



The Trump Administration

*Market Reaction, Stated Policies
And Initial Implications For
Aerospace, Defense & Government Services*

FAIRMONT

CONSULTING GROUP

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Overview

- ❑ This report provides a brief overview of initial market reaction to the Trump election victory, and Donald Trump's official policy statements per his campaign organization
- ❑ Slide titles and policy statements are taken directly from Trump campaign policy statements provided via the campaign web site
- ❑ Commentary in blue (right hand side of each page) provides Fairmont preliminary perspective regarding implications for industry and investors

This briefing is very preliminary in nature, and reflects only those official policy statements put forth by the Trump campaign. During the campaign a wide range of objectives, perspectives and assertions were offered by candidate Trump, some of which were not aligned with these official policy statements.

Fairmont will revisit the topic in late Q1 2017 and offer a more thorough assessment of the impacts of the new administration on companies and investors in the aerospace, defense and government services sectors, hopefully with the benefit of more detailed plans from the President-elect and his incoming administration.

iShares U.S. Aerospace & Defense ETF (ITA) Provides View Of Near-Term Market Reaction To Election Outcome

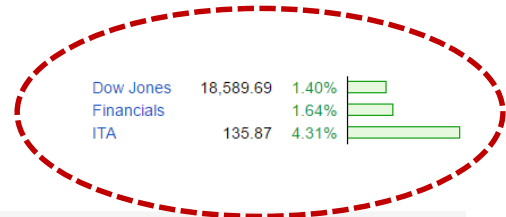
135.87 +5.62 (4.31%)

Nov 9 - Close
NYSEARCA real-time data - Disclaimer
Currency in USD

Range 132.77 - 137.00
52 week 101.10 - 137.00
Open 137.00
Vol. 157,023.00
Mkt cap 985.81M
P/E 19.08

Div/yield 0.36/1.08
EPS 7.12
Shares 7.25M
Beta 0.94
Inst. own 38%

G+1 1



Compare: Dow Jones IAT IYJ IEZ IYM DVY IYT IYF IYR



"Trade"

TRUMP CAMPAIGN POLICY STATEMENT

- ❑ Negotiate fair trade deals that create American jobs, increase American wages, and reduce America's trade deficit.

Donald J. Trump's 7 Point Plan To Rebuild the American Economy by Fighting for Free Trade

1. Withdraw from the Trans-Pacific Partnership, which has not yet been ratified.
2. Appoint tough and smart trade negotiators to fight on behalf of American workers.
3. Direct the Secretary of Commerce to identify every violation of trade agreements a foreign country is currently using to harm our workers, and also direct all appropriate agencies to use every tool under American and international law to end these abuses.
4. Tell NAFTA partners that we intend to immediately renegotiate the terms of that agreement to get a better deal for our workers. If they don't agree to a renegotiation, we will submit notice that the U.S. intends to withdraw from the deal. Eliminate Mexico's one-side backdoor tariff through the VAT and end sweatshops in Mexico that undercut U.S. workers.
5. Instruct the Treasury Secretary to label China a currency manipulator.
6. Instruct the U.S. Trade Representative to bring trade cases against China, both in this country and at the WTO. China's unfair subsidy behavior is prohibited by the terms of its entrance to the WTO.
7. Use every lawful presidential power to remedy trade disputes if China does not stop its illegal activities, including its theft of American trade secrets - including the application of tariffs consistent with Section 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962.

IMPLICATIONS FOR INDUSTRY AND INVESTORS

- ❑ Commercial aerospace sector may face challenges as China-specific trade actions create friction, potentially impeding aircraft sales and/or deliveries and creating real or perceived advantage for Airbus versus Boeing
 - Tougher trade negotiations, if targeted to some degree at Airbus, may offset this to some degree
- ❑ Drive for low-cost production across aerospace sector may face challenges as Mexico-specific trade actions increase the cost of manufacturing outside the United States
 - Could favor greenfield sites in non-union labor areas, notably US Southeast

"National Defense"

TRUMP CAMPAIGN POLICY STATEMENT

- ❑ *Work with Congress to fully repeal the defense sequester and submit a new budget to rebuild our depleted military.*
- ❑ *Increase the size of the U.S. Army to 540,000 active duty soldiers, which the Army Chief of Staff says he needs to execute current missions.*
- ❑ *Rebuild the U.S. Navy toward a goal of 350 ships, as the bipartisan National Defense Panel has recommended.*
- ❑ *Provide the U.S. Air Force with the 1,200 fighter aircraft they need.*
- ❑ *Grow the U.S. Marine Corps to 36 battalions.*
- ❑ *Invest in a serious missile defense system to meet growing threats by modernizing our Navy's cruisers and procuring additional, modern destroyers to counter the ballistic missile threat from Iran and North Korea.*
- ❑ *Emphasize cyber warfare and require a comprehensive review from the Joint Chiefs of Staff and all relevant federal agencies to identify our cyber vulnerabilities and to protect all vital infrastructure and to create a state-of-the-art cyber defense and offense.*
- ❑ *Pay for this necessary rebuilding of our national defense by conducting a full audit of the Pentagon, eliminating incorrect payments, reducing duplicative bureaucracy, collecting unpaid taxes, and ending unwanted and unauthorized federal programs.*

IMPLICATIONS FOR INDUSTRY AND INVESTORS

- ❑ *Anticipate repeal of legislation that would restore sequestration in fiscal year 2018 as DoD seeks to address readiness and modernization requirements*
- ❑ *Ambitious objectives for end-strength and force structure likely to confront budget constraints as desired funding mechanisms (Pentagon audit, reduced bureaucracy, program eliminations) fall short of expectations*
- ❑ *However, Trump Administration and Republican Congress likely to have an overall positive impact on defense spending, and growth objectives set tone for investment priorities*
- ❑ *Navy shipbuilding and modernization in particular likely to be a net winner over the next four years*

"Cybersecurity"

TRUMP CAMPAIGN POLICY STATEMENT

- ❑ *Order an immediate review of all U.S. cyber defenses and vulnerabilities, including critical infrastructure, by a Cyber Review Team of individuals from the military, law enforcement, and the private sector.*
- ❑ *The Cyber Review Team will provide specific recommendations for safeguarding different entities with the best defense technologies tailored to the likely threats, and will followed up regularly at various Federal agencies and departments.*
- ❑ *The Cyber Review Team will establish detailed protocols and mandatory cyber awareness training for all government employees while remaining current on evolving methods of cyber-attack.*
- ❑ *Instruct the U.S. Department of Justice to create Joint Task Forces throughout the U.S. to coordinate Federal, State, and local law enforcement responses to cyber threats.*
- ❑ *Order the Secretary of Defense and Chairman of the Joint Chiefs of Staff to provide recommendations for enhancing U.S. Cyber Command, with a focus on both offense and defense in the cyber domain.*
- ❑ *Develop the offensive cyber capabilities we need to deter attacks by both state and non-state actors and, if necessary, to respond appropriately.*

IMPLICATIONS FOR INDUSTRY AND INVESTORS

- ❑ Policy statements provide no detail regarding specific initiatives or changes versus current cybersecurity organizations, investments or priorities
- ❑ However, it is noteworthy that Cybersecurity was cited as one of fifteen key policy priority areas by the Trump campaign
- ❑ Trump national security stance throughout campaign would indicate potential for a greater focus on offensive cyber operations than exists today
- ❑ Expect increased Federal funding for cybersecurity and increasing prominence of Cyber Command

"Foreign Policy And Defeating ISIS"

TRUMP CAMPAIGN POLICY STATEMENT

- ❑ *Peace through strength will be at the center of our foreign policy. We will achieve a stable, peaceful world with less conflict and more common ground.*
- ❑ *Advance America's core national interests, promote regional stability, and produce an easing of tensions in the world. Work with Congress to fully repeal the defense sequester and submit a new budget to rebuild our depleted military.*
- ❑ *Rebuild our military, enhance and improve intelligence and cyber capabilities.*
- ❑ *End the current strategy of nation-building and regime change.*
- ❑ *Ensure our security procedures and refugee policy takes into account the security of the American people.*

- ❑ *Work with our Arab allies and friends in the Middle East in the fight against ISIS.*
- ❑ *Pursue aggressive joint and coalition military operations to crush and destroy ISIS, international cooperation to cutoff their funding, expand intelligence sharing, and cyberwarfare to disrupt and disable their propaganda and recruiting.*

- ❑ *Defeat the ideology of radical Islamic terrorism just as we won the Cold War.*
- ❑ *Establish new screening procedures and enforce our immigration laws to keep terrorists out of the United States.*
- ❑ *Suspend, on a temporary basis, immigration from some of the most dangerous and volatile regions of the world that have a history of exporting terrorism.*
- ❑ *Establish a Commission on Radical Islam to identify and explain to the American public the core convictions and beliefs of Radical Islam, to identify the warning signs of radicalization, and to expose the networks in our society that support radicalization.*

IMPLICATIONS FOR INDUSTRY AND INVESTORS

- ❑ *Clear emphasis on strength as a central theme for defense and security – expect increased DoD spending, tempered by competing budget priorities and deficit concerns*

- ❑ *Could see a steady decrease in expeditionary operations per “end the strategy of nation-building” – implies reduced presence in Afghanistan, potentially Iraq as well*

- ❑ *Mention of cyberwarfare specifically as a mechanism to confront ISIS reinforces cyber theme – expect increased funding for both government activities and contractors supporting DoD and intelligence community cyber functions*

"Infrastructure"

TRUMP CAMPAIGN POLICY STATEMENT

- ❑ Transform America's crumbling infrastructure into a golden opportunity for accelerated economic growth and more rapid productivity gains with a deficit-neutral plan targeting substantial new infrastructure investments.
- ❑ Pursue an "America's Infrastructure First" policy that supports investments in transportation, clean water, a modern and reliable electricity grid, telecommunications, security infrastructure, other pressing domestic infrastructure needs.
- ❑ Refocus government spending on American infrastructure and away from the Obama-Clinton globalization agenda.
- ❑ Provide maximum flexibility to the states.
- ❑ Create thousands of new jobs in construction, steel manufacturing, and other sectors to build the transportation, water, telecommunications and energy infrastructure needed to enable new economic development in the U.S., all of which will generate new tax revenues.
- ❑ Put American steel made by American workers into the backbone of America's infrastructure.
- ❑ Leverage new revenues and work with financing authorities, public-private partnerships, and other prudent funding opportunities.
- ❑ Harness market forces to help attract new private infrastructure investments through a deficit-neutral system of infrastructure tax credits.
- ❑ Implement a bold, visionary plan for a cost-effective system of roads, bridges, tunnels, airports, railroads, ports and waterways, and pipelines in the proud tradition of President Dwight D. Eisenhower, who championed the interstate highway system.
- ❑ Link increases in spending to reforms that streamline permitting and approvals, improve the project delivery system, and cut wasteful spending on boondoggles.
- ❑ Employ incentive-based contracting to ensure projects are on time and on budget.
- ❑ Approve private sector energy infrastructure projects—including pipelines and coal export facilities—to better connect American coal and shale energy production with markets and consumers.
- ❑ Work with Congress to modernize our airports and air traffic control systems, end long wait times, and reform the FAA and TSA, while also ensuring that American travelers are safe from terrorism and other threats.
- ❑ Incorporate new technologies and innovations into our national transportation system such as state-of-the-art pipelines, advancements in maritime commerce, and the next generation of vehicles.
- ❑ Make clean water a high priority. Develop a long-term water infrastructure plan with city, state and federal leaders to upgrade aging water systems. Triple funding for state revolving loan fund programs to help states and local governments upgrade critical drinking water and wastewater infrastructure.
- ❑ Link increased investments with positive reforms to infrastructure programs that reduce waste and cut costs. Complete projects faster and at lower cost through significant regulatory reform and ending needless red-tape.

IMPLICATIONS FOR INDUSTRY AND INVESTORS

- ❑ Engineering & construction companies with large project experience should benefit from renewed emphasis on infrastructure improvement and modernization
- ❑ As with other areas, funding limitations and competing priorities are likely to drive a scaled-back set of objectives
- ❑ Emphasis on coal and shale energy infrastructure should help revitalize these relatively distressed sectors