

March 28, 2017

In the seven years of the Affordable Care Act (ACA, or “Obamacare”), House Republicans voted in excess of seventy times to tweak, amend, or outright repeal President Obama’s signature legislation. However, in their first opportunity to craft legislation that could pass both chambers of Congress and be signed by a Republican president, they whiffed.

Last Friday marks the end, for now, of the Republicans’ legislative effort to dismember the ACA, and otherwise reform the nation’s health care system. Amid infighting among House Republican factions, support for the American Health Care Act (AHCA) bill collapsed, and Speaker Ryan withdrew it prior to a vote and certain loss. For the foreseeable future, the ACA will remain the law of the land. And we apologize for the nearly-identical acronyms.

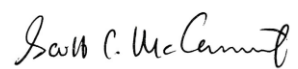
Politically, the President took a stinging loss on his first high-profile legislative initiative. Speaker Ryan is politically damaged, as well. More substantively, the AHCA bill was projected to save money from the federal government’s budgetary baseline, mostly as a function of spending reductions to Medicaid. These forecasted ten-year savings of over \$300 billion were desired as spending offsets to the personal and corporate tax cuts intended as the next phase of the White House’s change efforts. The Republican’s ability to maneuver on tax reform while keeping deficits in check is now reduced, although not eliminated. Certainly, given their setback on health reform, the Republicans will be keen to enact something for “a win,” but tax reform, historically, has been a noisy and crowded battlefield among competing special interests. Expect a slog, and color us a bit skeptical on the prospects for a big reform package.

Market reaction to the failure of health care reform has been muted. Stocks declined modestly in their first trading session of the week, and interest rates were broadly unchanged. Following its early post-election advance, the “Trump rally” has shown signs of cooling in the last few weeks. Still, the overall stock market has shown impressive resiliency. The economy is improving, both here and abroad, and the earnings slowdown of the last two years is believed to be over. (We’ll get our first look at earnings in the next few weeks, following the end of the first quarter.) Too, investors remain expectant that the Trump administration will achieve tax and regulatory changes that will help to stimulate economic growth.

Will President Trump pivot toward the Democrats to resurrect health care reform? This is an intriguing possibility. Our view is that the President is, shall we say, flexible in what he believes, and what he would support. We believe his mindset is less about doctrine and more about getting things done, and his defeat on AHCA came about from conservative opposition. For the moment, the President has said he is willing to let Obamacare collapse unto itself, from unsustainable premium and deductible trends in its coverage markets—essentially, waiting for the Democrats to cry Uncle. There are limits, both political and moral, to such a plan. Eventually, it’s possible that a reform deal gets done on a bipartisan basis. Our country’s fractious politics make such a notion seem improbable, but time and again in this political cycle, President Trump has upended prevailing conventional wisdom.

As always, your comments and feedback are most welcome.

With regards,

A handwritten signature in black ink, appearing to read "Scott C. McCartney". The signature is fluid and cursive, with a long horizontal stroke at the end.

Scott C. McCartney, CFA  
Partner

A handwritten signature in black ink, appearing to read "Christopher Lai". The signature is cursive and includes a long horizontal stroke extending to the right.

Christopher Lai, CFA  
Portfolio Manager