

Top 10 2016 Election Impact Juxtapositions

1. Significant majority unfavorable rating (Trump) versus slight majority unfavorable rating (Clinton)
2. Proposed radical change versus likely maintenance of the status quo
3. Expanded border protection versus protection of non-citizen and new citizen rights
4. Nationalist isolationism versus global internationalism
5. Protectionist resurgence rhetoric versus free trade maintenance and expansion
6. Strengthened space and nuclear defense versus diplomacy and the projection of smart power
7. Decreased regulation of private industry versus expanded regulation of private industry
8. Potential for increased privatization versus potential for increased federal insourcing
9. Consumption-based taxation versus redistributionist income taxation
10. Increased M&A valuations versus increased M&A volumes

Election 2016 – Federal Market Impacts

- Despite rampaging rhetoric from both candidates, expect very little near-term change in overall IT and professional services spending
- 2017 will be a wash, as the lame duck session begets the debt ceiling renegotiation, and rolls right into the 2018 budget battle royale
- Equivocation notwithstanding, the candidates diverge starkly with respect to their views on the ultimate size and role of the government
- Expect a 2017 M&A volume increase with higher valuations from Trump tax cuts or depressed valuations from Clinton tax hikes
- Conventional wisdom suggests Trump's unpredictable nature and lack of federal experience would be worse for the sector than Clinton
- A Trump victory may lead to increased privatization, while Clinton 45 may have us all swapping out our green badges for blue ones

Hobson's Choice

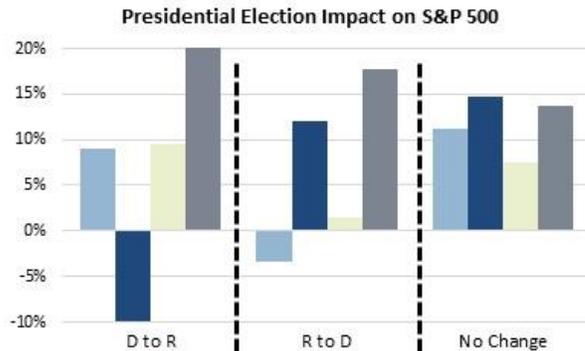
While there is very little new to add to the 2016 election dialogue, and less to be excited about, it is useful to look at the prospects of a Clinton or Trump presidency through the one-issue lens of "what is best for federal contractors." From an overall federal government spending perspective, there will probably not be much difference regardless of who wins. Below the top line, a Trump victory would surely benefit Defense, Homeland Security (and law enforcement), Transportation (infrastructure ...and wall-building?), and Veterans Affairs. A Clinton victory would likely benefit HHS, Labor, EPA, Commerce, and State. Beyond near-term spending differences, the bigger possible impact lies in the potential for long-term procurement, small business setaside, and protest reforms.

You Didn't Build That

Both candidates are world class equivocators, which makes it difficult to forecast their true beliefs with any certainty. One of the fundamental differences, between the candidates, however, is their view on government regulation. Wolf Den has long advocated fundamental, far-reaching revisions of federal procurement regulations, with common sense reform of protest rules, less social engineering of small business setaside regulations, and true reform of the FAR (first published in 1974 and now more than 53 parts spanning 3,000 pages). While industry trade groups are reluctant to advocate for meaningful reform lest they offend dues-paying members, top-down presidential leadership, coupled with a strong OFPP Administrator, could overcome special interests and myopic Congressional resistance. Meaningful reform is more likely under Trump's "drain the swamp" movement than Clinton's "steady as she goes" adherence to *status quo*.

It's Going to Be Huge

Trump is a total wild card, but believes that the private sector is inherently more efficient than the government and is partial to Reaganesque privatization of some governmental functions. Clinton favors a large role for government, including assumption of some roles traditionally performed by industry. A Clinton victory almost certainly would raise the specter of insourcing again, funded by increased tax revenues. As a side note, Bill Clinton successfully reduced the size of the government payroll, so fears of a more expansive bureaucratic federal government under Clinton 45 may just be campaign rhetoric. Expect increased federal M&A volume regardless, with valuations moving inversely to taxes (higher valuations from Trump cuts or lower valuations on Clinton increases).



Data from 1944 to 2015 depicting the average annual percent change of S&P 500 following a presidential election. Although change-of-party elections result in more dramatic swings, the market generally levels out with D to R out-performance. Source: Wolf Den Analysis

Making America Great
The immediate impact of the next administration will likely be dampened by inheriting a divided Congress, the immediate need to renegotiate the

federal debt ceiling (May), and likely a simmering continuing resolution that will boil over into partisan rancor around the 2018 budget (September). However, new administrations always herald new appointees and new initiatives, and while it will take 18-24 months before new initiatives gain momentum (and trickle down to actual contractor spending), overall IT and professional services spending will likely remain unchanged. Expect overall spending to remain in the "new normal" low single digit growth territory and contractor growth to be driven by taking share. It may be a while before we return to greatness no matter the election outcome. Regardless of your political persuasion or criminal record (if you live in VA), please exercise your right to vote, even if only for the candidate you find least objectionable.