1. This trade idea initiated on September 13 and is **moving significantly today, +1.8σ**
2. DB's Asset Allocation Strategists **published an updated report** on this trade which included some **new baskets:**

- Top 50 / Bottom 50 from the SPX-ex-REITs-and-UTES, chosen by effective tax rate *after manually adjusting for **deferred tax assets*** – "modified" tax reform on our Monitor
- Top beneficiaries of **repatriation** based on offshore cash and "**buyback alpha score**" i.e. stock's statistical tendency to outperform when doing a buyback

We've updated our **Trump Policy Monitor**, replacing some dead things with our various iterations of tax reform sensitivity. **Available for your Launchpad** if you want to monitor these trends intraday.

Reminder that we also think **Size is a surprisingly good proxy for tax rate** so **IWM** upside works well. IWM outperformance vs SPY today looks small, but becomes much more significant after controlling for sector skews (+1.3σ), consistent with our model.

Lots more room to go if this starts to look like a real possibility.

<image011.jpg>

ORIGINAL TRADE IDEA PUBLISHED SEPTEMBER 13:

Buy **DBUSTXHI** / sell **DBUSTXLO** on swap for beta-neutral, sector-neutral, rates-neutral **exposure to a corporate tax cut**

<image002.png>

We're getting **increasing chatter** around the **potential for success in tax reform before year end** for the Trump administration. (Hey, it could happen!) Our customers are asking us **how to trade**. We still think **IWM vs SPY** is the cleanest but we've also seen demand for baskets.

We've seen a variety of constructions of this trade,* aiming to create exposure to tax reform, many of which result in taking a **material sector bias** and often an implicit **interest rates view** (for instance, Banks vs Utilities has a huge DV01, as we've highlighted before). And rates have been a widow maker all year.

DB's suggested construction:
- Compute **effective tax rate** for every company in the S&P 500 on a **5 year trailing basis**
- Remove REITs and Utilities sectors due to unique tax treatment
- Remove Telcos due to tiny universe of stocks (n=4)
- Identify the **top 10 and bottom 10 stocks from each remaining sector by tax rate** and construct as a equal-weight long-short pair.
- Result is **DBUSTXHI and DBUSTXLO,** tradable on swap in >$100mm/side/day, 1ML flat / 1ML + 30 as a pair

Resulting construction looks like the below, in each remaining sector. Full composition available on Bloomberg.
Avg effective tax rate on "low" names: 17%   Avg effective tax rate on "high" names: 45%