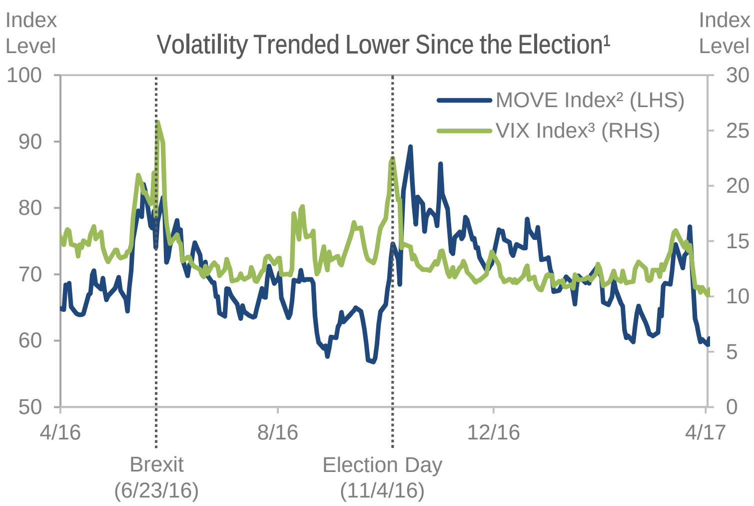
IR+M UPDATE

Beyond the First 100 Days

May 19, 2017

Investor expectations for immediate and substantive changes following President Trump's inauguration were tempered during his first hundred days in office. While overall market volatility has stabilized below post-election highs, the markets have digested a number of notable events that remain at the forefront of investors' minds.

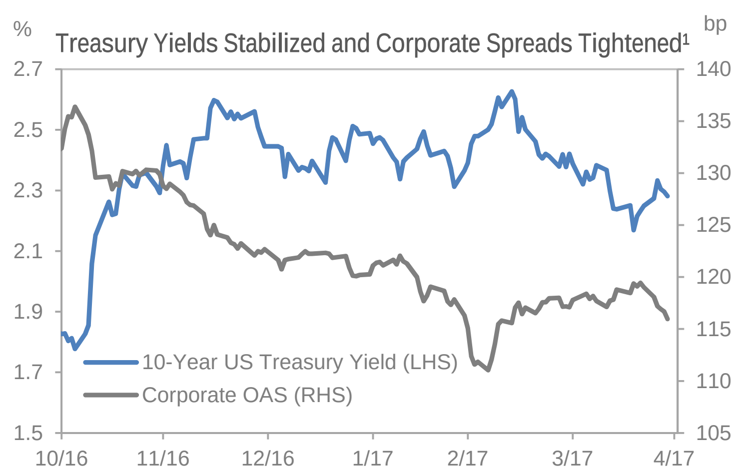


Financial Deregulation

- President Trump authorized a review of several Dodd-Frank rules, primarily dedicated to reducing burdens on financial institutions
  - o Softening of the Volcker Rule, which imposes strict capital requirements and prohibits proprietary trading, could promote increased risk-taking in the financial sector
  - o Relaxation of regulations could also enhance bond market liquidity
- Newly appointed regulators to key positions could reinterpret existing statutes, ultimately easing some regulation
  - o However, the implementation of Dodd-Frank took many years, so meaningful legislative change would likely require considerable time and bipartisan support
- In the near term, deregulation is possible on the margin, but those changes would likely have the largest impact on smaller banks

Tax Reform

- The Trump administration released core principles of its tax reform bill, but details were limited
- An attractive repatriation policy could support corporate market technicals, as repatriated funds could be used to reduce outstanding US dollar-denominated debt supply and lessen the need to issue going forward
  - o Alternatively, the reduction in overseas cash balances could result in weakened US demand, particularly for short-term securities
- The potential elimination of interest deductibility could result in a net tax increase for leveraged companies if the policy change is not offset with a simultaneous tax cut
  - o On the other hand, removing the tax break reduces the relative appeal of issuing debt, which could lead to a decrease in supply and lower leverage



Healthcare Reform

- House Republicans passed a revised healthcare bill, which currently resides with the Senate for review
  - o Repealing the Affordable Care Act (ACA) could hurt revenues for lower quality hospitals due to the decline in federal reimbursements, but only 6% of Americans are covered by the ACA, so the overall effect on hospitals, particularly high-quality ones, would likely be small[4]
- President Trump is advocating for more competition in the drug market to lower prices, which could weigh on the pharmaceutical sector
  - o Some large pharmaceutical companies publicly announced a commitment to self-policing and appear to be upholding promises to limit price increases, which could convince government officials to delay the establishment of formal regulation

At IR+M, we modestly reduced our risk posture heading into 2017, and remain focused on generating alpha through superior bottom-up security selection. Going forward, surprises from the Trump administration could provoke market dislocations, and we believe we are well-positioned to take advantage of those opportunities, should they arise.

[1]Bloomberg Barclays. [2]Merrill Lynch Option Volatility Estimate Index: Measure of the implied volatility of 1-month US dollar interest rate options. [3]Chicago Board Options Exchange Volatility Index: Measure of the implied volatility of S&P 500 Index options. [4]U.S. Department of Health & Human Services as of October 2016. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations for, or projected returns of any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.