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We are now less than two months away from the 2016 U.S. election. Because of the dependence of municipal bonds on their tax-exempt status, potential changes in tax policy are a political risk that could have a significant impact on muni yields. While neither Clinton nor Trump have tax reform proposals that specifically target eliminating the municipal bond tax exemption, both of their tax proposals if enacted would have an effect of reducing the value of tax exemption either through lower tax rates or by reducing caps for deductions. Trump supports lowering marginal tax rates while Clinton would like to raise tax rates and limit deductions. No matter who comes out on top in November, we continue to believe that it is highly unlikely that any significant tax reform that impacts the tax exemption of municipal bonds will be enacted as it would require full participation by Congress and the White House. According to the PredictWise and recent polls, it appears that we will continue to have a divided government with Republicans at a minimum maintaining control of the House of Representatives.

**According to PredictWise, the most likely outcomes are  
a Democratic president and Senate and a Republican House**

	President	House	Senate
Democratic	77%	11%	60%
Republican	23%	89%	41%

Source: PredictWise election probabilities as of 9/30/16.

House probabilities based on the probability that the Democrats win the majority, and the Republican probability is taken as 100% minus that figure.

As you can see in the chart on the next page, generally, since 1969, bondholders do better under Republican presidents, while stocks perform better under Democrats. Interestingly, the most recent presidential elections have had basically no impact on tax exempt yields or Muni/Treasury ratios, despite having a litany of tax reform proposals. We believe this is because Republicans and Democrats strongly disagree about what the goals of any tax reform should be, making any sweeping reform extremely difficult, if not impossible, even if one party controls the White House and Congress. In addition, members of Congress generally understand the importance of tax exempt bonds for funding the majority of infrastructure projects in their districts, and are unlikely to enact tax reform that diminishes capital spending. Despite several Congressional tax reform study groups over the past several years, no grand bargain on tax reform has been enacted that impacts municipal bonds negatively and we think this will remain the course over the next several years as D.C. remains mired in political gridlock. Therefore, it is likely the demand for tax exempt income will remain strong due to the continuation of the current high income tax rates and unlikely passage of any tax reform that impacts municipal bonds.

		Macro indicators, annual averages				Asset markets, average annual return				
		real GDP growth, %	budget balance, % of GDP	CPI inflation, %	Fed funds rate, cumulative change, bp	USD trade-wtd (REER)	Gold	Oil	S&P 500	US Treasuries
	Party									
President										
Nixon (69-74)	Republican	2.9%	-1.0%	6.4%	236	-5%	37%	50%	-6%	7%
Ford (74-77)	Republican	2.9%	-2.9%	6.4%	-545	-1%	-8%	7%	15%	9%
Carter (77-81)	Democrat	3.8%	-1.9%	11.0%	1,104	-1%	36%	30%	8%	-1%
Reagan (81-89)	Republican	3.7%	-3.8%	4.1%	-717	-1%	-2%	-12%	10%	15%
Bush I (89-93)	Republican	2.2%	-3.7%	4.2%	-610	0%	-4%	2%	10%	12%
Clinton (93-01)	Democrat	3.8%	-0.9%	2.6%	295	2%	-3%	4%	15%	6%
Bush II (01-09)	Republican	1.8%	-1.8%	2.4%	-533	-2%	16%	6%	-4%	7%
Obama (09-16)	Democrat	1.7%	-6.0%	1.6%	25	0%	5%	2%	13%	3%
Republican average		2.7%	-2.6%	4.7%	-434	-2%	8%	11%	5%	10%
Democrat average		3.1%	-2.9%	5.1%	475	1%	13%	12%	12%	3%

All figures are average annual rates.

Source: Source: J.P. Morgan, as of 8/1/16, data pulled 8/4/16.

As we approach our sixth anniversary for publishing the Muni Monthly, we thought it would be useful to survey our readers this month. This survey should take you less than five minutes. All responses will be kept strictly confidential and we look forward to sharing the results with you next month. Thank you for your readership and continued support of the Seix Investment Advisors' municipal team.

**Please use the link below to access the survey**

**[Muni Monthly Reader Survey](#)**

The assertions in this perspective are Seix Investment Advisors' opinion.

**Investment Risks:** All investments involve risk. Debt securities (bonds) offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a portfolio's fixed income securities will decrease in value if interest rates rise and vice versa. A portfolio's income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. There is no guarantee a specific investment strategy will be successful.

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