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MARKET INSIGHTS

The latest Market Insights from the Connected Wealth team



U.S. Election – America Decides 2016

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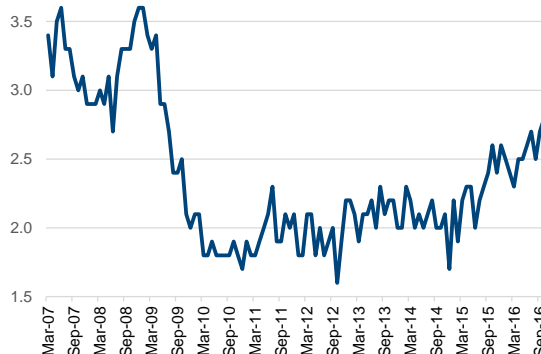
Within a matter of hours that 16-month lingering headache, otherwise known as the U.S. Election, will hopefully start to disappear. It's been a long and tough slog for America, but at last this week we will discover who will be the 45th President of the United States (or at least we hope we will). In addition to the Presidency, election night will also determine all 435 members of the House of Representatives and 34 Senators which could shift the balance of power in Washington, D.C. Polls have tightened over the past week both amongst the race for President and several Senate races which have left a few states too close to call. While perhaps not as exciting as this week's Game 7 of the World Series, Tuesday night should provide some excitable drama for political junkies. For clients that would like a better understanding of the U.S. electoral process and some insight as to how Tuesday night will unfold, we would encourage them to click [here](#) for the Special Report we published on this subject last week.

In the report we provide a general overview of how elections affect equity markets and trade. This week we'll dive a little deeper into these topics.

Uncertainty is rearing its ugly head as we move closer to the election. The S&P 500 fell nine consecutive times following the close on Friday. That is the longest stretch of declines since 1980. This has happened only 14 times since 1928.

Looking forward, investment risk in the coming days and weeks will come from news headlines as the President-Elect reiterates his/her political agenda. However real policy reform, the legislation that will impact earnings, will take months or years to play out. There are several areas where both Hillary Clinton and Donald Trump have expressed similar views and many areas where their agendas differ. Both have made major commitments to increased federal spending on infrastructure - Clinton has said she plans on increasing spending by more than \$50 billion over her term in office and Trump has not given firm numbers, but has committed to investing more than his opponent.

U.S. Average Hourly Earnings growth reach new cyclical high 2.8% (YoY % change)



Stocks that service the U.S. government, will likely see a pick-up in available contracts regardless of who is elected.

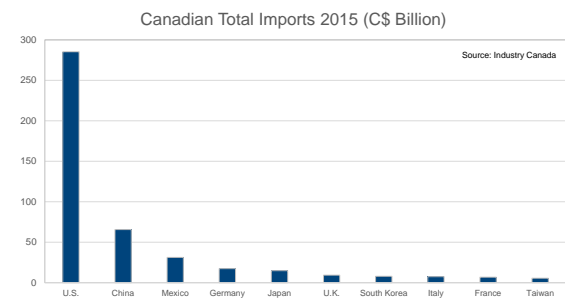
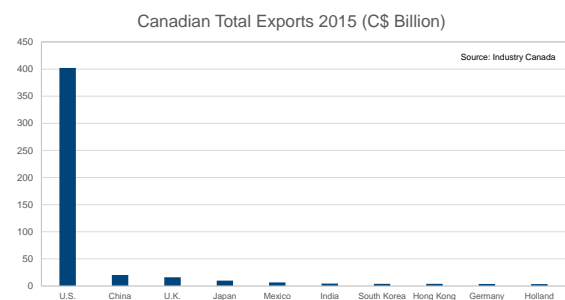
Both candidates are proponents of repatriating foreign profits and reducing tax dollars flowing overseas. An easy way to accomplish this would be to give domestic companies a “tax holiday” that would allow them to bring money held outside of the U.S. back home without a massive tax bill. This could be a bit of a challenge with the partisan divide between the House of Representatives and the Senate, but is something that is now being widely talked about and could be a huge boon for the multinationals headquartered in the U.S.

Another pillar of both platforms is an increase to the Federal minimum wage. Clinton proposes a hike to \$12 an hour, while Trump is considering an increase to \$10. Rising wages and a tight labour market will be a positive for the broad economy as it should percolate into consumer spending, which is the biggest driver of U.S. GDP growth. However, companies such as retailers and restaurants, where the majority of employees make minimum wage, will be adversely effected as profit margins compress due to higher costs. This will be amplified in areas that have the largest divergence from current and proposed wages.

Both candidates have vastly different agendas for energy and health care. Clinton has been outspoken about her plan to lower drug prices, resulting in pharmaceutical stock prices selling off sharply since the end of July as she maintained her lead in the polls. They also have differing views on the Affordable Care Act (Obama Care) as Trump has said he will abolish the program if elected. Should he win on Tuesday, any company that is within arm’s length of the program will likely be in for a rough time.

Clinton also has ambitious plans for intensifying environmental standards. This could be bad news for big oil companies that have the bulk of their operations in offshore drilling and any company that extracts or burns coal. Conversely, Trump has vowed to lift limitations on oil drillers, which would be a major benefit for exploration and production companies.

With respect to trade, naturally NAFTA (North American Free Trade Agreement) comes to mind as we sort through the positions of both Hillary Clinton and Donald Trump. While Clinton may have expressed some reservations about the Trans Pacific Partnership, she is widely expected to leave NAFTA alone. Donald Trump, on the other hand, has threatened to tear up the deal as he believes it was poorly negotiated. Trump’s frustration lies not necessarily with Canada, but with U.S. jobs heading south to cheaper labour in Mexico. We don’t have the legal knowledge to know if Trump can just tear up a trade deal, we suspect the process is not so easy. However, should Trump win the Presidency, is an elimination of NAFTA possible followed by the reintroduction of tariffs and duties?

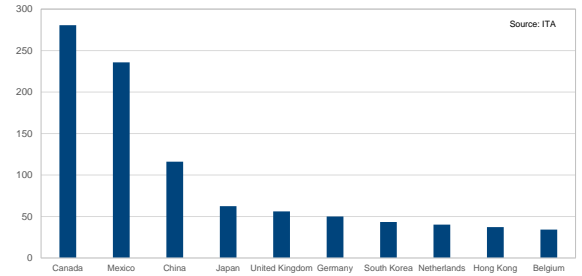


We suspect Donald Trump doesn't know the numbers when it comes to Canada-U.S. trade. Here's a useful summary (from Canadian government sources):

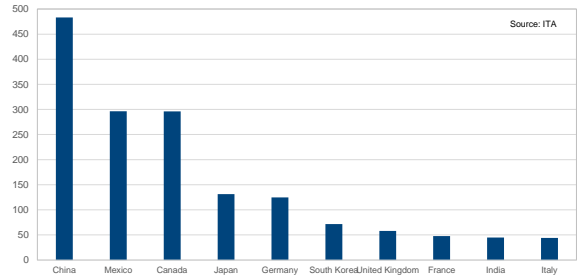
- Canada purchased US\$338 billion in goods and services from the U.S. in 2015 – we are their largest customer
- Canada and the U.S. are the world's largest trading partners as more than US\$670 billion in goods and services are traded annually between our two countries
- Canada is the top export destination for 35 of the 50 U.S. states
- Our countries exchange approximately \$1.6 million in goods and services every minute
- Nearly 9 million U.S jobs depend on trade and investment with Canada
- The U.S. is the largest destination for Canadian direct investment abroad, totalling \$448 billion in 2015

No matter how you look at these numbers and especially when you compare them internationally, the evidence is clear that Canadian trade is essential for many Americans and state economies. Any hint that our trade relationship would roll back to the days of duties and tariffs would upset many elected officials, both Democrat and Republican. Of the 13 U.S. states that border Canada, 5 have Republican governors. The list of border states also includes very influential swing states such as Ohio, Pennsylvania and New Hampshire. Therefore, it's unlikely there would be widespread support for the U.S. to abandon NAFTA and that Donald Trump will likely be walked back from jumping ship on this particular trade deal. That's not to say that changes aren't forthcoming, but it's unlikely a complete elimination of NAFTA is in the cards. We may need the U.S. more than they need us, but they still need Canada nonetheless.

U.S. Total Exports 2015 (US\$ Billion)



U.S. Total Imports 2015 (US\$ Billion)



Charts are sourced to Bloomberg unless otherwise noted.

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