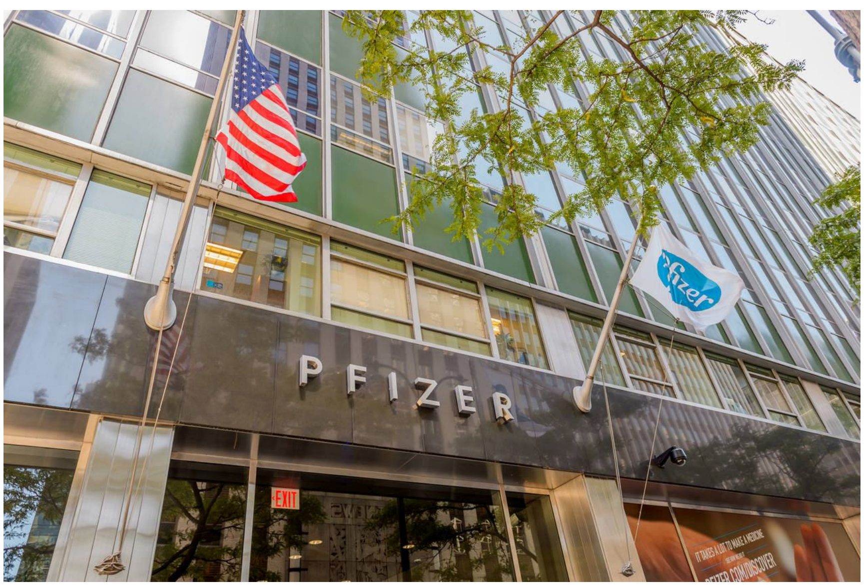
FEATURE

Trump Win Creates Winners, Losers

Drug, biotech, refinery, expect Trump's proposals will favor their business. A wrong turn for REITs.

By ANDREW BARY
November 12, 2016

Wall Street quickly decided last week that Donald J. Trump's surprise election victory was good for business. Investors like the prospect of lower corporate taxes, less regulation, greater infrastructure spending, and repatriation of corporate cash held overseas. They seem less concerned about the potential negatives of a Trump presidency, such as protectionism. The Dow Jones Industrial Average rose 5%, to 18,847, on the week, including almost 3% after the election.



Drug stocks like Pfizer could keep rising. *Erik McGregor/Pacific Press/Light- Rocket via Getty Images*

"What we're seeing is an expectation from investors that despite Trump's unorthodox campaign, his administration will be an orthodox Republican administration," says Brian Gardner, the Washington, D.C., analyst at KBW.

The postelection winning stocks represented a broad range of industries: banks, asset managers, drugs, biotech, private prisons, major managed-care companies, steel makers, independent refiners, and pipeline operators. Losers included hospital operators, Medicaid managed-care specialists, technology, and interest-rate sensitive businesses, including electric utilities, telecoms, and real estate investment trusts.

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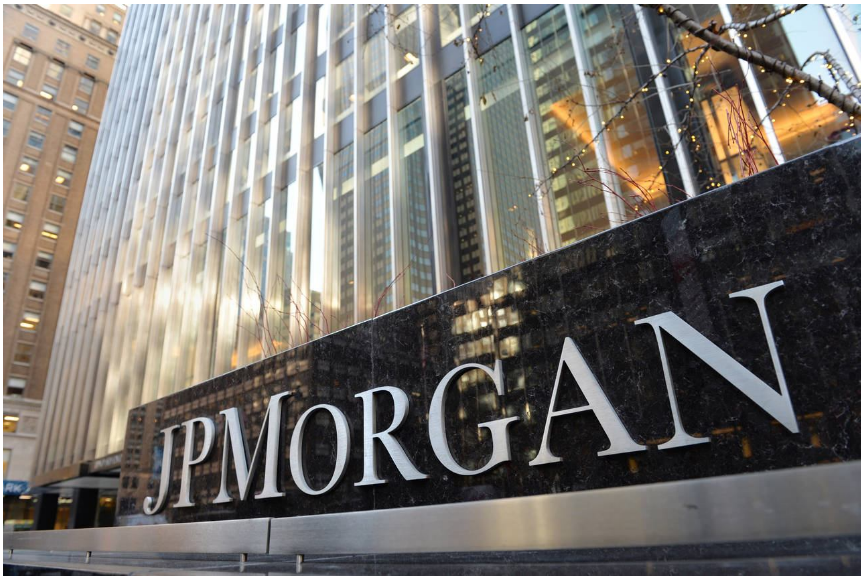
The selloff in rate-sensitive stocks—utilities were off 4% on the week—reflected a surge in interest rates. The yield on the 10-year Treasury note rose 0.4 of a percentage point, to 2.12%, on expectations of more inflationary fiscal policies and a healthier economy.

Some moves could be overdone. Financials might not benefit as much from regulatory reform as Wall Street expects, while the selloff in rate-sensitive issues could be a buying opportunity, given dividend yields in the 3% to 5% range. The rally in drug stocks could continue, as the group sold off sharply before the election and shares aren't expensive. Pfizer (ticker: PFE), Amgen (AMGN), and AbbVie (ABBV) trade for about 13 times projected 2016 earnings, and yield about 3%.



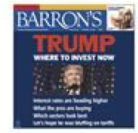
The rally in financial names, such as JPMorgan, could cool for now. *Stan Honda AFP/Getty Images*

Federal corporate taxes, now 35%, could fall in a Trump administration to about 25%. (Trump calls for 15%, but that may not be achievable.) A reduction would be especially helpful to domestically focused companies that employ millions of U.S. workers. They usually pay higher taxes than multinationals with ample foreign income taxed at lower rates. Lower tax rates might encourage restaurant operators, retailers, utilities, and telecom companies to boost employment, and manufacturers to bring production back to the U.S.

A deal to repatriate the estimated $2 trillion of corporate cash held outside of the U.S. in return for more modest tax payment than under current law would help tech giants like Apple (AAPL), Microsoft (MSFT), and Alphabet (GOOGL), even though they would benefit less from a cut in the corporate tax rate.

The uncertainty about Trump's trade and foreign policies, plus his unpredictable nature, probably make gold a decent hedge. Gold prices fell 4% after the election, to $1,223 an ounce, probably because higher interest rates and a stronger dollar dampen the metal's appeal. Gold peaked in 2011 at $1,900 but started this year at $1,075. Major gold producers such as Newmont Mining (NEM) and Barrick Gold (ABX) have gotten more efficient and shareholder-friendly in recent years.

Some question the ferocity of the financial-stock rally. "While we understand the high-level conceptual bull case," wrote Citigroup banking analyst Keith Horowitz, the details "are not nearly as clear-cut positive as the market is pricing in."



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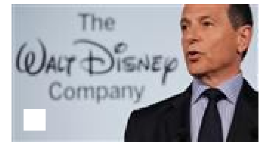

A Changing Landscape

Many industries, from financials to pharmaceuticals, could prosper as rules change under a Trump administration. But hospital companies and interest-rate-sensitive stocks could suffer.

Company / Ticker	Recent Price	12-Mo Change	Change Since Election	Earnings per share 2016E	Earnings per share 2017E	P/E 2017E
WINNERS						
STEEL						
US Steel / X	$24.66	128%	18%	-$1.63	$0.60	40.8
Nucor / NUE	59.14	42	15	2.34	2.98	19.9
CONSTRUCTION MATERIALS						
Martin Marietta Materials / MLM	233.52	52	16	6.77	9.12	25.6
Vulcan Materials / VMC	136.04	36	14	3.10	4.30	31.6
FINANCIALS						
JPMorgan Chase / JPM	76.65	13	9	5.86	6.24	12.3
Franklin Resources / BEN*	37.85	-7	11	2.69	2.76	13.7
PHARMACEUTICALS						
Pfizer / PFE	33.49	-1	12	2.42	2.61	12.9
Bristol-Myers Squibb / BMY	56.66	-13	7	2.82	2.96	19.1
INDEPENDENT REFINERS						
CVR Energy / CVI	15.93	-64	25	-0.02	0.12	138.5
Valero Energy / VLO	62.96	-12	8	3.6	5.32	11.8
LOSERS						
HOSPITALS						
HCA Holdings / HCA	72.06	3	-11	6.70	7.09	10.2
Tenet Healthcare / THC	14.51	-58	-28	1.33	2.09	7.0
UTILITIES						
Duke Energy / DUK	75.16	12	-6	4.66	4.67	16.1
TELECOM						
Verizon Communications / VZ	46.69	4	-2	3.89	4.00	11.7

E=Estimate. *Earnings for fiscal years ending in September 2017 and September 2018. Source: Bloomberg

Trump has called for a repeal of the Dodd-Frank legislation affecting the banking industry, but Horowitz says that might be tough to achieve, given the narrow Republican majority in the Senate. He also doubts that Trump will want to reverse one of the most important aspects of Dodd-Frank—higher capital requirements for banks. With Trump having run on a populist platform, Horowitz sees “no mandate to ease the burden on large banks.”

Industry leader JPMorgan Chase (JPM) trades at $76, an inexpensive 13 times projected 2016 earnings of nearly $6 a share. But its shares could retreat after rising 13% last week. A risk is that Trump will pick the bank’s well regarded CEO, Jamie Dimon, to be his Treasury secretary.

Horowitz estimates that a half-point rise in rates could translate into a 9% increase over two years in banks’ earnings per share. Comerica (CMA) and Bank of America (BAC) could see some of the largest benefit, and U.S. Bancorp (USB) and KeyCorp (KEY) among the least.

ASSET MANAGERS got a lift on the hope that Trump might repeal, relax, or delay the Labor Department’s fiduciary rule for retirement accounts, due to take effect in April. The rule is viewed as furthering the trend toward index investments and away from active management. Gardner thinks a delay is a good bet, although it isn’t clear how much relief the industry might get.

BlackRock (BLK), with $5 trillion in assets and a $60 billion market value, is well positioned due to its exposure to both passive investments and exchange-traded funds. BlackRock shares have rallied 7%, to $370, on the week. They trade for about 20 times estimated 2016 earnings of $19 a share and yield 2.5%.

Franklin Resources (BEN) rose 10%, to $38, last week. Its business is more oriented to

September, but its effective multiple is lower, given more than $14 a share of overseas cash that might be repatriated under a more favorable tax regime.

Berkshire Hathaway could prosper from a Trump presidency because higher rates would lift investment income on its $68 billion of cash (as of Sept. 30) and bolster its industrial businesses, including Burlington Northern railroad, chemical maker Lubrizol, and Precision Castparts. Berkshire's class A shares rose 10% last week, to a record $235,000.

Infrastructure-spending winners could include Vulcan Materials (VMC) and Martin Marietta Materials (MLM), whose construction aggregates are used in road construction. But both stocks discount huge earnings gains. Vulcan rose 15% last week to $134 and trades for 43 times projected 2016 earnings. Martin Marietta rose 19%, to $228, and has a price/earnings ratio of 34.

Steel makers U.S. Steel (X) and Nucor (NUE) rallied on hopes of a stronger economy and greater protections from cheap imported steel. *Barron's* laid out the bullish case for U.S. Steel last month ("U.S. Steel Shares Could Rise 50% in a Year," Oct. 15); the stock is already up more than 50%, to $25, since then.

Independent oil refiners CVR Energy (CVI), HollyFrontier (HFC), and Valero Energy (VLO) stand to benefit if the Environmental Protection Agency eases arcane rules that have forced the refiners to pay up for Renewable Identification Numbers, or RINs, in the open market to comply with federal rules on ethanol blending. CVR Energy's refining operating unit, CVR Refining (CVRR), probably will pay $210 million to $250 million this year for RINs, about double what it paid last year, while Valero will shell out about $800 million. All four stocks rallied nicely last week.

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Trump doesn't appear to have offered a view on the RIN program. Carl Icahn, the controlling shareholder of CVR Energy, has been a vocal opponent of RINs and a prominent Trump supporter.

Among rate-sensitive plays, Verizon Communications (VZ), at $46, has given up all its gains for the year. It now yields 5% and trades for 12 times estimated 2016 earnings. Duke Energy (DUK), one of the country's largest utilities, fell 3% last week, to $75, and yields 4.6%.

The Vanguard REIT ETF(VNQ) was flat last week at $78 and yields 4.3%. But REITs with New York office exposure, like SL Green Realty (SLG), Boston Properties (BXP), and Vornado Realty Trust (VNO), rallied on the prospect of a fellow Manhattan developer in the White House.

Losers last week included hospital operators HCA Holdings (HCA) and Tenet Healthcare (THC), with the Street fearing that an end to the Affordable Care Act would mean more uninsured patients who can't pay their bills. A scaled-back Medicaid program would hurt managed-care companies Centene (CNC) and Molina Healthcare (MOH).

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113 PEOPLE LISTENING

david ginsberg 3 hours ago

As a business owner, I have taken a close look at the tax cut proposal. I think you left out a few important offsets, particularly the elimination of several deductions- he specifically mentioned them as well on the campaign. The net tax rate for most companies isn't really material since virtually no public companies actually pay the top tax rate. However, I am optimistic about the overall theme and repatriation opportunity - as well as power velocity of money can have if brought home.

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William Loper 5 hours ago

From the 11/4 low (Friday before the election), here are the winners and losers. And by the way, you mention Gold being a good investment going forward? Wrong. GDX is down -17% last 5 sessions, dead last. How can we translate the violent rotation caused by the Trump victory into actionable ideas?

Best and Worst Sectors from the 11/4 Low:

IBB	Biotech	+14.42%
KBE	Banks	+14.23%
XLF	Finance	+11.19%
ITA	Defense	+10.46%
IWM	Russell	+10.04%
XRT	Retail	+8.13%

XLV	Hlth Care	+6.03%

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William Loper 5 hours ago

ITB	Builders	+3.88%
SPY	SP500	+3.77%
XLB	Basic Matl's	+3.77%
SMH	Semis	+2.94%
XLE	Energy	+2.49%
UUP	Dollar	+2.11%
QQQ	Nasdaq 100	+1.89%
MTUM	Momentum	+0.86%
VNQ	Real Est	-0.36%
FXI	China	-0.72%
JNK	Hi Yld	-1.93%
USO	OIL	-2.50%
IDU	Utilities	-3.43%
IEMG	Emerg Mkts	-7.36%
GDX	Gold Miners	-16.55%

Now that's helpful. You should do the same, might make your 'analysis' of the Trump Rotation more accurate?

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David Weisz 5 hours ago

“What we’re seeing is an expectation from investors that despite Trump’s unorthodox campaign, his administration will be an orthodox Republican administration,” says Brian Gardner, the Washington, D.C., analyst at KBW."

Well, if it is an orthodox Republican administration, the Republicans will lose the House and the Senate in 2018 and the White House in 2020...

So let's hope it's not.

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Joseph Canepa 3 hours ago

@David Weisz Don't count on Republicans losing. They happen to be smarter then the Democrats. The selection of Hillary Clinton has to be one the biggest political blunders in the history of the Republic. She lost by not making Sanders her running mate. Her next error was continuing her campaign in July after the FBI report in July which made unfit for the presidency,

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