TD Asset Management

Investing in the Trump Era

Uncertainty surrounds President-elect Donald Trump's policies given the need for Congressional support and Mr. Trump's unpredictable nature, but broadly he's expected to:

Undertake fiscal stimulus measures.

- Impact will depend on size of the program, but fiscal stimulus should at least modestly spur U.S. economic growth and improve corporate earnings growth potential.
- Without offsetting revenue, significant spending will increase the national debt.

Reform the tax system.

- Lower corporate taxes would provide a direct benefit to U.S. corporate earnings.
- Lower personal taxes may boost consumer spending; however, if the tax cuts focus on the wealthy, this may not drive meaningful consumption growth.
- Broadly, lower taxes would reduce federal revenue and increase the national debt.

Repatriate offshore profits.

- May lead to shareholder-friendly actions like share buybacks and special dividends.
- Tax proceeds from repatriation could be used to offset some of the cost of his fiscal stimulus policies.

Decrease government regulation.

- Plans to amend the Affordable Care Act (ACA) and speed up the drug approval process.
- Favours reduced regulation related to the financial sector and energy production.

Pursue energy independence.

- Supports increasing the production of shale oil, natural gas and coal.
- Deregulation that increases supply could decrease prices over the long term.

Transform trade policies.

- Plans to withdraw from the Trans-Pacific Partnership, renegotiate NAFTA and has suggested imposing tariffs on Mexico and China.
- Aggressive action on this front would likely be viewed negatively by the market.

Fixed Income Implications:

	Trump Effect	Rationale
Investment Grade Corporate Bonds	⬌	Improving economy should improve corporate fundamentals, but higher interest rates would have a negative impact
High Yield Bonds	⬌	Improving U.S. economy should improve corporate fundamentals, but higher interest rates would have a negative impact
Canadian Government Bonds	⬇	Fiscal stimulus may push rates higher
U.S. Government Bonds	⬇	Fiscal stimulus may push rates higher

Equity Implications:

	Trump Effect	Rationale
U.S. Equities	⬆	U.S. equities should benefit from the proposed fiscal stimulus plans and corporate tax reductions
Canadian Equities	⬌	Canadian equities should benefit from improving U.S. economy and infrastructure spending, but may be offset by trade uncertainty. In addition, lower U.S. corporate taxes could make Canadian-based production less competitive
International Equities	⬌	Positives from U.S. equities may be offset by trade uncertainty

Currency Implications:

	Trump Effect	Rationale
U.S. Dollar	⬆	Fiscal stimulus is expected to lead to modestly higher economic growth, inflation and interest rates
Canadian Dollar	⬇	Expected to underperform the strengthening USD
Gold	⬇	Higher rates would increase the opportunity cost of holding gold

	S&P 500 Fundamental Implications:		S&P/TSX Fundamental Implications:	
Sectors	Trump Effect	Rationale	Trump Effect	Rationale
Industrials	↑	Economic growth and infrastructure spending would be tailwinds, but a stronger US$ would be a headwind for global companies	↑	Economic growth and infrastructure spending would be tailwinds
Financials	↑	Economic growth, less regulation, higher interest rates and steeper yield curve would be tailwinds	↑	Higher interest rates and steeper yield curve would be tailwinds
Consumer Discretionary	↑	Lower corporate taxes would be a tailwind	↔	Limited direct impact, although auto industry could face trade headwinds
Information Technology	↑	Economic growth and repatriation of offshore profits would be tailwinds, but a stronger US$ would be a headwind for global companies	↔	Limited direct impact
Energy	↔	Coal producers, oil and gas producers, energy infrastructure companies and drilling companies should benefit from Trump's policies, but they are likely to be negative for renewable energy companies	↔	Coal producers, oil and gas producers, energy infrastructure companies and drilling companies should benefit from Trump's policies, but they are likely to be negative for renewable energy companies
Materials	↔	Economic growth would be a tailwind, particularly for metals producers, but trade war with China and strong USD would be headwinds	↔	Economic growth in U.S. would be a tailwind, particularly for metals producers, but trade war with China would be a headwind
Healthcare	↔	Less regulation would be a tailwind, but repeal of ACA would be a headwind for some subsectors and a stronger US$ would be a headwind for global companies	↔	Limited direct impact
Consumer Staples	↓	Higher rates and a stronger US$ would be headwinds	↔	Limited direct impact
Telecoms	↓	Higher rates would be a headwind	↓	Higher rates would be a headwind
Utilities	↓	Higher rates would be a headwind	↓	Higher rates would be a headwind
Real Estate	↓	Higher rates would be a headwind	↓	Higher rates would be a headwind

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