

## Biiwii Commentary

**eResearch Corporation** is pleased to provide an article, courtesy of Biiwii.com, and written by Heisenberg, with a link provided to its website.

The article, starting on the next page, is entitled: **“The Trumpcare Vote: Previewing Thursday’s Big Event”**.

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

**But It Is What It Is:** You can access Biiwii at its website: [www.biiwii.com](http://www.biiwii.com).

**Notes From The Rabbit Hole:** You can access NFTRH at its website: [www.NFTRH.com](http://www.NFTRH.com)

**eResearch** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: [www.eResearch.ca](http://www.eResearch.ca).

Bob Weir, CFA  
Director of Research

**Note:** All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by eResearch Corporation, are strictly those of the Author and do not necessarily reflect those of eResearch Corporation.



## The Trumpcare Vote: Previewing Thursday's Big Event

By [Heisenberg](#)

Needless to say, the focus Thursday will be on the GOP proposal to repeal and replace the ACA.

Why do we care so much about this, you ask? Well, for one thing, it represents a dubious attempt to replace one thing that is not working so well with something that will not work at all. Which is funny – right up until you realize that it is about healthcare. So you know, people's lives are on the line.

But, aside from that, the healthcare debate is seen as a kind of microcosm of the broader effort to implement Trump's agenda. The ACA repeal is generally seen as a prerequisite for moving forward with tax reform and other things that matter for the economy and, by extension, for markets.

Indeed, Tuesday's sell-off was at least partially attributable to jitters around the healthcare debate and, if this thing stalls, well, let us just say that does not bode well for tax cuts and fiscal stimulus.

“House Republican's ACA repeal/replacement failure does not automatically equate to tax reform failure, although defeat would doubtless delay efforts and cut chances for comprehensive tax overhaul,” FBR's Edward Mills wrote in a note out on Wednesday. He sees three possible outcomes:

- Congress approves healthcare bill within weeks, increasing tax reform chances in the coming year
- House passes bill but Senate does not, or approves bill with changes that cannot get back through the House; tax reform would still be alive, but would be a heavier lift
- House fails to pass a healthcare bill, raising serious questions about Congressional Republicans' ability to govern

So with all of this in mind, consider the following more comprehensive preview from Goldman Sachs, which should help to frame the issue that will be making headlines throughout the day.

*Via Goldman:*

*Financial markets are focused on the prospects for passage of the House Republican proposal to “repeal and replace” Obamacare because the vote is seen as a referendum on the ability of Congress to enact its broader policy agenda. While this view has some merit, we would note three important nuances.*

*First, the Senate is likely to pose at least as much of a challenge as the House, and reconciling the likely differences between the two chambers will be hard. This week's vote is the start of a process that could last several more weeks, and may not be the hardest part of the process.*



*Second, passage of the health bill is not what is important for tax reform. Instead, the most important issue for financial markets is for Congress to be finished with this bill one way or another so that it can move forward with tax reform, which is likely to have a greater effect on corporate earnings and the real economy. While the prospects for the health bill are murky, we would be surprised if Congress has not begun debating tax reform by mid-year, even if it means putting the health bill aside to return to it later.*

*Third, while there are lessons for tax reform in the current health debate, there are also differences. The trouble that congressional Republicans face in achieving majority support for the health bill is a reminder of how difficult it might be to reach near-unanimous Republican support for major tax reforms, like border adjustment. However, there is likely to be much broader support for tax cuts than there is for the health legislation. Even if the health bill fails, we would continue to believe the odds of tax legislation passing by early 2018 are high.*

*Financial markets have taken a risk-off tone over the last couple of days in apparent response to uncertainty regarding the policy outlook and, in particular, the prospects for today's vote in the U.S. House on the Republican proposal to replace the Affordable Care Act (ACA, or "Obamacare") known as the American Health Care Act (AHCA). The concerns appear to center on the notion that failing to pass the AHCA in the House would set back the broader policy agenda that financial markets have been pricing since the election, including tax reform. In light of these concerns, we provide some updated thoughts on the prospects for the health care legislation and the relationship with tax reform.*

*Prospects for House passage of the American Health Care Act (AHCA) today (March 23) are very uncertain. In our view, the odds of passage tomorrow in the House are slightly greater than 50%. House passage within the next couple of weeks looks more likely at around 75%. To pass, the bill will need to win a simple majority of members voting, or 216 if all 430 members are present (there are currently 5 vacancies). Republicans currently hold 237 House seats, so no more than 21 can vote against the bill, assuming 430 members are present. As of this writing, the result of the House vote looks unlikely to become apparent before around 7:00 pm ET on March 23, but might take until later in the evening.*

*At this point, the two strongest arguments in favor of House passage tomorrow are:*

- The bill only appears to be a few votes short—around 25 Republicans have clearly stated their opposition—so positions could still change; and*
- "Failure is not an option." House conservatives are unlikely to get an opportunity to vote on a bill that is much more to their liking than the current one, and may decide that failing to pass the health care bill could be more politically disadvantageous than passing it.*

*The two strongest arguments against passage are that:*

- The current opposition comes mainly from conservatives aligned with the "freedom caucus" who are at this point fairly entrenched and have not shifted their position despite political pressure and changes to the substance of the legislation over the last few days; and*
- Several prominent conservative groups oppose the bill, providing opponents some political cover.*



*House passage is necessary but not sufficient in any case; the main event is in the Senate.*

*Market participants have become focused on the House vote for two reasons, we believe:*

- *Clearing the health legislation from the agenda is necessary to move to tax reform, which we expect to have a greater effect on corporate earnings and the real economy than the healthcare issue; and*
- *Politically, the outcome of this first debate sends a signal regarding the viability of the rest of the policy agenda and the Republican majority's ability to enact it.*

*While we think this interpretation is generally correct, it is important to note that the Senate has, for some time, appeared to be a higher hurdle than the House. As a share of Republican votes, House Republicans can afford to lose about 9% of their conference (21 out of 237 votes) while, in the Senate, Republicans can afford to lose only 4% (2 out of 52 votes, assuming Vice President Pence breaks a tie vote in favor of passage). We also note that 20 Republican senators represent states that expanded Medicaid, and many appear to have qualms about repealing the Medicaid expansion.*

*The Senate process is also somewhat unpredictable. The reconciliation process will impose three notable constraints on Senate consideration:*

- *Debate will be limited to 20 hours and only 51 votes are necessary for passage since there is no need to overcome a filibuster (the reason Senate passage usually takes 60 votes);*
- *Amendments will be allowed but must be budget neutral or better, i.e., they cannot reduce the projected savings under the legislation, but may increase the savings. If the Senate debate starts with the House bill, this would make it difficult to add Medicaid funding, for example, which has been a concern among centrist Republicans;*
- *Procedural pitfalls abound. There are some potential jurisdictional issues that the House has tried to address but could cause problems in the Senate and might result in changes. Also, under reconciliation, all provisions must be primarily fiscal in nature, so regulatory-related issues could be vulnerable. This is notable because some of the changes in the House bill, like the widening of allowable premium variation or the elimination of the actuarial minimum requirements, seem to be primarily regulatory in nature. The Senate parliamentarian is the ultimate arbiter of whether a provision is primarily fiscal.*

*Some changes to the House bill seem likely in the Senate. This could help the bill to pass in the end, but it also means that the Senate-passed bill would need to pass the House again before it could go to the President's desk, prolonging the process and increasing uncertainty.*

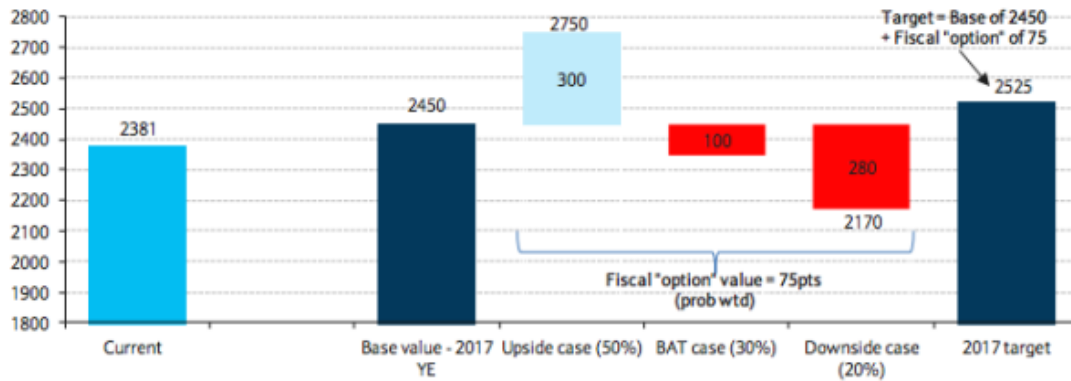
In other words, this is far from over and it is far from simple.

And for those interested to know just how this debate is likely to affect markets, well, just look at Tuesday (assuming you are inclined to go with the political explanation for the sell-off as opposed to Marko Kolanovic's technical explanation) or simply [ask Barclays](#), whose embedded "fiscal option" is the linchpin that gets the S&P to 2525 by year end.



FIGURE 1

S&P 500 price scenarios based on fiscal options and the build up to the 2017 year-end price target



Policy scenarios	"No fiscal impact"	25% corp rate, no BAT, personal cut	Ryan plan w BAT	No plan, disappoint	Not passed in 2017 but proposed	
GDP/data	Data will likely normalize	4.6% nom GDP	1pp nom GDP boost	Real GDP growth hit	Data/growth slow	
10y/USD	2.5% US 10y	Gradual uptrend	Fed still gradual	USD higher	Rates/USD lower	
EPS & impact	\$121.9	\$129.0	+\$14.6	\$0.0	-\$5.0	\$129.0
P/E & impact	19.5	19.0	+1.0x	-0.8x	-1.5x	19.6
Price return - 2017		9.4%	22.8%	5.0%	-3.1%	12.8%
Price return - vs current		2.9%	15.5%	-1.3%	-8.9%	6.0%

Source: Barclays Research, Factset

## Biiwii/NFTRH on the Web

[NFTRH](#) and [Biiwii.com](#) commentary and technical analysis have regularly been published, highlighted and/or quoted at [SeekingAlpha](#), [Investing.com](#), [MarketWatch](#), [Yahoo Finance](#), [Ino.com](#), [TalkMarkets](#) and many more since 2004.

Biiwii.com is proud to be included in the **50 Blogs Every Serious Trader Should Read** from [TraderHQ.com](#).

Biiwii: but it is what it is

NFTRH: Notes From The Rabbit Hole