KEEFE, BRUYETTE & WOODS
Specialists in Financial Services
A Stifel Company

Washington Research
North America Equity Research
March 24, 2017

DC Daily Dose

More Health Care Implications -- Political Risk Grows

Summary

The outcome of the health care bill is, at this point, unknown, but in this note we list several implications for bank and financial stocks as well as the broader market in case the House defeats the bill. One big takeaway is that if the bill fails, the prospects for tax reform will decrease, which could also drag down the chances for making legislative changes to Dodd-Frank. Also, failure to pass the health care bill would increase chances of a government shutdown in April and a messy fight over raising the debt ceiling in the Fall.

- **Part of the bank deregulation thesis remains intact** -- We think defeating the health care bill would negatively impact the chances of passing other parts of President Trump's economic agenda through Congress. However, we remind investors that despite the drama over health care, the president's regulatory agenda remains intact and we think the prospects are good that some financial regulations will be eased over time. For banks, we believe that, regardless of the outcome of the health care bill, regulators will be able to modify the Basel capital and liquidity rules, continue to ease the impact of the Comprehensive Capital Analysis and Review, and examine the complexity of the Volcker rule and some of the new mortgage rules, to name a few.

- **Negative implication for banks and financials** -- Some people think that if health care fails, Republicans will turn their focus to tax reform. While that is clearly the backup plan, passing tax reform after a political loss on health care will be more difficult than people appreciate (and tax reform was already going to be a difficult task before the health care mess). First, we thought banks could be big winners in tax reform, so bank stocks would be among the big political losers if Congress cannot pass a tax reform bill. However, the impact on banks goes beyond the obvious conclusion about tax reform. The tax reform proposal was a possible vehicle for some legislative changes to Dodd-Frank. We have been skeptical that changes to Dodd-Frank could pass the Senate through regular order (60 votes). But we do think certain changes to Dodd-Frank (including changes to the CFPB's budget and raising the bank SIFI threshold) could pass the Senate through reconciliation (simple majority vote) as part of tax reform. **If tax reform's prospects are diminished, then the prospects for changes to Dodd-Frank also diminish**.

- **Macro implications** -- Failure to pass a health care bill is a sign of Republicans' inability to govern, which we think increases political risk. In our view, failure on health care increases **the risk of a government shutdown in April**. The federal government currently operates on a Continuing Resolution (CR), which expires on April 28 and Congress and the White House will need to agree on a spending bill in order to keep the government operating until the end of the fiscal year (September 30). We believe a government shutdown is unlikely but Republican discord suggests that passing spending bills might be difficult. Also, the defeat of the health care bill may signal that increasing the **debt ceiling** will be messier than expected. The debt ceiling was reached earlier this month but the Congressional Budget Office estimates that the Treasury Department can use extraordinary measures to prevent default until October or November before the debt ceiling must be increased. If the House Freedom Caucus holds out on spending bills and the debt ceiling then the administration may need to work with Democrats to pass these bills. This would give House Minority Leader Nancy Pelosi leverage and complicate passing such legislation. We expect the spending bills and debt ceiling increase will ultimately pass but we think the risk of a government shutdown or political fight that spook the markets has increased.

- *Please see page 2 for concluding analysis.*

Brian Gardner
202 756 7764
bgardner@kbw.com

Michael Michaud
202 756 7762
mmichaud@kbw.com

Glossary of Terms

- **What's next?** -- According to *Politico* and other media sources, the White House is pushing the House to vote on the health care bill today, Friday. We think there are three scenarios for the bill. First, the House votes today and surprisingly passes the bill. We view this as a positive for bank and financial stocks as it would mean the Trump agenda would be back on track. Second, the House votes today and defeats the bill. This would be a negative for banks and financials for the reasons established above. Third, the House delays the bill. We think this would also be a negative because any delay over the weekend would give the bill's opponents more time to voice their opposition to their representatives in Congress and make passing the bill even more difficult.

IMPORTANT DISCLOSURES

RESEARCH ANALYST CERTIFICATION: We, Brian Gardner and Michael Michaud, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject companies and their securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation in this report.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

The recommendations contained in this report were produced at 24 March 2017 07:44 EDT and disseminated at 24 March 2017 07:44 EDT

For disclosures pertaining to recommendations or estimates made on a security mentioned in this report, please see the most recently published company report or visit our global disclosures page on our website at http://www.kbw.com/research/disclosures or see the section below titled "Disclosure Information" for further information on how to obtain these disclosures.

AFFILIATE DISCLOSURES

This report has been prepared by Keefe, Bruyette & Woods, Inc. ("KBWI") and/or its affiliate Stifel Nicolaus Europe Limited ("SNEL"), also trading as Keefe, Bruyette & Woods Europe ("KBW Europe"); collectively "KBW". Both KBWI and KBW Europe are affiliates of Stifel Financial Corp. KBWI is regulated by FINRA and the United States Securities and Exchange Commission, is a member of NYSE, and its headquarters is located at 787 7th Avenue, New York, NY 10019. Stifel Nicolaus Europe Limited, also trading as Keefe, Bruyette & Woods Europe, is registered in England and Wales, no. 03719559 and its registered office is 4th Floor, 150 Cheapside, London EC2V 6ET. Stifel Nicolaus Europe Limited, also trading as Keefe, Bruyette & Woods Europe, is authorised and regulated by the Financial Conduct Authority (FCA) in the UK entered on the FCA's register, no. 190412 and is a member of the London Stock Exchange. Disclosures in the Important Disclosures section referencing KBW include one or all affiliated entities unless otherwise specified.

Registration of non-U.S. Analysts: Any non-U.S. Research Analyst employed by a non-U.S. affiliate of KBWI contributing to this report is not registered/qualified as research analyst with FINRA and/or the NYSE and may not be an associated person of KBWI and therefore may not be subject to FINRA Rule 2241 or NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

Disclosure Information: For current company-specific disclosures, please write to one of the KBW entities: For **U.S. Research**: Keefe, Bruyette & Woods, Inc. Research Department, 787 7th Avenue, 4th Floor, New York, NY 10019. For **European Research:** The Compliance Officer, Stifel Nicolaus Europe Limited, 4th Floor, 150 Cheapside, London EC2V 6ET. Or visit our website at http://www.kbw.com/research/disclosures. KBW has arrangements in place to manage conflicts of interest including information barriers between the Research Department and certain other business groups. As a result, KBW does not disclose certain client relationships with, or compensation received from, such companies in its research reports.

Distribution of Ratings/IB Services
KBW

			*IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
Outperform [BUY]	**190**	**30.50**	**69**	**36.32**
Market Perform [HOLD]	**373**	**59.87**	**122**	**32.71**
Underperform [SELL]	**40**	**6.42**	**8**	**20.00**
Restricted [RES]	**0**	**0.00**	**0**	**0.00**
Suspended [SP]	**20**	**3.21**	**2**	**10.00**
Covered -Not Rated [CNR]	**4**	**0.64**	**1**	**25.00**

*KBW maintains separate research departments; however, the above chart, "Distribution of Ratings/IB Services," reflects combined information related to the distribution of research ratings and the receipt of investment banking fees globally.**Note: All ratings for Keefe, Bruyette and Woods, Inc. as of January 15, 2015 reflect a relative ratings system.

Explanation of Ratings: KBW Research Department provides three core ratings: Outperform, Market Perform, and Underperform, and three ancillary ratings: Suspended, Restricted, and Covered-Not Rated. For purposes of New York Stock Exchange Rule 472 and FINRA Rule 2241, Outperform is classified as a Buy, Market Perform is classified as a Hold, and Underperform is classified as a Sell. Suspended indicates that KBW's investment rating and/or target price have been temporarily suspended due to applicable regulations and/or KBW policies. Restricted indicates that KBW is precluded from providing an investment rating or price target due to the firm's role in connection with a merger or other strategic financial transaction. Covered-Not Rated indicates that KBW is not providing an investment rating and/or price target due to the lack of publicly available information and/or its inability to adequately quantify the publicly available information to sufficiently produce such metrics.

North American Stocks and European Stocks are rated based on the share price upside to target price relative to the relevant sector index performance on a 12-month horizon. Outperform rated stocks have a greater than 10 percentage point ("pp") relative performance versus the sector, Market Perform rated stocks between +10pp to -10pp relative performance versus the sector, and Underperform rated stocks a lower than 10pp relative performance versus the sector. The 12-month price target may be determined by the stock's fundamentally driven fair value and/or other factors (e.g., takeover premium or illiquidity discount).

KBW Model Portfolio: "Model Portfolio Buy" - Companies placed on this list are expected to generate a total rate of return (percentage price change plus dividend yield) of 10% or more over the next 3 to 6 months. "Model Portfolio Sell" - Companies placed on this list are expected to generate a total rate of return (percentage price change plus dividend yield) at or below -10% over the next 3 to 6 months.

The purpose of the Model Portfolio is to inform institutional investors of KBWI's short-term (as described above) outlook for a particular industry sector. The Portfolio is not available for purchase or sale, cannot be duplicated as shown, is hypothetical and is for illustrative purposes only. For a more detailed description of the selection criteria and other specifics related to the construction of the Model Portfolio, please refer to the January 5, 2010 Model Portfolio Primer and/or contact your KBWI representative for more information.

The Model Portfolio should be viewed as a short-term outlook of a particular industry sector, not as individual security recommendations. The Model Portfolio uses a three-to-six-month time horizon and should not be considered when making longer term investments. KBWI Research publishes research with a 12-month outlook on each issuer of securities contained in the Model Portfolio. Investors who are interested in a particular security should request KBWI Research's coverage of such securities by contacting your KBWI representative. KBW research contains analyses of fundamentals underlying each issuer.

KBWI's long-term recommendations may differ from recommendations made for the Model Portfolio. These differences are the result of different time horizons—KBWI research has a 12-month outlook and the Model Portfolio has a three-to-six-month outlook.

Although the model portfolio is based upon actual performance of actual investments, KBWI did not recommend that investors purchase this combination—or hypothetical portfolio—of investments during the time period depicted here. As this hypothetical portfolio was designed with the benefit of hindsight, the choice of investments contained in it reflects a subjective choice by KBWI. Accordingly, this hypothetical portfolio may reflect a choice of investments that performed better than an actual portfolio, which was recommended during the depicted time frame, would have performed during the same time period. Moreover, unlike an actual performance record, these results do not represent actual trading wherein market conditions or other risk factors may have caused the holder of the portfolio to liquidate or retain all or part of the represented holdings.

Stifel/KBW Income Opportunity List, Stifel/KBW Analyst Select List, and Stifel/KBW Select Income Opportunity—The Crossovers List: These lists include companies that analysts believe have the most attractive risk-adjusted return potential over the next 12 months, or, in the case of the Stifel/KBW Income Opportunity Ideas List, have yield in excess of 2%. In some cases, analysts who cover more than one sub-sector may have more than one name on the list.

Other Research Methods: Please be advised that KBW provides to certain customers on request specialized research products or services that focus on covered stocks from a particular perspective. These products or services include, but are not limited to, compilations, reviews, and analysis that may use different research methodologies or focus on the prospects for individual stocks as compared to other covered stocks or over differing time horizons or under assumed market events or conditions.

OTHER DISCLOSURES

Indexes: The following indexes: U.S.: KBW Nasdaq Bank Index (BKX), KBW Nasdaq Insurance Index (KIX), KBW Nasdaq Capital Markets Index (KSX), KBW Nasdaq Regional Banking Index (KRX), KBW Nasdaq Property & Casualty Index (KPX), KBW Nasdaq Financial Technology Index (KFTX), KBW Nasdaq Premium Yield Equity REIT Index (KYX); KBW Nasdaq Financial Sector Dividend Yield Index (KDX) and Global: KBW Nasdaq Global Bank Index (GBKX), are the property of KBWI and Nasdaq.

KBWI and Nasdaq do not guarantee the accuracy and/or completeness of the indexes, make no express or implied warranties with respect to the indexes and shall have no liability for any damages, claims, losses, or expenses caused by errors in the index calculation. KBWI and Nasdaq make no representation regarding the advisability of investing in options on the Index. **Past performance is not necessarily indicative of future results.**

ETFs—Important Disclosures: The shares ("Shares") of ETFs are not sponsored, endorsed, sold, or promoted by KBWI. KBWI makes no representation or warranty, express or implied, to the owners of the Shares or any member of the public regarding the advisability of investing in securities generally or in the Shares particularly or the ability of its Indexes to track general stock market performance. The only relationship of KBWI to Invesco PowerShares Capital Management LLC is the licensing of certain trademarks and trade names of KBWI and its Indexes which are determined, composed, and calculated by KBWI without regard to Invesco PowerShares Capital Management LLC, the fund, or the Shares. KBWI has no obligation to take the needs of Invesco PowerShares Capital Management LLC or the owners of the shares into consideration in determining, composing, or calculating the Indexes. KBWI is not responsible for and has not participated in any determination or calculation made with respect to issuance or redemption of the Shares. KBWI has no obligation or liability in connection with the administration, marketing, or trading of the Shares.

Compensation. KBWI and Invesco PowerShares Capital Management LLC are parties to an index licensing agreement wherein KBWI licenses its Indexes to Invesco PowerShares Capital Management LLC and KBWI receives as compensation payments based on the amount of assets under management in the ETFs (which the licensed Indexes underlie) and which may be recommended in this report.

ETF and Index Reports. The author of index and related ETF reports is the Director of KBWI's Research Department, who is also the head of the KBWI Index Committee. This Index Committee selects index components for the indexes upon which the recommended ETFs are based.

ETF Risks. There are risks involved with investing in ETFs, including possible loss of money. ETFs may not always trade or price as expected. Generally, security classifications used in calculating allocation tables are as of the last trading day of the previous month. ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Diversification does not ensure a profit and may not protect against loss in declining markets. Investors should refer to the individual ETF prospectus for a more detailed discussion of the specific risks and considerations for an individual ETF.

Investing in a single sector may be subject to more volatility than funds investing in a diverse group of sectors. Brokerage commissions and ETF expenses will reduce returns. In general, ETFs can be expected to move up or down in value with the value of the applicable index. Although ETFs may be bought and sold on the exchange through any brokerage account, ETFs are not individually redeemable from the Fund. Investors may

acquire ETFs and tender them for redemption through the Fund in Creation Unit Aggregations only, please see the prospectus (link below) for more details. Shares are not actively managed and are subject to risks including those regarding short selling and margin maintenance requirements. Past performance is not necessarily indicative of future results.

An investor should consider the Funds' investment objectives, risks, charges, and expenses carefully before investing. This and other information can be found in their prospectuses. For this and more complete information about the Funds, call InvescoPowerShares at 1-800-983-0903 or visit https://www.powershares.com for a prospectus. The prospectus should be read carefully before investing.

Shares of the ETFs funds are not guaranteed or insured by the FDIC or by another governmental agency; they are not obligations of the FDIC nor are they deposits or obligations of or guaranteed by KBWI or Invesco PowerShares Capital Management LLC. ETFs are distributed by Invesco Distributors, Inc. the distributor of the PowerShares Exchange-Traded Fund Trust II. PowerShares® is a registered trademark of Invesco PowerShares Capital Management LLC.

General Risk Disclosure: Investments in securities or financial instrument involve numerous risks which may include market risk, counterparty default risk, liquidity risk and exchange rate risk. No security or financial instrument is suitable for all investors, and some investors may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in this communication. The securities of some issuers may not be subject to the audit and reporting standards, practices and requirements comparable to those companies located in the investor's local jurisdiction. Where net dividends to ADR investors are discussed, these are estimated, using withholding tax rate conventions, and deemed accurate, but recipients should always consult their tax advisor for exact dividend computations.

COUNTRY-SPECIFIC AND JURISDICTIONAL DISCLOSURES

United States: This report is being distributed in the U.S. by KBWI. Where the report has been prepared by a non-U.S. affiliate, KBWI accepts responsibility for its contents.

U.K. and European Economic Area (EEA): This report is issued and approved for distribution in the EEA by Stifel Nicolaus Europe Limited, also trading as Keefe, Bruyette & Woods Europe, which is regulated in the United Kingdom by the Financial Conduct Authority (FCA).

To access a table of all rating and price target changes in the preceding 12 months for stocks under KBW coverage, please click here: https://kbw3.bluematrix.com/sellside/MAR.action

Canadian Distribution: Research produced by KBW is distributed in Canada by KBW in reliance on the international dealer exemption. This material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "permitted client" as defined under applicable Canadian securities law.

In jurisdictions where KBW is not already licensed or registered to trade securities, transactions will only be affected in accordance with local securities legislation which will vary from jurisdiction to jurisdiction and may require that a transaction is carried out in accordance with applicable exemptions from registration and licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a representative of the KBW entity in their regional jurisdiction except where governing law permits otherwise. U.S. customers wishing to effect a transaction should do so by contacting a representative of KBWI.

ONLY DISTRIBUTE UNDER REGULATORY LICENSE

This communication is only intended for and will only be distributed to persons residing in any jurisdictions where such distribution or availability would not be contrary to local law or regulation. This communication must not be acted upon or relied on by persons in any jurisdiction other than in accordance with local law or regulation and where such person is an investment professional with the requisite sophistication and resources to understand an investment in such securities of the type communicated and assume the risks associated therewith.

The securities discussed in this report may not be available for sale in all jurisdictions. Clients considering an investment in the securities discussed should speak with their sales representative prior to making an investment decision.

CONFIDENTIAL INFO

This communication is confidential and is intended solely for the addressee. It is not to be forwarded to any other person or copied without the permission of the sender. Please notify the sender in the event you have received this communication in error.

NO SOLICITATION OR PERSONAL ADVICE

This communication is provided for information purposes only. It is not a personal recommendation or an offer to sell or a solicitation to buy the securities mentioned. Investors should obtain independent professional advice before making an investment.

ASSUMPTIONS, EFFECTIVE DATE, AND UPDATES

Certain assumptions may have been made in connection with the analysis presented herein, so changes to assumptions may have a material impact on the conclusions or statements made in this communication. Facts and views presented in this communication have not been reviewed by, and may not reflect information known to, professionals in other business areas of KBW, including investment banking personnel.

The information relating to any company herein is derived from publicly available sources and KBW makes no representation as to the accuracy or completeness of such information. Neither KBW nor any of its officers or employees accept any liability whatsoever for any direct, indirect, or consequential damages or losses arising from any use of this report or its content.

This communication has been prepared as of the date of the report.

KBW does not undertake to advise clients of any changes in information, estimates, price targets, or ratings, all of which are subject to change without notice. The recipients should assume that KBW will not update any fact, circumstance, or opinion contained in this report.

COPYRIGHT