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With Donald Trump and Hillary Clinton becoming the presumptive nominees for the Republican and Democratic Parties, respectively, this week’s Asset Allocation Weekly will offer some of our initial thoughts on this election cycle. We will offer more in-depth analysis in the coming months but these highlights express our starting points about the candidates and the election.

**This election is shaping up to be establishment versus populist:** As we discussed in our three-part series on the election in the spring of 2014,<sup>1</sup> we noted a rising trend of populism in the U.S. that could lead to a populist candidate and president. Donald Trump is running as a classic “traitor to his class” by supporting populist positions such as anti-globalization (anti-immigration, anti-trade) and support for middle-class entitlements (Social Security, Medicare, Disability). These positions are in direct opposition to the establishment’s positions on free trade, open immigration and entitlement reform. Sen. Clinton finds herself as the establishment candidate, which has been well exposed in her primary campaign against Sen. Sanders. In Europe, both the right- and left-wing establishments tend to coalesce around one establishment figure to fend off a populist challenge. If we see a similar pattern in the U.S. (which we would expect), look for talk about a third-party “real conservative” challenger to dissipate soon. Otherwise, if a third-party establishment figure runs, it will simply split the vote and allow Trump to win easily. Instead, we look for the right-wing establishment to either stay home or vote for Sen. Clinton. In any case, unlike in most elections, there will be major differences between the candidates which will probably lead to historic voter turnout.

**Domestic Policy:** If you liked the last eight years, you should vote for Sen. Clinton. She is running a campaign similar to what a vice president runs when he is trying to succeed a sitting two-term president. Although this didn’t appear to be her initial plan, the surprising performance of Sen. Sanders has forced her to defend President Obama’s policies to frame her opponent as being too radical and she has used Sanders’s criticism of President Obama to suggest that he is denigrating the current Democratic Party president. This means she really can’t run on a domestic policy platform that aims to fix all that has gone wrong and allows Mr. Trump to claim that current conditions are bad and that a new policy stance, which he would provide, would

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<sup>1</sup> See WGRs: [2016, Part 1](#) (3/31/2014); [2016, Part 2](#) (4/14/2014); and [2016, Part 3](#) (4/21/2014).

make things better. Since many Americans claim things are bad,<sup>2</sup> it makes Sen. Clinton's position difficult to defend.

**This election will likely be determined by Sen. Sander's supporters:** In 2014, Ralph Nader published a book titled *Unstoppable*.<sup>3</sup> In the book, he argues that populists on both the left and right have a common cause around which to unify and overthrow the political establishment. As we noted in our aforementioned WGRs, the establishment supports deregulation, globalization and the unfettered introduction of new technology. Although these policies are very successful in bringing down inflation through supply side efficiency, they have the effect of holding down wage growth that harms most populist households.<sup>4</sup> Nader acknowledges that there are major disagreements between left- and right-wing populists on social issues. However, on economic issues, the differences are significantly less and the two sides could find common ground. If Sanders's voters decide that Donald Trump can improve their economic situation and swing toward him, he has a solid chance for victory. If Trump can, at a minimum, discourage Sanders's supporters from voting for Sen. Clinton, he will improve his odds of winning. Although we doubt Ralph Nader had Donald Trump in mind when he penned his book, Trump may be best positioned to bring Nader's coalition of populists together. This may be even more evident in foreign policy (see below).

**Foreign policy is about be flipped:** Sen. Clinton is hawkish; she supported the invasion of Iraq, a much heavier military presence in Syria and the overthrow of Muammar Gaddafi. Using Walter Russell Mead's archetypes,<sup>5</sup> Sen. Clinton is a Wilsonian. She believes that the U.S. is a source of good in the world and that using military force is legitimate in order to protect the weak or support goals like democracy in the world. Trump is a Jacksonian; this archetype can be belligerent but only if the national honor is besmirched. Trump has indicated that we will give up our superpower duties<sup>6</sup> by forcing European and Asian allies to pay for their own defense. At the same time, he is promising a major boost in military spending to ensure that "nobody messes with us," a classic Jacksonian position. On the one hand, Trump promises that we won't be drawn into wars to protect others; on the other, he would likely order the U.S. Navy to shoot on sight any Russian warplanes buzzing around U.S. vessels. The differences between Trump and Clinton offer an unusual shift for voters; neoconservatives who currently are part of the GOP will be inclined to vote for Clinton, while those who oppose U.S. hegemony will tend to find Trump's "America First" message appealing. In terms of foreign policy, Sanders's supporters have much more in common with Trump than Clinton.

**The debates could be historic:** Trump has proven to be an effective debater, a brawler that tends to force opponents to operate at a base level. For example, Sen. Rubio ended up in a verbal sparring match more suitable for a middle school; however, Trump operates well in such situations while most politicians don't. Rubio didn't...and neither did Governor Bush. Sen.

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<sup>2</sup> On average, 66% of those polled think the country is going in the "wrong direction," see: [http://www.realclearpolitics.com/epolls/other/direction\\_of\\_country-902.html](http://www.realclearpolitics.com/epolls/other/direction_of_country-902.html).

<sup>3</sup> Nader, R. (2014). *Unstoppable: The Emerging Left-Right Alliance to Dismantle the Corporate State*. New York, NY: Nation Books.

<sup>4</sup> We define the differences between populists and establishment in the aforementioned WGRs.

<sup>5</sup> See WGR, 4/4/2016, [The Archetypes of American Foreign Policy: A Reprise](#).

<sup>6</sup> See WGR, 4/11/16, [Intergenerational Forgetfulness](#).

Clinton has a wonkish grasp of policy that will far exceed Trump's knowledge. But, if he forces her into his "alley," the results could be devastating. The debates could be the most watched television outside the Super Bowl and may swing the campaign.

Next week, we will discuss the market impact of a Trump presidency and the asset allocation measures we would likely consider. The following week, we will examine a Clinton presidency and perform the same drill.

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