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ASK TYLER

INVESTORS ARE ANXIOUS ABOUT THE UPCOMING US ELECTION. GIVEN THE HIGH LEVEL OF UNCERTAINTY, HOW ARE YOUR PORTFOLIOS POSITIONED?

FOCUS ON FUNDAMENTALS OVER POLITICS.

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In general, presidential cycles offer very weak actionable trends and have been overstated in terms of their predictive value for market returns. Additionally, the US political system is designed in such a way that the President (especially with no congressional support) can't exert too much power at any given time. Still, compared to a more predictable Clinton administration, a Trump presidency would almost certainly initiate an increase in market volatility as investors adjust to a new regime.

Yet the actual election outcome will not be as binary as markets are predicting. Yes, there are polarizing ideological differences related to immigration reform, energy policy and a variety of social issues. Trump's nationalism could particularly imperil prosperity. Even Canada's status as a privileged trading partner would be jeopardized should reforms take place (i.e. such as scrapping the NAFTA agreement). But in a globalized world defined by a move toward closer interconnectedness, the "biggest loser" would undoubtedly be the US.

Rising above the rhetoric and dueling polemics, however, there is one striking similarity: both candidates support massive fiscal expansion. In yet another "new reality" in the post-crisis world, the Republican nominee is actually pledging to spend at least twice as much as the Democrat on infrastructure. But bear in mind — both will wildly blow out the budget deficit. This is the main event.

INVESTMENT IMPLICATIONS

Presidents aren't unimportant. But they don't dictate the innovation, work ethic and creativity of businesses and consumers. Ultimately, big political events are almost never worth churning a portfolio over. Instead, our clients will always remain globally diversified with a tilt towards longer-running megatrends that are supported by positive fundamentals. Today, that means reduced exposure to North America. For Canada, the overriding risk factor has been an ongoing commodity bear market. Politics — domestically or south of the border — cannot change that meaningfully. We have also rotated away from US equities. It has been a long (and well-earned) period of outperformance. However, the drivers of US equity performance — an accommodative Fed, a cheap currency and attractive valuations — no longer exist.

Clients are also hedged against US nationalism. Countries enlarging their economic ecosystem will benefit in either scenario. Asian equities, including China and India, are well-represented in client portfolios.

Finally, a return of fiscal stimulus will initiate some economic growth (borrowing demand from the future). This is not a development isolated to the US. In Canada, the Liberal government was elected on a platform that placed austerity and balanced budgets on the back burner. Globally, more developed economies plan to loosen than tighten fiscal policy (16 countries for the former, while only 9 for the latter). As such, clients are overweight global cyclicals, with an emphasis on non-resource exporting countries like Sweden and emerging Asia. We have also reduced bond exposures as government bond yields will likely start to edge back up, albeit glacially.

Given the above positioning, our investment team continues to track a variety of different scenarios (including the outcome of the election) and remains prepared to shift strategies.

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