerates	18%	45%

Trump	Correlation	US Revenue Share
Construction Materials	37%	99%
Commercial Services & Supplies	19%	82%
Food Distributors	17%	89%
Diversified Financials Services	16%	79%
Specialty Retail	16%	91%

Source: FactSet and Bloomberg as of August 5, 2016.

Mexican Peso "Trumped"…Likely to Reverse if Clinton Wins



Mexican peso value has vacillated with Trump/Clinton polling and legal betting odds.

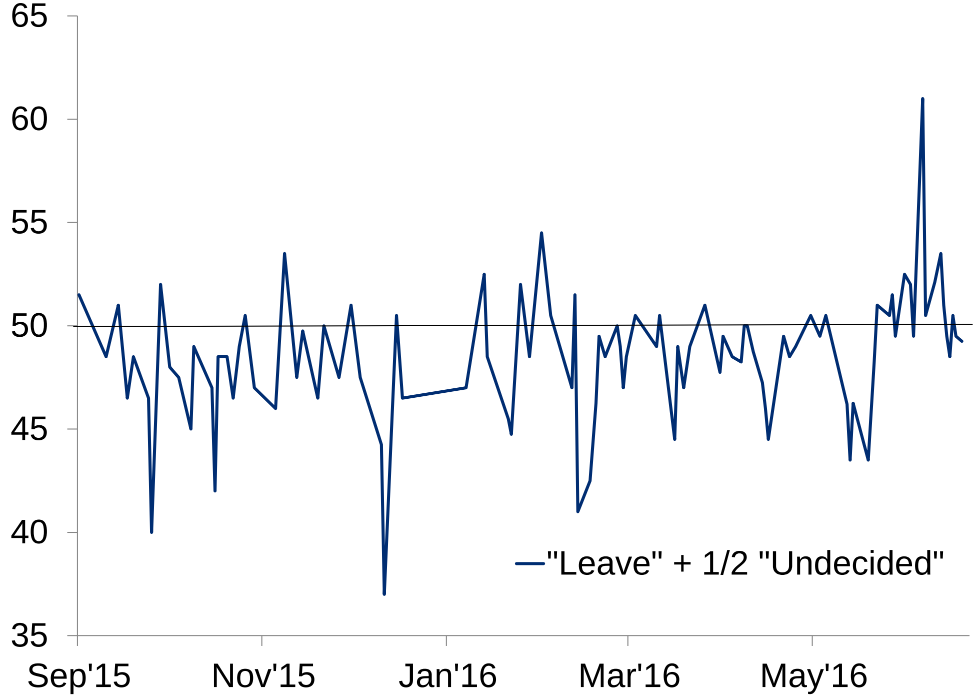
Source: Bloomberg as of August 5, 2016. Note: Data indexed, 12/31/2015=100. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results.

Risk Scenarios: Does Brexit Tell Us Politics *Can't* Be Predicted?

- Our view is that markets failed to believe UK opinion polls that indicated that the public was evenly divided and leaning towards Brexit.
- Biased expectations and interpretation, rather than polls, were to blame.

Overconfidence

U.K. Poll of Polls: Leave the E.U. vs Remain



Source: Bloomberg through June 22, 2016

Risk Scenario 1): Wrong on Trump (He Wins)

- A Trump presidency with united Republican government would carry many “unknown unknowns.” Expect volatile U.S. Treasury yields tempered by global risk aversion in other markets.

- The probability of fiscal stimulus would rise with a Trump presidency. We don’t believe the U.S. dollar would perform as strongly as other “risk-off” and “fiscal stimulus” periods might imply. For political and security reasons, international capital might feel safer at home amid U.S.-specific policy uncertainty.

- If labelled a currency manipulator, China could stop interventions that have been used to stabilize its currency and prevent a drop during the past year. This could have substantial negative impact on global markets and China’s Asian trading partners.

Risk Scenario 2): Wrong on Congress (Democrats Sweep)

- If Hillary Clinton wins and there is a water-shed change in control of both houses of Congress, we would expect some initial risk aversion in markets too.

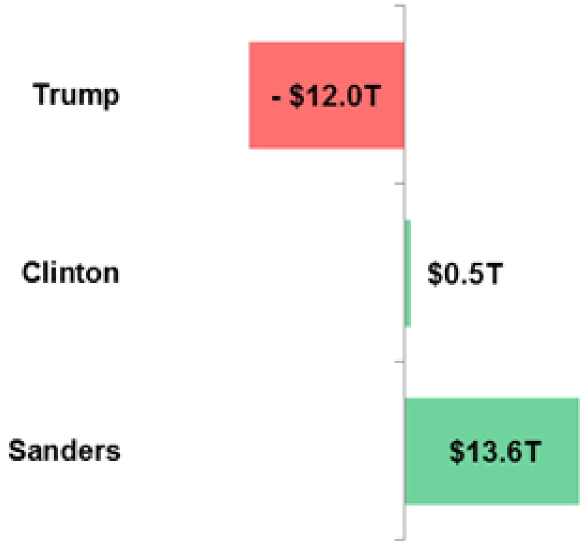
- Lower-paying domestic-focused sectors like restaurants and hospitality could be pressured by regulation or even legislation. Labor gains versus capital generally. Fossil fuel industries highly likely to see tax benefits repealed and regulation intensify.

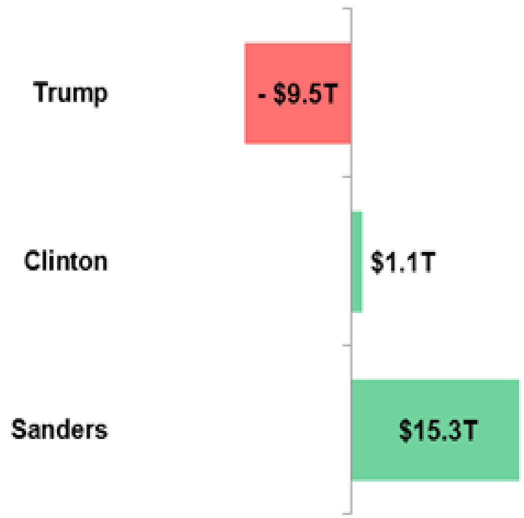
Appendix:

U.S. Election Issues, Data in Detail

Clinton policies represent “nuanced” changes, largely status quo

Ten-year Federal revenue impact assumptions from two US think-tanks





U.S. Dollar Trillions

U.S. Dollar Trillions

Sources: Tax Policy Center and Tax Foundation as of August 22, 2016.
Note: The Tax Policy Center is considered a ‘center’ or ‘center-left’ analytical source while the Tax Foundation is considered a center-right analytical source. All forecasts are expressions of opinion and are subject to change without notice and are not intended as a guarantee of future events.

Summary of Trump Fiscal Policy Proposals*

Personal Taxes
Lower Income Taxes, Fewer Brackets (10, 20 & 25%)
Exempt more income from taxes: Higher Standard Deductions ($25K/$50K)
Lower Business Income Tax
Repeal Alternative Minimum Tax (alternate tax system that limits value of deductions)
Repeal Estate and Gift Tax
Repeal Medicare Net investment surtax
Repeal Exclusion of Life Insurance Investment Income
Increase Phaseout Rates for Personal Exemptions
Repeal select business tax expenditures
Limit certain tax expenditures to 10%

Corporate Taxes
Flat 15% Corporate Tax Rate
Repeal Corporate Alternative Minimum Tax
Require Foreign Corporation Income Repatriation
End Foreign Corporation Tax Deferral
Repeal Select Corporate Tax Expenditures

Total Revenue Change over 10-years	-$9.5T

*Note: Since scoring these proposals, Trump has increased his proposal for the highest income tax rate to 33%
Source: Tax Policy Center as of August 22, 2016 All forecasts are expressions of opinion and are subject to change without notice and are not intended as a guarantee of future events.

Summary Clinton Fiscal Policy Proposals

Personal Taxes	
Limit Value of Certain Tax Expenditures to 28%	
4% Surcharge on Income Greater than $5M	
"Buffett Rule" (minimum 30% rate on incomes over $1 million)	
Phase In Higher Long-Term Capital Gains Rates	
Repeal Carried Interest, Mark Derivatives to Market and Limit deferral in retirement accounts	
Eliminate Fossil Fuel Tax Incentives	
Create Incentives for Community Development and Infrastructure	
Corporate Taxes	
International Tax Reforms	
Eliminate Fossil Fuel Tax Incentives	
Create Incentives for Community Development and Infrastructure	
Total Revenue Change over 10-years	**+$1.1T**

Source: Tax Policy Center as of August 22, 2016 All forecasts are expressions of opinion and are subject to change without notice and are not intended as a guarantee of future events.

Unlucky Timing for GOP?

Recessions have occurred 3X as often in the first year of a new president as other years

- Since 1920 recessions occurred in 75% of new president's first year.
- Only 25% for other years.
- 100% of first year new recessions were under Republicans.
- Inherited recessions were 43% under Republicans and 57% under Democrats.
- Harding in 1921 was the last newly elected Republican to inherit a recession.

→ Harding	→ *Coolidge*	↓ Hoover	→ Roosevelt
→ *Truman*	↓ Eisenhower	→ Kennedy	*Johnson*
↓ Nixon	→ *Ford*	Carter	↓ Reagan
Bush	Clinton	↓ Bush II	→ Obama

Recession		**New Recession**	↓
Replacement President	***Italic***	**Continuing Recession**	→

Source: Haver Analytics as of May 18, 2016.

How the Electoral College Works

State's population-weighted electoral votes go to candidate receiving highest number of votes.*

- In any U.S. State or the District of Colombia, the winner of the highest number of popular votes wins all of the electoral votes for the state. These range from a population weighted low of 3 for D.C. to a high of 55 for California. The total number of elector votes is 539, so 270 wins.
- Winning a majority of the national popular vote can fail to win the U.S. Presidency if the voting is highly concentrated in certain states. Achieving 100% of the popular vote in a particular state is no better than winning 51% in a 2-candidate contest. (In the current election, there are two candidates aside from Clinton and Trump that are likely to win more than 1% of the national popular vote).
- In the last four U.S. presidential elections, 40 states + D.C. voted for the same party's candidate in each case.

*There are additional complexities, two low population states (Nebraska and Maine) distribute their electoral votes proportionally to their vote results. Electoral votes are determined by the sum of each states congressional members (House + Senate), thus even the least populous states have 3 electoral votes, and are thus overrepresented relative to the most populous states. For example California (the most populous state) has 67 times as many people as Wyoming (the least populous state), but only receives 18 times as many electoral votes. In addition Washington D.C. receives the same number of electoral votes as the least populous state by law.

Source: National Archives and Records Administration.

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Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk. Asset allocation does not assure a profit or protect against a loss in declining financial markets. The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results.

International investing entails greater risk, as well as greater potential rewards compared to US investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity. Factors affecting commodities generally, index components composed of futures contracts on nickel or copper, which are industrial metals, may be subject to a number of additional factors specific to industrial metals that might cause price volatility. These include changes in the level of industrial activity using industrial metals (including the availability of substitutes such as manmade or synthetic substitutes); disruptions in the supply chain, from mining to storage to smelting or refining; adjustments to inventory; variations in production costs, including storage, labor and energy costs; costs associated with regulatory compliance, including environmental regulations; and changes in industrial, government and consumer demand, both in individual consuming nations and internationally. Index components concentrated in futures contracts on agricultural products, including grains, may be subject to a number of additional factors specific to agricultural products that might cause price volatility. These include weather conditions, including floods, drought and freezing conditions; changes in government policies; planting decisions; and changes in demand for agricultural products, both with end users and as inputs into various industries.

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