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Market Intellect

Sector Disruptors: U.S. Presidential Election

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This report was prepared by S&P Global Market Intelligence. Enabled with cutting-edge data and insights, S&P Global Market Intelligence offers investors valuable new sources for alpha discovery and "out-of-the-box" thinking through robust data exploration and analysis. S&P Global Market Intelligence's research provides investors with actionable and topical market perspectives that can offer innovative ways to leverage credit and risk intelligence.

The 2016 U.S. presidential election has already started to spur passionate political conversations and drive important investment decisions. In the latest edition of S&P Global Market Intelligence's Sector Disruptors series, our equity analysts focus on the election and its potential implications across all sectors of the economy. The opinions in this report are those of S&P Global Market Intelligence's Equity Research team and do not necessarily reflect those of S&P Global.

Since the end of 2014, Sector Disruptors has explored important topics, often emphasizing proprietary data and always with a view toward the 10 economic sectors within the S&P 500 and Global Industry Classification Standard. Effective in August, real estate will become the 11th sector.

Turning to our presidential election theme, we acknowledge that the presumptive nominees Hillary Clinton and Donald Trump may not receive the support necessary to implement their platform ideas and plans if either is elected. However, we wanted to explain our thinking on a sector-by-sector basis about some of the most important topics this election season, Clinton's and Trump's promoted positions and platforms, and companies that could be notably affected:

- Consumer discretionary: minimum wage legislation
- Consumer staples: illegal immigration
- Energy: federal government support for renewables
- Financials: Dodd-Frank regulation
- Health care: future of the Affordable Care Act (ACA)
- Industrials: defense spending
- Information technology: foreign earnings and taxes
- Materials: U.S.-China trade relations and the steel industry
- Telecommunication services: net neutrality
- Utilities: coal generation

Well ahead of the party conventions scheduled to start in mid-July, S&P Global Market Intelligence offers our analysis regarding what's at stake, particularly from an investment perspective. Needless to say, the next president could implement big changes with big impacts to sectors and companies.

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Consumer Discretionary

Tuna N. Amobi, CFA, CPA and Efraim Levy, CFA, S&P Global Market Intelligence Equity Analysts

Sector disruptor: minimum wage legislation

Consumer wages and disposable income are important drivers of sales and financial performance for consumer discretionary companies. In particular, we think minimum wage legislation could have a notable impact on certain restaurant and retail chains, which are relatively labor-intensive businesses with a disproportionately high share of low-wage and part-time workers.

In April 2016, New York and California became the first two states to pass landmark legislation raising the minimum hourly wage to $15, under phased-in implementation plans. The Fair Minimum Wage Act of 2013 was scuttled in Congress, effectively leaving the current federal minimum wage of $7.25 per hour unchanged since 2007. While both candidates have said it is hard to make a living on the current federal minimum wage, they differ in their approaches to the issue.

If Hillary Clinton wins

Clinton has advocated for raising the federal minimum wage to $12 per hour, with state and local efforts perhaps going even further. Clinton hailed the recent minimum wage legislation in New York and California, and she also supports the Obama administration's expansion of federal overtime rules to millions of workers, as well as paid family leave and other benefits. In addition, Clinton says she would provide some tax relief for working families and an incentive for companies that share profits with their workers (via a 15% tax credit).

Under this scenario, higher labor costs could pinch those companies with no compensating increase in revenues, in our view. We assume net higher wages from mandatory wage increases, and some workers could be priced out of their jobs as such a mandate would likely force some headcount reductions. Of note, the National Restaurant Association, an industry trade group, recently noted that about 58% of restaurant operators increased menu prices and 41% reduced employee hours following the 2007 increase in the federal minimum wage. Meanwhile, some of the larger retailers already pay wages above the current federal minimum, which could perhaps provide some cushion relative to smaller companies whose margins (and profits) could be squeezed if they cannot raise prices.

If Donald Trump wins

In contrast, Trump suggested that an increase in the federal minimum wage would make the U.S. less competitive versus foreign countries with lower labor costs. Also, Trump's comments seem to imply that higher wages would increasingly force U.S. businesses to outsource more jobs to countries overseas with lower labor costs, while driving up prices of domestic goods and services. However, in a more recent May 8 interview on ABC, Trump slightly reversed his earlier stance, instead leaving the door open for a potential increase in the minimum wage. While Trump has also suggested that minimum wage legislation should be within the purview of individual states, he also says he can bring jobs back that will pay more than $15 per hour.

Most affected companies

We surmise that a higher minimum wage could have a ripple and bifurcated impact for certain restaurants and retail businesses. On the one hand, we think restaurant chains such as Chipotle Mexican Grill Inc. and Domino's Pizza Inc. would likely face further margin pressures on the attendant labor cost inflation--to the extent that consumers could resist any attempt to pass on higher wage costs through menu price increases. In addition, higher wages could partly constrain the margins (and profits) of bigger restaurant chains such as McDonald's Corp., even though such negative impact could be partly muted by the company's greater reliance on franchisees and its predominant international operations.

On the other hand, businesses that cater to the lower end of the income spectrum may conceivably be boosted by a minimum wage increase--as well as tax relief or other financial assistance to lower income families--or otherwise reap some offsetting benefits versus higher labor costs. We think this cohort, which provides basic household necessities for lower income consumers, includes general merchandise stores such as Dollar General Corp., Target Corp., and Wal-Mart Stores Inc. Although higher wages could weigh on Target and Wal-Mart, we think both companies, which currently pay above the federal minimum, are better positioned than smaller competitors to absorb any further wage increases.

Table 1

Most Affected Consumer Discretionary Companies

Company	STARS recommendation	Price ($)
Chipotle Mexican Grill Inc.	3	397.27
Dollar General Corp.	4	90.05
Domino's Pizza Inc.	2	127.29
McDonald's Corp.	4	122.27
Target Corp.	3	67.50
Wal-Mart Stores Inc.	3	70.95

As of June 17, 2016. Source: S&P Global Market Intelligence.

Consumer Staples

Joseph Agnese, S&P Global Market Intelligence Equity Analyst

Sector disruptor: illegal immigration

There are an estimated 11.3 million illegal (undocumented) workers in the U.S., according to Pew Research Center. Illegal immigrant status reflects both those who cross the border illegally and those who overstay their visa expiration. The undocumented immigrant population has grown rapidly from 3.5 million people in 1990 to a peak of 12.2 million in 2007. The decline from peak levels in 2007 reflects decreased demand during the economic recession (2007-2009) and stabilization in recent years as deportations have offset new immigration.

The agriculture industry (farming, fishing, and forestry) has the greatest exposure to undocumented workers, with an estimated 26% of U.S. agricultural workers in 2012 being undocumented versus only 5.1% for the entire U.S. labor force, according to Pew research. But the actual figure may be significantly higher as the Department of Labor estimates that 53% of farm workers in the U.S. are illegal immigrants. Employment of undocumented workers is highest in the fruits and nuts and the vegetables and crop categories, where an estimated 67% and 61% of workers were undocumented in 2009, respectively, according to the U.S. Department of Agriculture (USDA). Because their heavy dependency on immigrant labor, many farmers and ranchers favor immigration reforms that will allow workers to legally cross the border to work in the U.S.

A legal system to employ foreign workers in the U.S. is provided through the H-2A temporary agriculture program. However, employers must certify with the Department of Labor that they unsuccessfully tried to recruit U.S. workers, and they must provide housing and pay at the higher of the state or federal minimum wage. As a result of the higher costs, less than 5% of all hired workers on farms were employed through the H-2A program in 2015.

If Hillary Clinton wins

S&P Global Market Intelligence thinks a Clinton presidency would provide a more favorable immigration outcome for the consumer staples sector than a Trump presidency. Less labor disruption is likely to occur, in our view. She supports immigration reform to create a pathway for undocumented workers to become citizens, thereby reducing the risk we see from a potential labor shortfall under Trump's support of more restrictive policies.

Clinton has been a supporter of President Obama's efforts to provide deportation relief for both undocumented workers who grew up in the U.S. and for parents of Americans and lawful residents. Clinton also supports citizenship through naturalization by providing fee waivers.

Clinton's policy statements on immigration are supported by her historical voting record. For example, Clinton co-sponsored the Development, Relief, and Education for Alien Minors (DREAM) Act, which gives undocumented children who grew up in the U.S. citizenship, in the Senate in 2003, 2005, and 2007.

Meanwhile, Clinton plans to focus enforcement resources only on those individuals who pose a violent threat to public safety, reducing the risk from worksite audits on corporations employing undocumented workers.

As a result, the immigrant labor pool would likely be supported in a Clinton presidency.

If Donald Trump wins

S&P Global Market Intelligence thinks a Trump presidency would increase the risk of rising costs for the consumer staples sector, mostly because of a reduced labor pool.

Trump believes a permanent wall should be built along the U.S. border with Mexico to prevent illegal immigrants from crossing into the U.S. Additionally, Trump seeks to end birthright citizenship and wants to triple the number of Immigration and Customs Enforcement (ICE) officers. These actions could make it more difficult, and costly, for employers to find labor.

Additionally, we see a greater reluctance from employers to hire undocumented workers under a Trump presidency due to greater workplace scrutiny. ICE worksite audits would likely rise significantly under Trump's proposed immigrant crackdown efforts, in our view, after having fallen to a projected low of 435 in 2015 (only 65 arrests) from a peak of 3,127 worksite audits in 2013 (leading to 179 employer arrests).

Under a Trump presidency, we see the fear of increased security along the border and increased penalties for violating immigration policy, likely limiting the number of undocumented workers willing to cross the border and employers willing to hire them. In order to attract labor, in our view, employers would need to significantly boost wages, resulting in higher food prices and/or a decline in U.S. food production as operations are moved across the border.

Most affected companies

The food products industry will likely be the most affected of any industry in the consumer staples sector by any illegal immigration reform. Deporting a significant portion of the undocumented worker population would produce a tremendous labor shortage in agriculture. The packaged foods and meats subindustry in particular has significant exposure to immigration employment because meat and dairy processors rely heavily on immigrant workers.

Labor costs have a significant impact on dairy and meat processors such as Dean Foods Co., Tyson Foods Inc., Hormel Foods Corp., Pilgrim's Pride Corp., and Sanderson Farms Inc. In fact, the USDA estimates that labor accounts for between

8% (for cattle producers) to 16% (for poultry producers) of production costs for meat and dairy producers and an estimated 17% of total farm costs.

In recent years, meatpacking operations have moved to rural geographies from urban areas, which has caused the share of immigrant labor to rise. When more meatpacking occurred in urban areas, the pay was higher because of labor competition with manufacturers. This made it easier for meatpacking firms to find workers. But with the move to rural areas in recent years, the pay has dropped and the employee incentives offered to attract new workers eventually led to a network that brought cheap labor into the industry from the south, including Mexico. As a result, the share of foreign-born Hispanics working in the livestock industry has risen to 24% in 2000 from 4.5% in 1980, according to the USDA. A crackdown on illegal labor under a Trump presidency would likely lead to increased costs for these processors as higher wages will be needed to attract and retain domestic workers.

The dairy industry, for example, has significant financial exposure to immigration policy with foreign workers making up 50% of its labor force as of 2014, according to a survey by researchers at Texas A&M University that the National Milk Producers Federation in Arlington, Va. commissioned. According to the researchers, the loss of illegal immigrant labor could result in the cutting of more than 208,000 jobs, 7,000 dairy farms shutting down, a significant reduction in U.S. milk production, and a 90% increase in retail milk prices.

Table 2

Most Affected Consumer Staples Companies

Company	STARS recommendation	Price ($)
Dean Foods Co.	4	17.58
Hormel Foods Corp.	3	34.88
Pilgrim's Pride Corp.	NR	24.63
Sanderson Farms Inc.	NR	81.30
Tyson Foods Inc.	4	61.22

As of June 17, 2016. NR--Not ranked. Source: S&P Global Market Intelligence.

Energy

Stewart Glickman, CFA, S&P Global Market Intelligence Equity Analyst

Sector disruptor: federal government support for renewables

The oil and gas industry is inherently volatile. On any given day, its fundamentals can be affected by changes in supply and demand, changes in the value of the U.S. dollar versus other currencies, geopolitical developments, unexpected crises (e.g., a pipeline leak), and regulatory battles. Most of these tend to be perceived as "short-fuse" developments, in which the catalyst for change is clearly in sight. Occasionally, though, the industry also faces "long-fuse" developments, where a catalyst may slowly develop but has potential to significantly affect fundamentals for the industry over the long term. One such long-fuse issue is the development of alternative energy technology--a topic of great disparity in political platforms between the Democratic and Republican candidates.

If Hillary Clinton wins

Clinton has clearly spelled out an affinity for alternative energy in her campaign materials. Among other things, she has announced plans to set a national goal of 500 million solar panels installed during a hypothetical two-term presidency and to reduce U.S. oil consumption by one third.

Based on data from the Solar Energy Industries Association, we estimate that the U.S. has seen about 25,000 to 30,000 megawatts (MWs) of solar capacity installed up until 2015. At an assumed 4,000 solar panels per MW, we think this implies 100 million to 120 million solar panels installed cumulatively. To get to 500 million panels in eight years, we estimate that solar panel demand would have to rise by about 20% per year. Over just a single four-year presidency, the compound annual growth rate would have to be more like 45%. Generating that kind of growth is possible but highly contingent, in our view, on the continued extension of the Investment Tax Credit (ITC), which is now slated to expire in 2021.

Conversely, strong incentives for solar energy and potentially other renewables, such as wind energy, could depress fundamentals for the fossil-fuel-based refining industry, which has large fixed costs and tends to fare best when it runs at high utilization. The International Energy Agency (IEA) estimates that first-quarter 2016 U.S. crude oil demand stood at 19.5 million barrels per day (mmb/d), the highest in the world, and well above that of second place China (11.5 mmb/d). A one-third reduction would mean the disappearance of demand of more than 6.0 mmb/d to U.S. refineries and would, in our view, contribute to markedly weaker utilization and earnings power.

In the long term, we think the alternative energy industry will continue to make inroads on lowering its cost curve and becoming more competitive with fossil fuels. As a result, we think alternative energy could eventually reach a point where it can stand on equal footing with fossil fuels--but probably not during the next presidency, regardless of which candidate takes office in January 2017.

If Donald Trump wins

Unlike Clinton, who identifies climate change as a platform issue, Trump believes that to the extent that climate change exists, it is not primarily caused by humans. He also has argued that he is in favor of all forms of energy but does not want to pick favorites. We interpret these comments to mean that the ITC, currently given to buyers who elect to install renewable energy capacity, would be either reduced or eliminated. Angelo Zino, S&P Global equity analyst for solar energy firms, estimates that a steep reduction in the ITC (to 10% from the current 30%) could cause solar installation demand to drop 60% because the biggest drawback to further proliferation of solar energy is the high upfront fixed costs. If the ITC is significantly reduced or eliminated, we would see a decline in demand for alternative energy, potentially boosting near-term demand for the traditional fossil fuel refiners.

Most affected companies

Some key names in solar technology that might benefit from a Clinton victory include Canadian Solar Inc., First Solar Inc., SolarCity Corp., and Sunpower Inc. Key names that might be adversely affected by a Clinton victory would include Valero Energy Corp., Phillips 66 Co., Marathon Petroleum Corp., HollyFrontier Corp., and Tesoro Corp. All of these firms generated refining asset utilization of 90% or more in 2015, and they also saw improved refining margins in 2015. Should Clinton win, we think the new administration could pursue enhanced environmental protection efforts or higher gasoline taxes, both of which could curb gasoline demand and thus cut throughput at these refining companies. In addition to these pure-play U.S. refiners, we note a potential negative impact on global integrated oils Exxon Mobil Corp. and Chevron Corp., albeit less so, given their exposure to international refining as well. Conversely, under a Trump administration, we think efforts to rein in gasoline consumption would dissipate, and a potential loss of incentives for renewables could push incremental demand for refined products, which we think would be a mild tailwind for these oil and gas companies.

Table 3

Most Affected Energy Companies

Company	STARS recommendation	Price ($)
Chevron Corp.	3	101.57
Exxon Mobil Corp.	4	90.72
HollyFrontier Corp.	4	24.10
Marathon Petroleum Corp.	4	33.50
Phillips 66	2	78.50
Tesoro Corp.	3	72.50
Valero Energy Corp.	4	51.71

As of June 17, 2016. Source: S&P Global Market Intelligence.

Financials

Cathy Seifert and Erik Oja, S&P Global Market Intelligence Equity Analysts

Sector disruptor: Dodd-Frank regulation

Banks and insurers navigating Dodd-Frank regulation are likely to be significantly affected, either more heavily regulated under a Clinton administration or less scrutinized and overseen under a Trump presidency.

If Hillary Clinton wins

Based on her speeches and campaign platform, Clinton appears to fully back the Dodd-Frank law enacted in 2010 after the financial crisis. Her position is that "Wall Street Should Work for Main Street." She supports key elements of Dodd-Frank, the Volcker Rule, the Consumer Financial Protection Bureau (CFPB), the Financial Stability Oversight Council (FSOC), orderly liquidation authority, maintaining 5% retention of asset-backed securities, stronger corporate governance, enhanced mortgage standards, and the Durbin amendment. If Clinton is elected, we project she would further strengthen Dodd-Frank rules and enforcement. S&P Global Market Intelligence sees the potential for more flexibility for the smaller community banks that support local commerce and small business.

Dodd-Frank created the FSOC to identify risks to financial stability that could arise from material financial distress or failure, or ongoing activities, of nonbank financial companies. Companies designated systemically important financial institutions (SIFIs) would be subject to consolidated supervision by the Federal Reserve.

The issue of "Too Big to Fail" can be addressed by forcing large SIFIs to break up or by requiring higher liquidity or capital levels. The Clinton administration would likely take the risk management aspect of Dodd-Frank a step further by implementing a risk-based fee on insurers and banks, based on their asset size and risk profile. This goes well beyond a current Federal Reserve proposal that SIFI-designated insurers keep enough liquid assets on hand to cover cash flow for 90 days.

American International Group Inc. (AIG), MetLife Inc., Prudential Financial Inc., and General Electric Capital were designated as non-bank SIFIs. AIG never fought its SIFI designation and began preparing to operate with a higher degree of regulatory oversight. MetLife strenuously fought its SIFI designation and prevailed in court, though an appeal is underway. Prudential has so far not mounted a legal challenge to its designation. GE Capital has been largely dismantled and sold off in pieces. Reflecting this, GE Capital recently received a FSOC exemption from higher capital and liquidity requirements, and is therefore no longer considered a SIFI.

The challenge for most insurers under this scenario is not maintaining adequate capital levels because the industry is, on average, well-capitalized. Rather, the challenge is how that capital is invested because many insurers have long-term policy obligations and have invested their capital to support the nature of their obligations. In other words, insurers have matched the duration of their assets and liabilities, which is what insurance companies are supposed to do. New regulatory guidelines that significantly alter or limit their investment options could be disruptive and put additional pressure on insurers' underwriting model, risk-taking, and profit returns.

Should Clinton become president, there is a chance that other large insurers that are not currently designated as SIFIs (including Chubb Ltd. and The Travelers Cos. Inc.) could have asset-based risk fees imposed upon them. Additionally, a number of smaller non-SIFI insurers, could benefit from a playing field that may tilt in their favor amid the greater oversight of the large firms.

It is also important to note that more than six years after Dodd-Frank was enacted, insurance-specific regulations have not been finalized, and the long-standing, state-based insurance regulatory framework remains intact. This may lead to contradictory policies negatively affecting the insurance industry.

If Donald Trump wins

Trump's formal platform makes no mention of his views on financial regulation. However, he has been quoted frequently saying, if elected, he would seek to dismantle Dodd-Frank regulation. In lieu of details from Trump, S&P Global Market Intelligence thinks his position on this issue would likely resemble a bill recently introduced in the House of Representatives.

Sponsored by House Financial Services Committee Chairman Jeb Hensarling, the Creating Hope and Opportunity for Investors, Consumers, and Entrepreneurs (CHOICE) bill would remove some of the more onerous provisions of Dodd-Frank. CHOICE would repeal the FSOC and its ability to designate SIFIs. Although there are few insurance-specific proposals outlined in the CHOICE bill, our expectation is that the proposal would mandate risk-adjusted capital levels for insurers and possibly keep in place a Federal Insurance Office to coordinate regulation with the states. Otherwise, it would leave the current state-based regulation intact.

Under a Trump victory, assuming the CHOICE bill passes, SIFI designations would be removed and the regulatory playing field likely would remain unchanged from its current, state-based status. However, capital requirements could actually increase from current levels because the CHOICE bill replaces regulatory oversight with more stringent capital requirements as a means of preventing another crisis.

Even with the rise in government spending, regulatory agencies today that have jurisdiction regarding Dodd-Frank have scarce resources and staffing to regulate. Trump's policies would likely reform or curtail Dodd-Frank regulation, which means future federal budgets to support economic regulatory activity are expected to be reduced.

Economic regulation related to finance and banking has increased to approximately $5.0 billion in 2016 from $1.9 billion in 2000, according to a May 2016 research study published from the Weidenbaum Center at Washington University in St. Louis.

Combined with U.S. government spending on industry-specific regulation and on general business, Trump's administration may look to reduce the budget on economic regulation that rose to $12.5 billion in 2016 from $4.4 billion in 2000.

Most affected companies

AIG, MetLife, and Prudential, as well as other larger insurers that have not been designated SIFIs, including Chubb and Travelers, would likely be affected regardless of who is elected. More than five years after Dodd-Frank, few implementation details have been finalized for the non-bank SIFIs, and legal challenges have further clouded the regulatory picture. However, some of both Clinton's and Trump's proposals include risk-based assessments that would levy a regulatory fee based on a firm's size. Such size-based assessments, which could affect some large insurers, such as Chubb and Travelers, have largely escaped the heightened regulatory environment.

Under a Clinton administration, Bank of America Corp. and Citigroup could be under extra pressure to simplify and shrink as their corporate structures are still overly complex because of crisis-era acquisitions. Should Trump win, consumer lenders such as Capital One Financial Corp. and Discover Financial Services would benefit the most if Dodd-Frank and the CFPB are eliminated.

Table 4

Most Affected Financials Companies

Company	STARS recommendation	Price ($)
American International Group Inc.	4	53.42
Bank of America Corp.	4	13.40
Capital One Financial Corp.	4	64.19
Chubb Ltd.	4	123.93
Citigroup	4	42.48
Discover Financial Services	4	52.80
JPMorgan Chase & Co.	4	62.28
MetLife Inc.	4	42.17
Prudential Financial Inc.	4	72.19
The Travelers Cos. Inc.	4	111.86

As of June 17, 2016. Source: S&P Global Market Intelligence.

Health Care

Jeffrey Loo, CFA, S&P Global Market Intelligence Equity Analyst

Sector disruptor: future of the ACA

The upcoming Presidential election could have significant ramifications on the survivability of the ACA, or health care reform, as the presumed candidates have vastly different viewpoints on the law. However, we think the pending congressional makeup could temper the potential impact either candidate could have. Nonetheless, we feel that volatility in the health care sector will remain high regardless of who wins the election because the ACA affects the entire sector.

If Hillary Clinton wins

If Clinton wins the presidency, the health care sector would benefit as it would provide clarity on the continuation of the ACA or health care reform in general. The ACA has been and will continue to benefit the health care sector as more insured patients drive increased utilization of health care services and ultimately sales growth. Clinton has pledged to defend and build on the ACA, while slowing the growth of out-of-pocket costs. In her campaign, Clinton has stated that "Affordable health care is a basic human right." We think the subindustries that would benefit the most from a Clinton presidency would be health care facilities and health care services.

However, some of her initiatives to slow out-of-pocket costs could adversely affect biotechnology and pharmaceutical firms, while potentially raising costs for health insurers. For health insurers, Clinton has proposed lowering out-of-pocket costs, such as annual deductibles, co-payments, and co-insurance. But we anticipate that the recent court ruling in May 2016 regarding the cost-sharing reduction program will be overturned, allowing government funding to continue flowing to health insurers, which should lessen any potential cost impact to insurers. Although Clinton has also been an outspoken critic of rising drug prices and has stated she would punish drug firms who "price gouge" or raise prices excessively, we do not see any potential legislation that would force drug firms to lower prices. In the past 12 months, several Congressional hearings on rising drug prices took place, which we think have helped temper recent price hikes, thereby adversely affecting biotech and pharmaceutical sales growth.

Further, one of Clinton's proposals is to allow Medicare to negotiate prices with drug firms. Medicare, by law, is currently not allowed to do this. The Medicare Prescription Drug, Improvement, and Modernization Act, signed by George W. Bush, added prescription drug coverage to the Medicare program in 2003. We foresee efforts to change the law to allow Medicare to negotiate prices would be blocked by a Republican-controlled Congress, aided by well-funded drug lobbyists. Currently, Prescription Drug Plans (PDP) are operated by health insurance companies who negotiate for rebates and discounts from drug manufacturers. Negotiations could complicate the program. A variety of questions would arise from this type of practice including: Which drugs or how many drugs are negotiated? Does Medicare negotiate for all PDPs? Does Medicare determine formulary placement as well? Does Medicare start operating PDPs?

If Donald Trump wins

If Trump wins the presidency, we think uncertainty and volatility would increase for the health care sector and investors. Trump pledged to repeal and replace the ACA on day one, which we view as highly disruptive to the sector, particularly to health care facilities, health care services, and managed health care. However, we note that if Republicans do not have a 60-seat super majority in the Senate, Democrats could utilize a filibuster to prevent a vote to repeal the ACA. Republicans, on the other hand, may resort to the "nuclear option," which entails the presiding officer to rule that a simple majority vote is sufficient to end debate and bring legislation to a vote. Based on recent partisan politics, there is a decent possibility Republicans may resort to this option.

Since the ACA went into effect in 2010, an estimated 18 million-20 million people, on a net basis, have gained insurance either via the Medicaid expansion, the public health care exchanges, or the parents' insurance if someone is under 26 years of age. The increase in the insured population has driven utilization of health care services and has lowered the uncompensated care rate for health care facilities. We view that a sizeable reversal would occur if Trump can enact his proposals to eliminate the ACA's individual mandate and change current Medicaid funding so that block grants are provided to each state instead of the current structure in which the Federal government provides a percentage of a state's Medicaid costs.

We think providing block grants to states to fund their Medicaid programs could also adversely affect Medicaid enrollment and services. In our opinion, any individual state could choose to limit services and benefits or enrollee eligibility dictated by its funding. Furthermore, if the individual mandate is eliminated, the public health care exchanges could be closed down or significantly narrowed with limited participation from health insurers.

Trump has also proposed allowing the re-importation of drugs from overseas. Pharmaceutical and biotech firms are bitterly opposed to re-importation as overseas drug sales typically are priced much lower than those in the U.S. Although drug firms have successfully lobbied against re-importation in the past, we think the potential for it would raise uncertainty among investors.

Overall, we think the increased uncertainty and potential of declining sales across the sector would adversely affect health care if Trump is elected.

Most affected companies

Companies within the health care facilities and managed health care subindustries, such as HCA Holdings Inc., Tenet Healthcare Corp., Molina Healthcare, Inc., Aetna Inc., and Anthem, Inc. would benefit the most under a Clinton victory, in our view, as the ACA would likely be preserved. However, scrutiny on high drug prices could continue to negatively affect pharmaceutical companies such as Pfizer Inc.

Conversely, under a Trump victory, these subindustries and their respective companies would be negatively affected because Trump has vowed to repeal the ACA. Also, Trump's block grant initiative could further increase the uninsured population.

Table 5

Most Affected Health Care Companies

Company	STARS recommendation	Price ($)
Aetna Inc.	5	121.10
Anthem Inc.	4	132.34
Community Health Systems Inc.	3	13.02
HCA Holdings Inc.	4	77.43
Molina Healthcare Inc.	4	51.01
Tenet Healthcare Corp.	4	27.16

As of June 17, 2016. Source: S&P Global Market Intelligence.

Industrials

Jim Corridore, S&P Global Market Intelligence Equity Analyst

Sector disruptor: defense spending

While we think that both presumptive candidates have more hawkish views and tendencies when it comes to war-related issues, we do see differences in how they would focus on national security and defense spending if elected. Given Clinton's tenure as a wartime secretary of state, she has a track record and has also made a lot of policy statements that point to how she would look to manage defense as president. Although light on specific details, we see signs of which direction she would take U.S. defense priorities.

Trump has made less clear proposals and policy statements indicating where he would focus his attention, but his comments about different parts of the world, along with various other comments over the election cycle offer some insight into how he would look to focus the country's defense capabilities if he were elected.

If Hillary Clinton wins

Seen by most experts as quite hawkish, Clinton would likely focus on increasing surveillance, remote (drone), and intelligence capabilities, in our view. She has repeatedly called for more surveillance, most recently in the wake of the shootings in Orlando in June 2016 but also after attacks in Brussels and other places around the world. As a U.S. senator, she voted for the Patriot Act in 2001 and its reauthorization in 2006. She served on the Senate Armed Services Committee during a period when broader intelligence activity was greatly expanded, and the National Security Agency enhanced its resources and capabilities. Moreover, she has also shown a propensity toward using conventional forces when appropriate.

According to the Washington Post, while at the State Department, Clinton was consistently more willing to use military force than President Barack Obama. She wanted to send more troops into Afghanistan than him, supported leaving a residual force behind in Iraq before the rise of the Islamic State, pushed for more aggressive intervention in Libya, and backed proposals to arm Syrian rebels.

At the same time, she remains focused on national security, and we think accounting for other items on her agenda means overall defense spending is unlikely to increase significantly over the course of a Clinton presidency.

If Donald Trump wins

We think the military would be one of the top priorities in a Trump administration. He has stated that he thinks the percentage of GDP currently spent on military spending (about 3%) is too low and would like to see it return to past levels near 6%. He called recent military budget cuts a mistake and has called for "maximum firepower and military preparedness."

While Trump has called for increasing surveillance, we think his main focus in defense spending would likely be conventional military might for more tanks, armored vehicles, ships, and aircraft, as well as remote technology and surveillance. Conventional defense contractors would fare better under a Trump administration, and the overall amount spent on the military would likely be larger as well.

Most affected companies

Given that we think a Clinton win means increased focus on surveillance, we see L-3 Communications Holdings Inc. emerging as a winner. The company provides defense intelligence, surveillance and reconnaissance systems; and secure communications systems among its defense, intelligence, and security products. The company has been hit hard by defense cuts with revenues down 30% since 2011, but we think it could see increased contract activity if intelligence gathering capabilities are prioritized under a Clinton administration.

In addition, companies specializing in the federal information technology market (cyber security and cloud) would also benefit from a Clinton win. S&P Global Market Intelligence thinks select IT service companies such as CACI International Inc. and CSRA Inc. could benefit. Both of these companies deliver differentiated next-generation IT solutions, as reflected in their robust backlog of business of $13 billion and $15 billion, respectively, as of March 2016, suggesting future growth.

Under a Trump administration, we see the more traditional heavy-equipment defense companies benefiting. One example is Lockheed Martin Corp. It is the world's largest maker of military weapons with $46 billion in 2015 revenues. The company has coped well during budget cuts with earnings up over the past five years while revenues were down less than peers. We see likely increased defense spending under a Trump presidency leading to increased contract activity. Another name we think would benefit would be Northrup Grumman Corp., which is the third largest maker of military arms and equipment with $24 billion in revenues in 2015.

Conversely, Trump has explicitly said that he would look to cut spending on missile defense systems to divert to increased spending on traditional weapons. Raytheon Co., the fifth largest defense manufacturer in the world, makes missile defense systems, among other products. This company would be a likely loser from a Trump win, in our opinion.

Table 6

Most Affected Industrials Companies

Company	STARS recommendation	Price ($)
CACI International Inc.	4	97.63
CSRA Inc.	4	22.67
L-3 Communications Holdings Inc.	3	143.70
Lockheed Martin Corp.	2	237.56
Northrop Grumman Corp.	2	214.32
Raytheon Co.	3	134.66

As of June 17, 2016. Source: S&P Global Market Intelligence.

Information Technology

Scott Kessler, S&P Global Market Intelligence Equity Analyst

Sector disruptor: foreign earnings and taxes

According to S&P Dow Jones Indices data, the information technology sector of the S&P 500 generates a greater percentage of revenues from international sources than any other sector. In 2015, 58% of the sector's sales were contributed from outside the U.S. compared with 44% for the S&P 500 as a whole. The sector has considerable foreign earnings, which can't be brought back or repatriated to the U.S. without an associated 35% tax obligation. As a result, many of the sector's largest companies have substantial cash and investments overseas, and we foresee related changes to domestic tax policy significantly affecting many of them.

For example, Apple Inc. had $206 billion in cash and investments at the end of its 2015 fiscal year ending in September, $187 billion, or 91%, of which was outside the U.S. Additionally, we think that, largely owing to international assets and operations, many technology sector companies have effective tax rates below 20%, including Alphabet Inc. and International Business Machines Corp. (IBM).

If Hillary Clinton wins

Clinton has indicated that she wants to "crack down on shifting earnings overseas." Additionally, she wants to close "tax loopholes for big corporations—like the ones that allow them to move overseas on paper to avoid paying their fair share." Such actions could have a significant negative impact on a number of technology companies.

Of the 67 IT companies in the S&P 500, 21 of them each had an effective tax rate at or below 20% for their most recently completed fiscal years, and another 10 companies had no material tax rates. We think these companies, with tax rates well below the standard 35% domestic rate, generally benefit from considerable non-U.S. assets and operations. International corporate tax rates tend to be notably lower than the U.S. rate.

Our sense is that Clinton would move to implement policies and rules that would essentially increase the effective corporate tax rates for many of the aforementioned companies.

If Donald Trump wins

Trump has indicated that if he becomes president, no business would pay more than 15% of its business income in taxes, including members of the Fortune 500. More than two-thirds of S&P 500 technology sector companies had an effective tax rate of more than 15% for their most recent fiscal years.

In addition, and of particular importance for a number of technology companies, Trump has proposed a "one-time deemed repatriation of corporate cash held overseas at a significantly discounted 10% tax rate." IT companies recently had $894 billion in cash and investments, and many of these firms have significant overseas balances. In fact, the three largest technology companies, Apple, Alphabet, and Microsoft Corp. had foreign cash and investments of $324 billion at the end of their most recently completed fiscal years, amounting to 83% of their total cash and investments.

We note that a "repatriation tax holiday" was implemented in 2004, temporarily lowering the 35% corporate tax rate to 5%. Since then, some corporations and politicians have clamored for new legislation. Interestingly, eBay Inc. announced plans to repatriate $9 billion and pay a related $3 billion in taxes in April 2014 but never followed through.

Most affected companies

We think companies with a considerable amount and percentage of overseas cash and investments would notably benefit from a repatriation tax holiday such as the one proposed by Trump. We point to Apple, Microsoft, Oracle Corp., Cisco Systems Inc., and QUALCOMM Inc., which are among the world's largest technology companies and had at least three-quarters of their cash and investments overseas in their most recent fiscal years, amounting to over $400 billion.

Companies with notably low effective tax rates would likely be adversely affected if Clinton becomes president, especially Alphabet and IBM, which each recently had effective tax rates of 16% to 17%, respectively. In 2015, non-U.S. sources accounted for 54% of Alphabet's revenues and 63% of IBM's revenues.

Table 7

Most Affected Information Technology Companies

Company	STARS recommendation	Price ($)
Alphabet Inc.	5	704.25
Apple Inc.	5	95.33
Cisco Systems Inc.	4	28.95
International Business Machines Corp.	3	151.99
Oracle Corp.	3	39.68
QUALCOMM Inc.	4	53.55

As of June 17, 2016. Source: S&P Global Market Intelligence.

Materials

Matthew Miller, CFA, S&P Global Market Intelligence Equity Analyst

Sector disruptor: U.S.-China trade relations and the steel industry

It's hard to think of another industry that has been more negatively affected by Chinese overcapacity than the U.S. steel industry. The area's fundamentals will likely be greatly influenced by the next president.

In the past two years, many trade cases have been filed with the U.S. Department of Commerce and the International Trade Commission (ITC) that imposed punitive tariffs on China and other steel-exporting countries. In April 2016, United States Steel Corp., a Pittsburgh steel producer, filed a complaint with the ITC alleging major Chinese steel producers conspired to fix prices, steal intellectual property, and falsify import labels to avoid tariffs. United States Steel Corp. has demanded that all unfairly traded Chinese steel products be excluded entirely from the U.S. market. Chinese steelmakers could face penalties or an outright ban from importing into the U.S. The next president will have a major influence on the outcome of this latest trade complaint in the industry's ongoing battle to protect it from unfairly imported products.

If Hillary Clinton wins

As president, Clinton would likely be more aggressive than President Obama has been at enforcing trade laws but less aggressive than Trump, in our view. Although Clinton believes that strengthening U.S. manufacturing is a major platform issue, we think it falls lower on her priority list than her likely competitor's.

Clinton's initiatives to level the global playing field and enforce trade violations include: establishing and empowering a new chief trade prosecutor who reports directly to the president, tripling the number of trade enforcements officers, cracking down on currency manipulation, and standing up to perceived Chinese abuses.

Although Clinton's policies, in our view, would have less of a positive impact on the steel industry than Trump's hard stance, they would be marginally beneficial and arguably less risky for the overall U.S. and global economy. One could also point out that much of the trade case momentum that has been built up in 2015 and 2016 has already started to level the playing field and is helping to heal the U.S. steel industry. Continued willingness to enforce trade laws, without creating a trade war, would continue to help the industry compete, leading to higher capacity utilization and pricing.

If Donald Trump wins

Trump has made U.S.-China trade reforms a major pillar of his presidential platform. He sees China's inclusion in the World Trade Organization (WTO), combined with domestic politicians' perceived unwillingness to challenge China to live up to its obligations, as causing the closure of more than 50,000 domestic factories and the loss of tens of millions of U.S. jobs.

Trump has said that on day one of his presidency, the U.S. Treasury Department would label China a currency manipulator in an effort to encourage China to set trading relationships with the U.S. seen as more reasonable by his administration. Trump believes that designating China as a currency manipulator would begin a process that imposes appropriate countervailing duties on artificially cheap Chinese products and revitalize job growth in the U.S.

Trump's platform indicates that he would pursue a WTO case to expose what he calls "illegal export subsidies," claiming that Chinese manufacturers and other exporters receive numerous illegal export subsidies from the Chinese government, which are in direct contradiction to WTO rules. As president, Trump would likely seek to penalize China for undercutting American manufacturers. Specifically, Trump has proposed a 45% tariff on imported goods from China, and such a proposal would require congressional approval.

We think Trump would have some success in his efforts to "level the playing field" by penalizing Chinese imports. We think the steel industry would benefit more than most. Several trade cases have already been filed in 2015 and 2016 by steel manufacturers in North America against China and other steel-exporting countries. The process, however, is onerous and timely, requiring submitting lots of paperwork and other evidence to various trade authorities. We think a president who is willing to formalize a tough stance on China's unfair trade practices would have a meaningful impact on the excess capacity in China, ultimately helping U.S. steel companies compete. Although we don't foresee Trump's policies effectively returning steel country to its glory days, S&P Global Market Intelligence does think revenues and profits would expand under a Trump presidency, given the outsized impact Chinese overcapacity has had on U.S. steel producers.

While threatened tariffs or other sanctions might help encourage trading partners to drop their barriers to free trade, sanctions could also lead to retaliation on both sides, which would hurt trade relations from both import and export perspectives.

Most affected companies

In our view, fundamentals would improve for the entire steel industry under a Clinton or Trump administration, with higher risk and higher reward if Trump prevails in November. We think integrated steel mills would benefit the most, given their high levels of fixed costs. These companies include United States Steel Corp., AK Steel Holding Corp., and Allegheny Technologies Inc.

However, we also see the mini-mill steel producers benefitting greatly, including Steel Dynamics Inc. and Nucor Corp. In addition, we note that an improving U.S. domestic steel industry would positively affect Cliffs Natural Resources Inc. as the primary supplier of iron ore pellets to several U.S. steel mills.

Table 8

Most Affected Materials Companies

Company	STARS recommendation	Price ($)
AK Steel Holding Corp.	3	4.89
Allegheny Technologies Inc.	3	13.57
Cliffs Natural Resources Inc.	3	4.91
Nucor Corp.	5	50.35
Steel Dynamics Inc.	5	25.50
United States Steel Corp.	3	17.98

As of June 17, 2016. Source: S&P Global Market Intelligence.

Telecommunications Services

Angelo Zino, CFA, S&P Global Market Intelligence Equity Analyst

Sector disruptor: net neutrality

Net neutrality is the concept that Internet service providers allow for fair and equal access to all content and applications on the Internet regardless of the source and without favoring or blocking specific websites. This includes prohibiting "fast lanes" for companies and websites looking to pay for faster delivery of their content.

President Obama has been a strong proponent of net neutrality, and the upcoming election will likely have implications on this topic, in our view. In November 2014, Obama called for wireless and fixed-line broadband service providers to be reclassified as "Title II" common carriers to promote net neutrality and closer regulation of the industry. The Federal Communications Commission (FCC), in early 2015, voted 3-2 in favor of the Title II designation.

On June 14, 2016, a split panel of federal judges upheld the FCC net neutrality order to reclassify broadband service under Title II. While the outcome will be appealed and the final decision will likely come from the Supreme Court, the ruling solidifies the FCC's view to regulate broadband service as a utility. This ruling could also pave the way for tougher restrictions on Internet service providers.

The FCC is led by five commissioners appointed to five-year terms by the president, but a maximum of only three commissioners may be from the same political party. We note the next president will have the ability to appoint a new commissioner (Chairman Tom Wheeler's term technically ends in 2018, but it is customary for the FCC head to resign under a new presidency if requested) and potentially change the landscape of the industry.

If Hillary Clinton wins

Clinton has been vocal about her support for net neutrality, and we expect much of the status quo on the matter if she is elected the next president. Clinton was in favor of the FCC's reclassification of broadband providers under Title II of the Communications Act but also stated that this was the committee's only real option to create net neutrality as the norm. She has stated a preference for a modern 21st century telecommunications act, but we note that as unlikely.

Although Clinton is in favor of net neutrality, she also argues that more regulation could hinder competition in the broadband space. Given this, Clinton has referenced her support to create new projects, such as city-owned fiber networks, and our view is that she is in favor of initiatives like Google Fiber, which is expanding into more cities as a low-cost option. Promoting efforts for greater competition should help combat monopolies in some communities and potentially make the Internet more affordable for many consumers.

Although the telecom services and equipment sector has contributed minimal capital resources to presidential candidates (especially relative to other areas), Clinton has generated by far the most funding and support from this group among the candidates. According to Opensecrets.org, Clinton received nearly $450,000 in funds from the sector (as of June 14), significantly more than Trump at less than $2,500.

If Donald Trump wins

While Trump has made limited comments on the subject matter and has refrained from taking a strong stance on either side of the debate, he does not appear to be a supporter of net neutrality. In November 2014, Trump tweeted the following: "Obama's attack on the Internet is another top down power grab. Net neutrality is the Fairness Doctrine. Will target conservative media."

At the very least, we think a Trump victory would change the complexion of the FCC. We would expect Chairman Wheeler to step down should a Trump win occur. More importantly, it would likely tilt the FCC toward the Republicans versus the current Democratic majority. If a leadership change occurs, a potential reversal of the Title II designation is possible but perhaps less likely given the recent backing by the courts, in our opinion. Nonetheless, an FCC that is Republican-led would at least look to prevent some of the tougher restrictions that net neutrality advocates support, in our view.

Most affected companies

Internet service providers will likely be among the most affected by changes to net neutrality rules. This would include wireless companies (e.g., Verizon Communications Inc., AT&T Inc., T-Mobile US Inc., and Sprint Corp.), cable companies (e.g., Comcast and Time Warner), and other broadband providers. Current net neutrality rules prevent Internet service providers from charging a premium price for better service, which would create Internet fast lanes. In addition, net neutrality advocates may look for tougher regulations, following the recent court ruling, on practices like zero rating (exempting preferred video services from customer data caps) by certain providers like T-Mobile. For example, T-Mobile's Binge On program allows users to streamline video from Netflix and certain other providers without counting it as data use. Verizon's Go90 also doesn't count against a consumer's data cap, and AT&T is likely to roll out its own over-the-top offerings. In our opinion, Internet service providers would likely stand to benefit from a Republican victory because the party has historically opposed net neutrality.

Content providers like Netflix and Alphabet (both advocates of net neutrality) also have much at stake when it comes to the net neutrality debate. In an extreme scenario, if net neutrality rules are revised, it could create a scenario disadvantaging start-ups and smaller content providers, as Netflix Inc. and others could consider paying a premium to offer its customers a better service. Content providers would stand to benefit most from a Democratic victory.

Table 9

Most Affected Telecommunication Services Companies

Company	STARS recommendation	Price ($)
AT&T Inc.	4	40.73
Sprint Corp.	3	3.71
T-Mobile US Inc.	3	41.77
Verizon Communications Inc.	3	53.78

As of June 17, 2016. Source: S&P Global Market Intelligence.

Utilities

Christopher Muir, S&P Global Market Intelligence Equity Analyst

Sector disruptor: coal generation

Over the past few decades, coal generation has been under attack, initially for nitrogen dioxide and sulfur dioxide emissions and more recently for carbon dioxide emissions. The attacks have come from Congress and the Environmental Protection Agency (EPA), among others.

In 2009, the House of Representatives passed the American Clean Energy and Security Act, which provided for a cap and trade system on greenhouse gas emissions across all industries. The bill failed in 2010, however, as Democrats couldn't marshal enough support for it. The EPA, five years later, introduced the final version of its Clean Power Plan, which set national limits for power generators on what it deemed to be carbon pollution.

While the implementation of the plan would vary from state to state, the end result would likely be the same. Regulated utilities that are required to reduce carbon emissions substantially would likely see high levels of capital expenditures during the plan implementation time period through 2030, leading to a higher rate base.

In many cases, the regulated utilities would be able to manage such a transition through regular rate increases that would positively affect these companies' earnings per share growth. Some utilities would be required to make capital investments so quickly, that they would need to raise capital in the equity markets.

Despite initial pressures on companies' earnings and stock prices, we would expect regulated utility companies to benefit over the long run with these new regulations because regulators would likely allow regulated utilities to recover additional investments through rate increases that would lead to higher revenues. On the other hand, unregulated (or merchant) generating companies that sell all their output through negotiated contracts or into the wholesale markets must fund the conversion of existing high carbon emission plants on their own.

The Supreme Court has issued a stay on the Clean Carbon Plan, but it is still awaiting a Sept. 27 hearing at the U.S. Court of Appeals. Whatever the court decides, the case is likely to end up before the Supreme Court and be one of the most important utility cases in many decades. Right now, the Supreme Court is one justice short of its full complement, and the next president will likely nominate the late Justice Scalia's replacement. The next president would also have control over whether the EPA proceeds with pushing for the Clean Power Plan or scraps the idea entirely by directing the EPA to reverse related regulations.

If Hillary Clinton wins

Clinton's website says that she intends to defend, implement, and extend smart pollution and efficiency standards, including the Clean Power Plan, which she says "will prevent 3,600 premature deaths and 90,000 asthma attacks annually." There's not much ambiguity about her position, so we think a Clinton win would mean that the Clean Power Plan moves ahead, especially if the Supreme Court rules in favor of the plan.

Given the already delayed hearings at the U.S. Court of Appeals, in our view, Clinton would likely nominate a judge who would side with the EPA's claim that carbon dioxide is harmful to people, the specific mandate of the plan that allows the EPA to regulate carbon dioxide. We also see Clinton continuing or expanding the use of subsidies for renewable generation, which adds additional pressure to coal plants by putting downward pressure on the market price for power, hurting merchant generators.

If Donald Trump wins

Conversely, Trump questions the influence of humans on climate change, states that other countries are taking advantage of the harm that the focus on climate change is doing to the U.S. economy, and posits that the polar ice caps remain in place despite warnings from environmental scientists. In addition, he said, "Obama's coal regulations will destroy the coal industry, put Americans out of work, raise electricity prices, and lead to blackouts." He nicknamed the EPA "Employment Prevention Agency," and this sums up his position well. We expect that a Trump win would lead to a total dismantling of the Clean Energy Plan.

However, given the stay on the regulations, we think that might not occur until after the case has gone to the Supreme Court, which could side with the states and overturn the regulation. If the regulation is upheld, Trump could direct his EPA administrator to discard the regulation. While we would also expect the elimination of renewable subsidies, renewable portfolio standards in various states, and low natural gas prices would likely keep pressure on power prices. Trump has said that he would prefer that the EPA be dismantled and replaced with state-by-state regulations.

Most affected companies

We think that merchant generating operations of larger utility holding companies and independent power producers with U.S. coal exposure would see the biggest immediate impact if Clinton wins. These companies face potential retirements of their coal generating fleet because of the prohibitive costs of retrofits or large investments in power plants. Independent power producer NRG Energy Inc. generated 66% of its power from coal sources in 2014 (latest available data from SNL). Vertically integrated electric utility company FirstEnergy Corp. generated 41% of the entire company's 2014 output from its merchant coal plants, which include what it calls supercritical coal located mostly in Pennsylvania and West Virginia and sub-critical and other coal-fired generation located in Ohio and Indiana.

Vertically integrated electric utility company American Electric Power Co. Inc. (AEP) generated 14% of its power from its merchant coal fleet in 2014 but 62% from its regulated plants. We think AEP would be positively affected in the long run if the Clean Power Plan proceeds in a Clinton presidency as it would have to spend money to replace its generating assets, and those investments would be added to its rate base. Vertically integrated utility PPL Corp. spun off its merchant fleet in 2015, and it generated 91% of its regulated power from coal sources in 2014. Vertically integrated utility MDU Resources Group Inc. generated 92% of its regulated power from coal sources in 2014. We think both of these companies would also benefit from a Clinton presidency. But we don't foresee these companies being hurt by a Trump presidency.

Table 10

Most Affected Utilities Companies

Company	STARS recommendation	Price ($)
American Electric Power Co. Inc.	3	67.21
FirstEnergy Corp.	3	33.11
MDU Resources Group Inc.	3	23.24
NRG Energy Inc.	4	13.32
PPL Corp.	4	39.04

As of June 17, 2016. Source: S&P Global Market Intelligence.

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