

# 5 Policy Themes 2Q 2019

March 2019

# 5 Policy Themes for 2Q 2019

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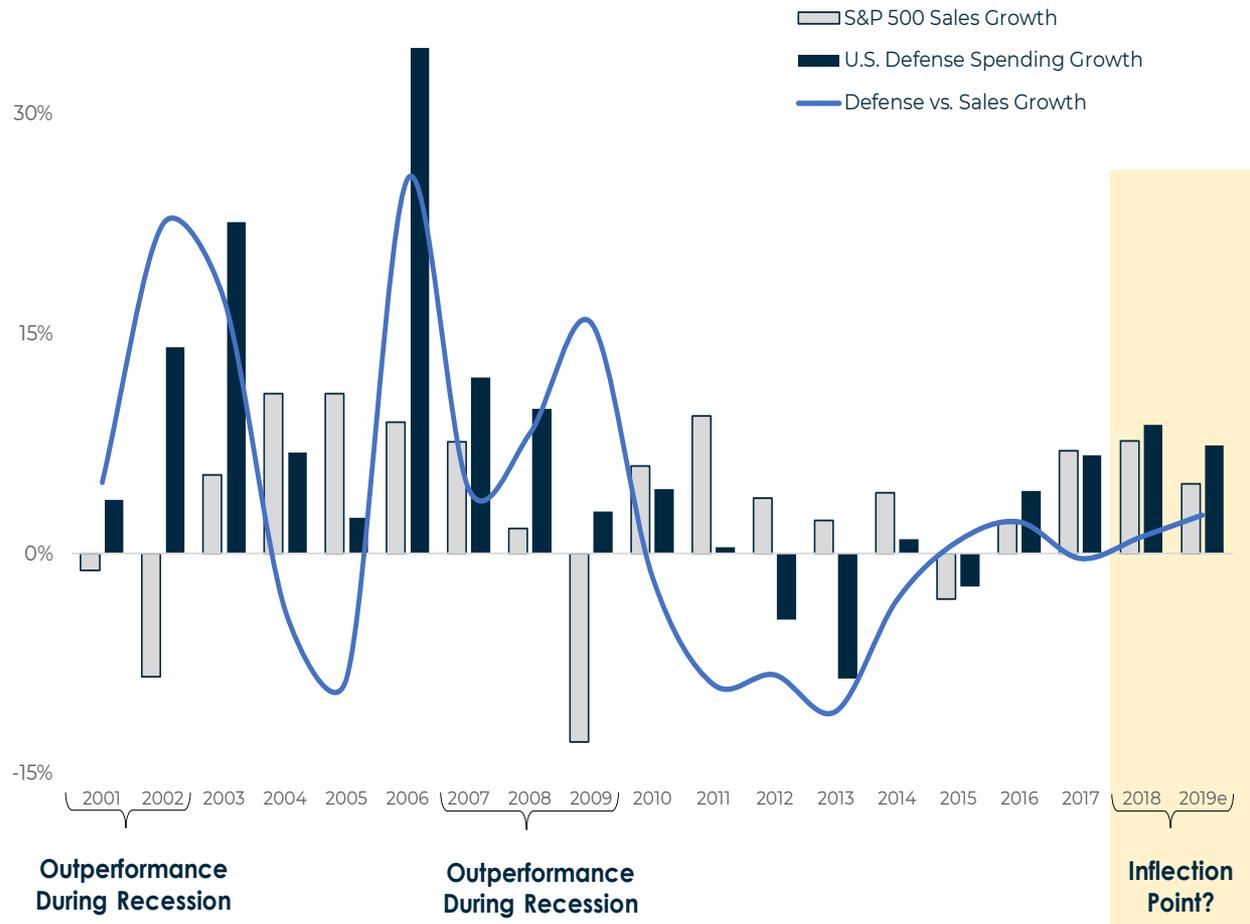
This collection of charts presents 5 of the policy trends we believe are most likely to shape the U.S. markets in 2Q 2019.

1. **Defense Spending ...Recession Proof?**
2. **U.S. Infrastructure Spending ...We put the odds at 100%**
3. **Tobacco/Vaping Regulation ...Volatile 2018, but swift 2019 recovery**
4. **Cannabis Legalization ...Plenty of unanswered questions**
5. **Sales Tax Compliance ...Headwind for e-commerce, tailwind for AVL R?**

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# Defense Spending: Recession Proof?

## U.S. Defense Spending Growth Versus S&P 500 Sales Growth (2001-2019e)



### Talking Points

- Last year was a volatile year for defense spending (Secretary Mattis resigned, President Trump pushed for 5% budget cuts before reversing course and the Pentagon reacted to President Trump's orders to pull U.S. troops out of Syria).
- We expect 2019 to be less volatile with the potential for increased defense company revenues as prior year defense appropriations start being distributed.
- We're also looking at defense stocks as a potential recession proof investment, because defense spending growth's low correlation to broader market sales growth.
- Check out our Defense Policy Playbook, which includes a list of impacted companies, [here](#).

Source: EventShares, FactSet Research, U.S. Congressional Budget Office.

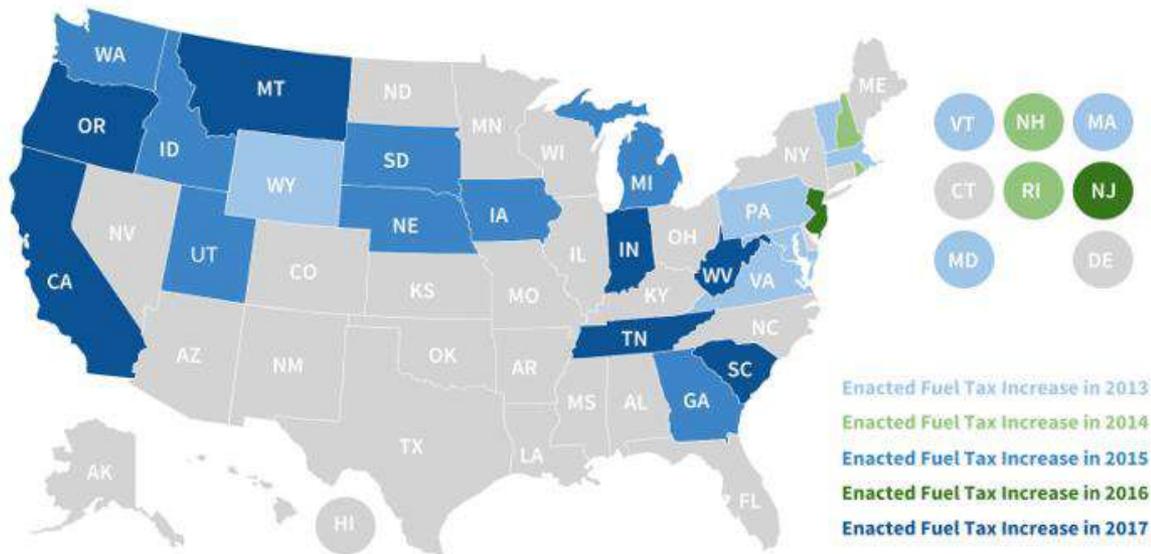
# U.S. Infrastructure Spending: We put the odds at 100%

## States that have passed gas tax increases to boost infrastructure spending

### Talking Points

## State Fuel Tax Increases

Which states passed gas tax increases over the past few years?



From 2012-2017, 24 state have raised fuel tax rates.

Source: MultiState Issue Management service. Find out more at [www.multistate.com](http://www.multistate.com).

**MULTISTATE**

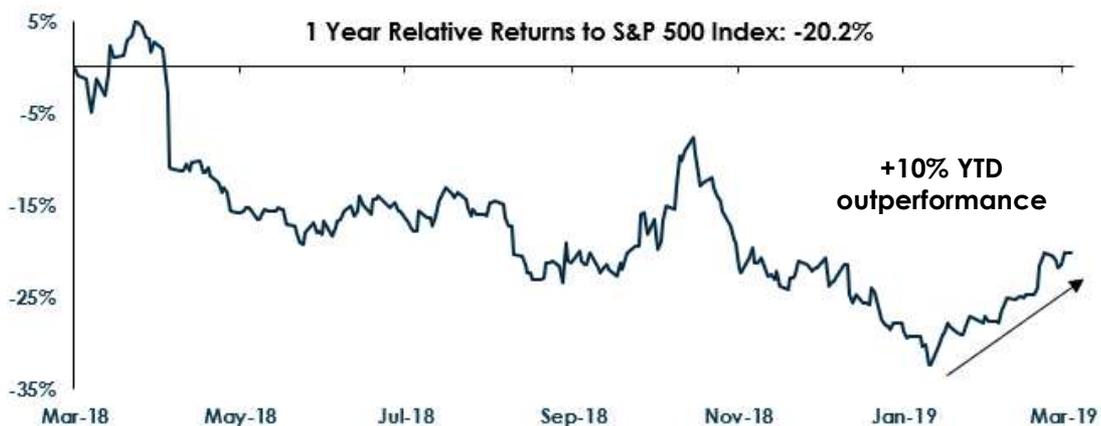
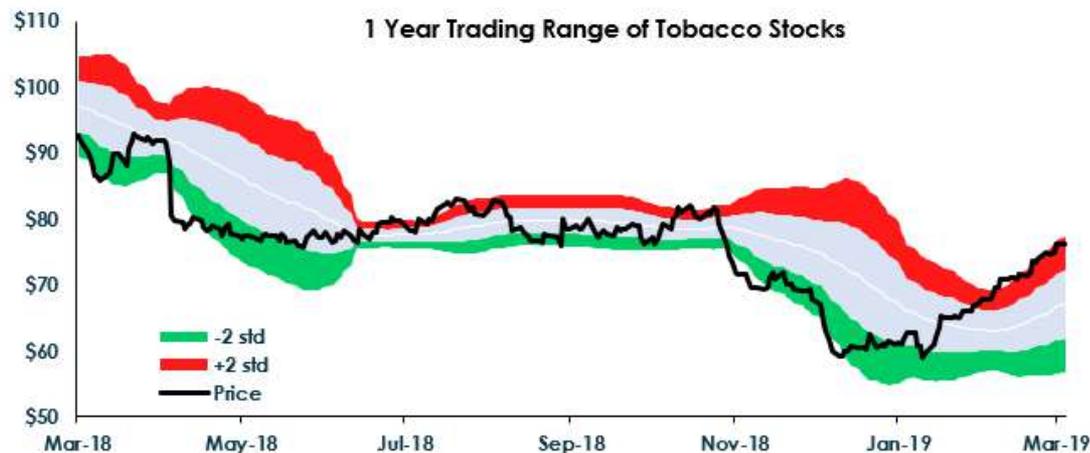
- Infrastructure spending continues to be a hot topic. While D.C. is grabbing investors' attention, state initiatives are being overlooked. Alabama and Arkansas each passed infrastructure bills in March.
- 27 other states that have increased or adjusted their state gas taxes since 2013. We expect states to continue increasing their transportation budgets via gas tax increases and registration fees.
- Management teams, such as Granite Construction and U.S. Concrete, are already mentioning state funding as a growth catalyst on their earnings calls.
- Check out our Infrastructure Policy Playbook, which includes a list of investible companies, [here](#).

# Tobacco/Vaping Regulation: Swift 2019 Recovery

Affected by e-cigarette regulation, tobacco stocks sold off in 2018 creating value opportunity.

## Talking Points

- 2018 was a volatile year for tobacco stocks selling off more than 30% vs the S&P 500 Index.
- In early March, the FDA released a proposed rule limiting e-cigarettes sales in convenience stores and online websites. Tobacco related stocks, such as Altria, Philip Morris, British American Tobacco and Turning Point Brands, have all sold off on expectations of increased regulation.
- However, the current FDA commissioner, Scott Gottlieb, announced his retirement in March.
- We question whether the FDA will be successful in increasing regulation without a full-time commissioner.



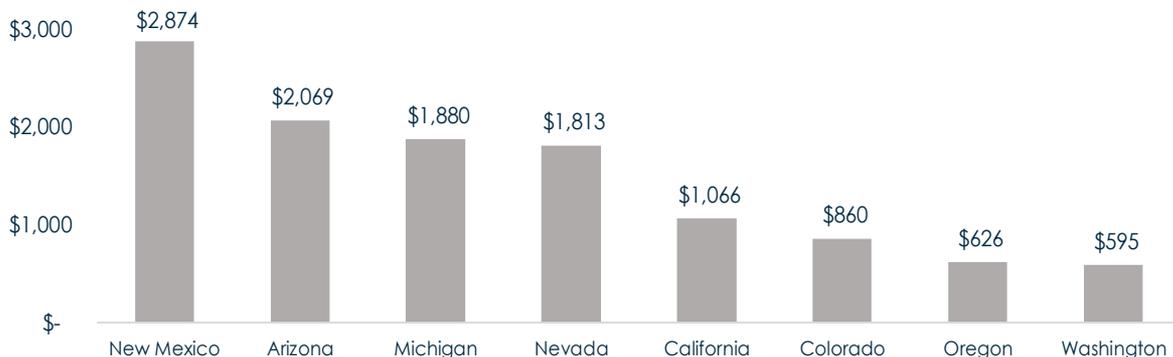
Source: EventShares, FactSet Research

# Cannabis Legalization: Plenty of unanswered questions

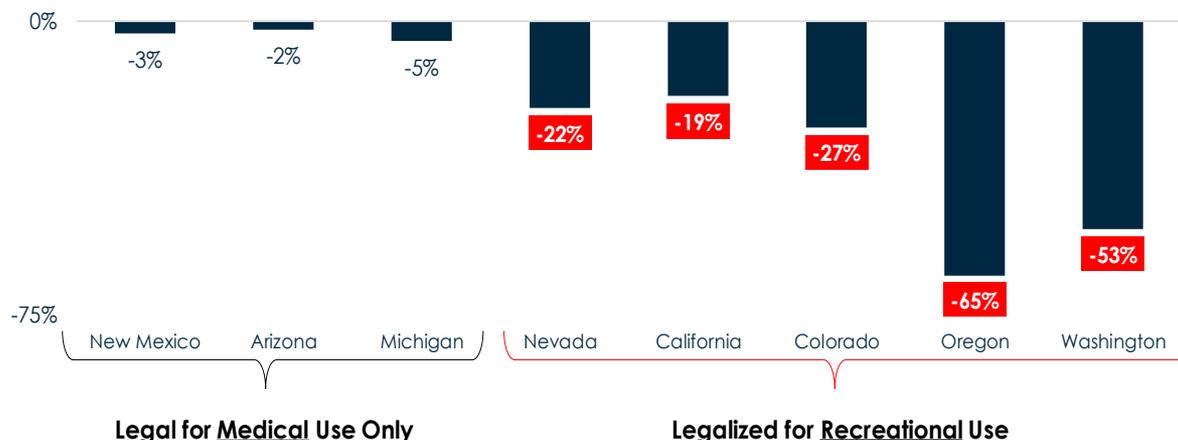
Price has dropped severely in recreationally-legalized states.

## Talking Points

**Average Wholesale Cannabis Price**



**Average Wholesale Price Year-over-Year Change**

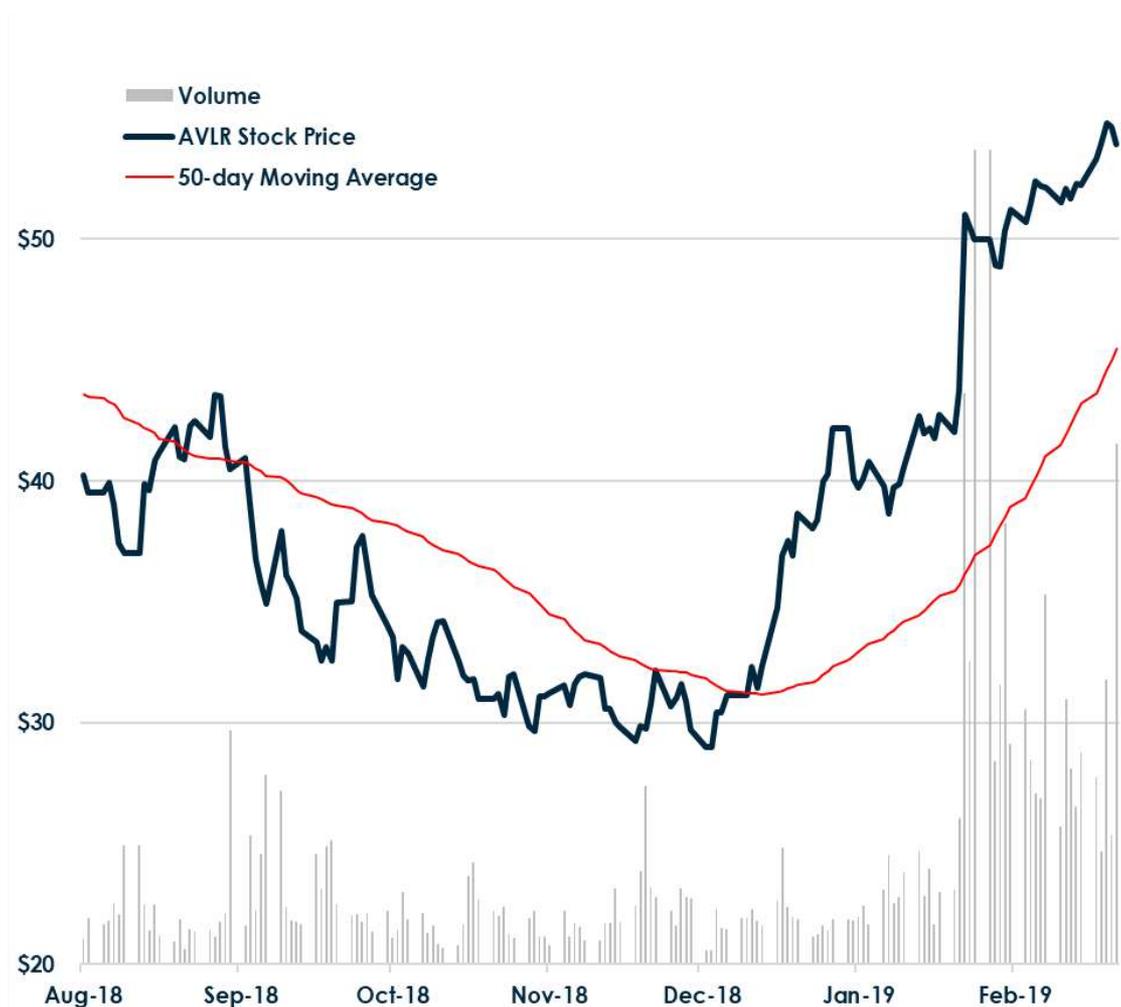


- Despite being illegal at the federal level, more and more states are legalizing medical and recreational marijuana.
- While this trend likely continues, it's important to note there are significant policy implications that come with legalizing marijuana, which could slow down federal legalization.
- Those include taxing and regulating the product, responding to employer concerns about liability and drug testing, monitoring for driving under the influence, and addressing the marijuana industry's inability to use federally insured banks.
- We also question the attractiveness of investing in marijuana. If marijuana is legalized, what is defensible about a grower's business? Does marijuana simply become another commodity with unattractive grower economics? Questions like these and marijuana stock volatility leave us cautious.

Note: Volume weighted averages derived from wholesale transactions for all grow types and market types.  
 Source: Cannabis Benchmarks - 2018 Marijuana Business Daily, a division of Anne Holland Ventures Inc.

# Sales Tax Compliance: Durable Tailwind for AVLR?

## AVLR stock performance (+73% YTD)



## Talking Points

- In the past, states could only tax sales by businesses with a physical presence in their state. The explosion of e-commerce allowed businesses to get around the physical presence test, which cost states billions in sales tax revenue.
- The Supreme Court agreed with the States and authorized states to collect sales tax regardless of a business's physical presence.
- We expect a significant amount of state legislative activity this year to address the Wayfair sales tax decision. The outcome will likely be a patched network of state tax rules, which means companies will look for technology to ease their tax compliance burden.
- Avalara (AVLR), a seller of tax compliance software, is positioned to capture this surge of new business in our view. Management has spent the last decade building the technology and is now ready to reap the benefits in our view.

Source: EventShares, FactSet Research

# About EventShares.

EventShares is an investment management firm focused on the opportunities from legislation and regulation coming out of Washington, DC. In a world overloaded with exotic investment vehicles, our common-sense investing approach is often overlooked. Our team believes investments aligned correctly with Washington can outperform the market as the laws and regulations impact companies and industries. Additional information about EventShares can be found at [EventShares.com](http://EventShares.com) and the firm's Twitter feed can be followed @Event\_Shares.

## Thought Leaders



## Our Clients

**Financial Advisors & RIAs** should explore EventShares ETFs thematic investment approach.

**Family Offices** Strategies for single and multi-family offices who are looking for ways to gain exposure to policy catalysts.

**Financial Institutions** You can find our research on FactSet, Thompson Reuters, and Interactive Brokers.

## Investment Solutions

**ETF Website**  
[www.EventSharesFunds.com](http://www.EventSharesFunds.com)

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