



September 25, 2016

President Donald J. Trump? If ... then what does it mean to Canada?

- We take no position on the likelihood of a Donald Trump victory in this November's U.S. election beyond what the data tells us. And with polls narrowing considerably in recent weeks, we believe the time has come for Canadian investors (and perhaps investors everywhere) to ask the question, if Donald Trump should win, what are the potential implications for my portfolio?
- While some are quick to dismiss what is said on the campaign trail as simply a means to get elected, studies have shown that a high percentage of what a candidate says on the campaign trail eventually becomes the law of the land in some form or another. Thus, we would be dismissive with caution.
- With this in mind, we believe the sum total of Mr. Trump's policy proposals would be positive for Canada and Canadian stocks, at least for a time.
- Lower tax rates (both personal and corporate), increased infrastructure spending, and a pro-oil platform should promote U.S. growth and flow through favourably to Canada and Canadian stocks.
- On the flip side, trade barriers with China and the U.S.'s NAFTA partners could act as headwinds to growth and both directly and indirectly negatively impact Canada.
- We do have longer-term concerns about budget deficits as Mr. Trump's policies would likely place a heavy burden on U.S. coffers. However, the near-term growth that could result from massive stimulus (should it get through Congress), makes worries about deficits a concern for another day, in our view.
- In our view, the sectors that stand to benefit the most in the event of a Trump win would be Financials (higher long-term interest rates), Energy (better pipeline access and higher oil prices driven by increased U.S. demand) and Materials (stronger U.S. growth and the potential for infrastructure spending).
- In our view, those sectors most negatively exposed would be Utilities, Telcos and REITs (potentially higher rates) and Consumer and Industrials (depending on the level of free trade rancor).

All values in Canadian dollars unless otherwise noted.

Priced as of prior trading day's market close, ET (unless otherwise stated).

For Required Non-U.S. Analysts and Conflicts Disclosures, please see page 15.



Executive Summary

We are now less than 6-weeks from U.S. Election Day. For the first time in history, this election will present a true political outsider as a major party candidate. Donald J. Trump, should he prevail, would represent the first U.S. president in history not to have previously held public office or have served in the military.

Polls, which as recently as a month ago seemingly gave Mr. Trump little chance of victory, have tightened significantly to the point in which most polling sites give Mr. Trump a 2 in 5 chance or better of prevailing on November 8th.

We get that a discussion of Mr. Trump can be delicate or even loathsome for some. However, from our lens, given the realistic potential that Mr. Trump becomes the U.S. President-elect on November 8th, Canadian investors would be remiss not to consider the implications of a Trump Presidency.

In our view, the prospect of President Trump raises a number of questions for Canadians. Some of the more salient ones, in our view, are:

- What are the ramifications of his policies proposals to Canada and Canadian stocks?
- Would a Trump victory positively or negatively impact my portfolio?
- Are there sectors that are more/less positively/negatively impacted?
- What could it mean for oil, interest rates, gold, etc.?

While we will attempt to answer some of the above in the following pages, we will admit out of the gate that one needs to speculate a fair bit on some of these questions. We can lean on common sense and convention to think through some of these things, but we are not sure what's to come over the next four or eight years would necessarily follow the conventions of common sense.

That said - our view is that contrary to what some may believe, Mr. Trump's policies, if adopted (in part or in full), would not be negative for Canada and Canadian stocks. In fact, we think several of his policies have the potential to be significant positive drivers for Canada and Canadian stocks. Further we would be very cautious with those who suggest that markets will crash and dogs and cats will live together upon a Trump victory as these types of stories often sell newspapers, but have little connection to reality.

There are, of course, puts and takes and there is a significant amount of uncertainty not only to what Mr. Trump's policies actually would be (there is surprisingly little to go on at this point), but also in gauging their impact beyond the next few years.

For example, sharply reducing income taxes (a cornerstone of his platform) would likely drive higher economic growth in the U.S. (positive for Canada). However, a massive tax cut in the U.S. would also hurt Canada's competitive position (personal tax rates in Canada are already much higher than those of the U.S. — Mr. Trump's proposals would further widen this gap). Further, the budgetary impact of massive tax cuts and increased infrastructure spending (another cornerstone) could have significant long-term implications for the financial position of the U.S.

We will explore the above questions by first looking at Mr. Trump's major policy proposals one by one. We will try to gauge what they mean to the U.S. economy and by extension the Canadian economy. Further, we will venture a guess (and that's all it can be for anyone at this point) as to how the policy would be greeted by Congress.

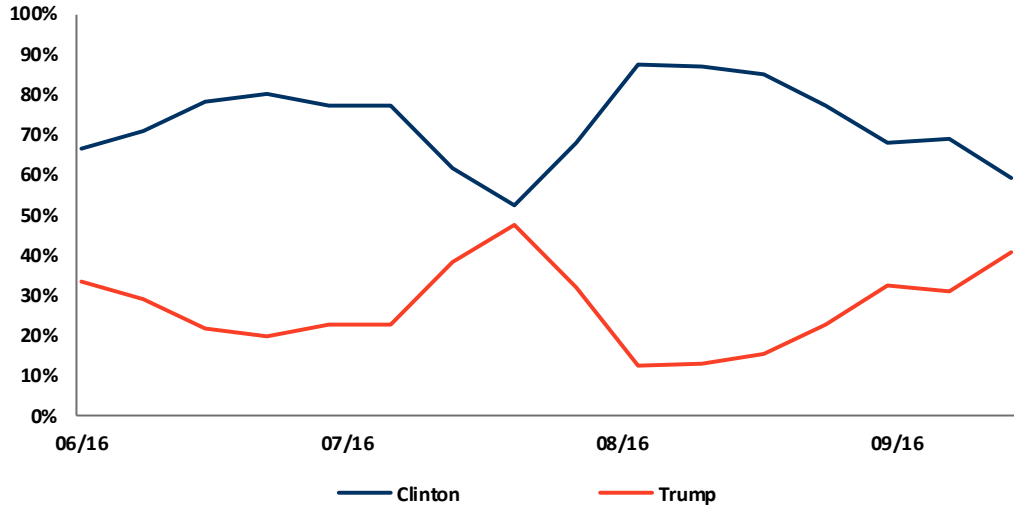
We will then move to our expectation of how these policies will impact the S&P/TSX both broadly and on a sector/subsector basis. Again, we caution that there are a lot of moving parts to this, so we will have to rely heavily on a series of assumptions that likely will not all play out.

Polls suggest ~40% chance of a Trump victory

As we write this toward the end of September, some 45-days or so until Election Day, polls have tightened to the point in which Hillary Clinton, the prohibitive favourite to be the 45th President of the United States as recently as two or three weeks ago, is now only a modest favourite.

Exhibit 1: Mr. Trump’s odds of winning have roughly tripled over the past month

Odds of winning U.S. presidential election based on polls and various inputs



Source: Fivethirtyeight.com; Through September 20th, 2016

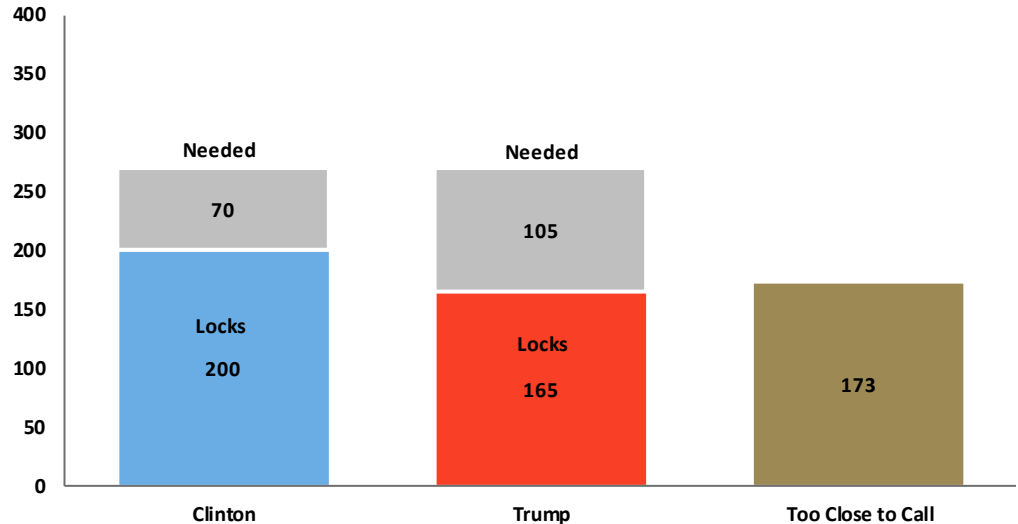
Most national polls show Secretary Clinton with roughly a 1 to 2-point lead on Mr. Trump. However, it is important to keep in mind that with the U.S. system, the popular vote is ultimately less important than the Electoral College, which represents the ultimate path to the White House.

As a reminder, electoral votes are apportioned to each state based on the state’s population and representation in the U.S. House of Representatives (435 total seats) and Senate (100 seats). The only exception is Washington D.C., which has no Congressional representation, but is apportioned three electoral votes, which brings the total electoral votes to 538 of which a simple majority (270) is needed to win the White House. With the exception of Maine (4 votes) and Nebraska (5 votes), all states are “winner-take-all”, which means 529 electoral votes are determined by winning the majority of votes in a given state.

Thus, while popular vote polls have narrowed, the more important trend to consider is the path of electoral votes and this is a bit more challenging. While lots of polls are done on a state-by-state basis, they are generally considered less robust than national polls because of smaller sample sizes. Various polling sites have Secretary Clinton with a “lock” on about 200 electoral votes and Mr. Trump with a “lock” on about 165 electoral votes. The remaining 175 or so electoral votes remain either too close to call or close enough that results could reasonably be expected to change by Election Day.

Exhibit 2: Mr. Trump has about 60% of the electoral votes he would need

Current Electoral College breakdown (270 needed to win) – average of three polling cites



Source: Fivethirtyeight.com; Real Clear Politics; 270towin.com

Checks and Balances

The U.S. has a system of checks and balances that significantly limits what the President can and cannot do without the help of a willing Congress. Thus, one not only has to try to predict what campaign trail policies are real and what are election fodder, but also whether or not Congress would stand in the way of their implementation even if the candidate-turned-President makes them a priority.

That said, according to political scientist Michael Krukones in his book *Promises and Performance*, in which he analyzed 70 years of presidential campaign promises, roughly three in four promises made on the campaign trail are kept upon election (far higher than we would have thought); so dismiss things that candidates say on the campaign trail at your own peril.

For our purposes, we will assume that should Mr. Trump win, the Republican Party, which currently controls both the House of Representatives and the Senate, will continue to maintain control of Congress. Should this not occur (in other words, should the Democrats win one or both houses of Congress), it would obviously have implications for what follows in this report; however, we find it unlikely (although not impossible) that Donald Trump would have enough support to get elected, whereas down ticket the Republicans would not.

Initial market reaction

Predicting how the market would react to a Mr. Trump victory is somewhat of a fool's errand. Markets are discounting mechanisms so unless the market is truly shocked on Election Day by the result, any initial reaction should already be largely priced in.

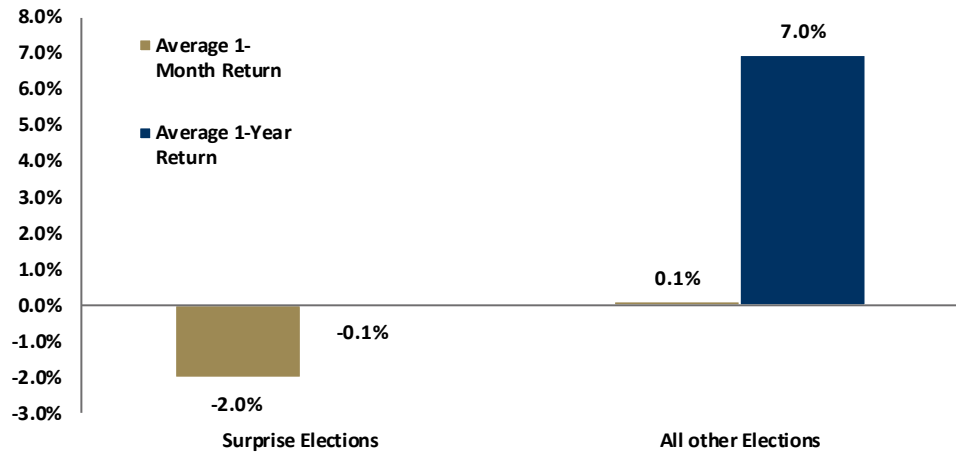
That said, it is possible that we will head into Election Day uncertain of the ultimate result or with the expectation that Secretary Clinton will win. Should Mr. Trump prevail in this scenario, our guess would be that the initial reaction would be negative.

Most elections are well settled by Election Day (despite how the media might portray some of them), so turning to history for some guide as to surprise results leaves a limited sample set. That said, since 1945, there have been five elections—1948, 1960, 1976, 2000 and

2004—that were close enough heading into Election Day (and in the case of 2000, beyond Election Day) that the result may have come as a surprise to markets.

Exhibit 3: Equity markets may not like surprises

Performance of S&P 500 1-month and 1-year post Election Day



Source: Bloomberg, RBC Canadian Equity Research; Note: “Surprise Elections” includes 1948, 1960, 1976, 2000 and 2004. “All other Elections” includes 1952, 1956, 1964, 1968, 1972, 1980, 1984, 1988, 1992, 1996, 2008 and 2012.

There is some disparity in performance when comparing “surprise elections” to all others going back to 1948. Of the five, three experienced negative one-month returns (5 of 12 non-surprise elections experienced negative first-month returns), while three also experienced negative one-year returns (4 of 12 non-surprise elections experienced negative one-year returns). We caution that we have only five data points, so it is hardly definitive, but we find it instructional nonetheless.

We would add that should the market have a reflexively negative reaction, we would trot out the advice that we have offered to investors for most of our career – get out your list of good businesses that are well managed and have a track record of compounding shareholder value over many years and start to add to them. Inevitably, the “ready, fire, aim” mentality of equity markets presents these buying opportunities from time to time and we believe that good businesses are good businesses regardless of the result of the U.S. election.

Policy proposals

Donald Trump’s plan rests on several important pillars that will likely have varying impacts on Canadian stocks. We will try to focus just on the policies that will potentially have an impact on Canada and Canadian stocks, as opposed to an across the board critique. One challenge is the interplay of these policies (i.e. it is hard to talk about one without mentioning another), but we will do our best to address this.

We would note before diving in that Mr. Trump would represent the first non-establishment President in history and the first President not to either have held public office previously or to have been a member of the military. Thus, while we can rely on his public statements and his campaign website for guidance, there is a significant amount of unknowns that exist, especially relative to past administrations that have come to power.

Policy Proposal #1: Reduce tax rates

While his plan continues to evolve, Mr. Trump’s platform lays out a plan to reduce income taxes substantially by reducing the number of tax brackets from seven to three and reducing

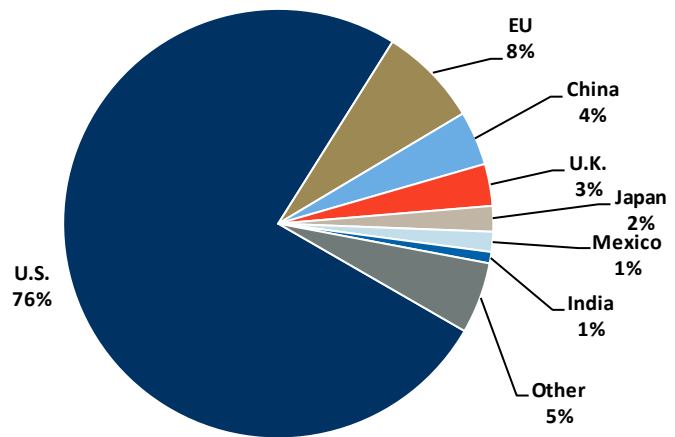
the highest marginal rate from 39.6% to 33%. Further and perhaps more importantly, Mr. Trump’s plan calls for a reduction in corporate tax rates from 35% to 15%. Lastly, Mr. Trump has called for a one-time 10% repatriation tax on corporate profits held offshore.

We believe a reduction in individual and especially corporate tax rates could have both positive and negative implications for Canada.

To the positive, across the board cuts of the magnitude that Mr. Trump is calling for would most likely provide a big boost to the U.S. economy, at least for a period of time, and considering that the U.S. remains by far Canada’s largest trading partner, the flow through to Canadian growth would likely be fairly meaningful.

Exhibit 4: The U.S. economy remains a key driver of the Canadian economy

Percentage of Canadian exports by country

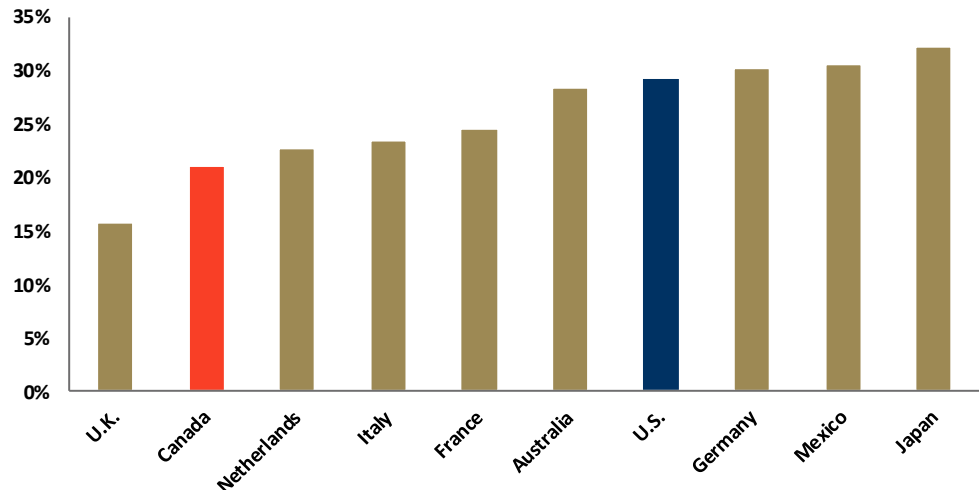


Source: Statscan

To the negative, we would note a couple of potential issues. First, Canada has benefitted from having a favourable corporate tax rate relative to the U.S. and Mr. Trump’s proposal would effectively wipe away that competitive advantage.

Exhibit 5: Canada’s effective corporate tax rate provides a competitive advantage

Effective combined corporate tax rate - manufacturing



Source: KPMG

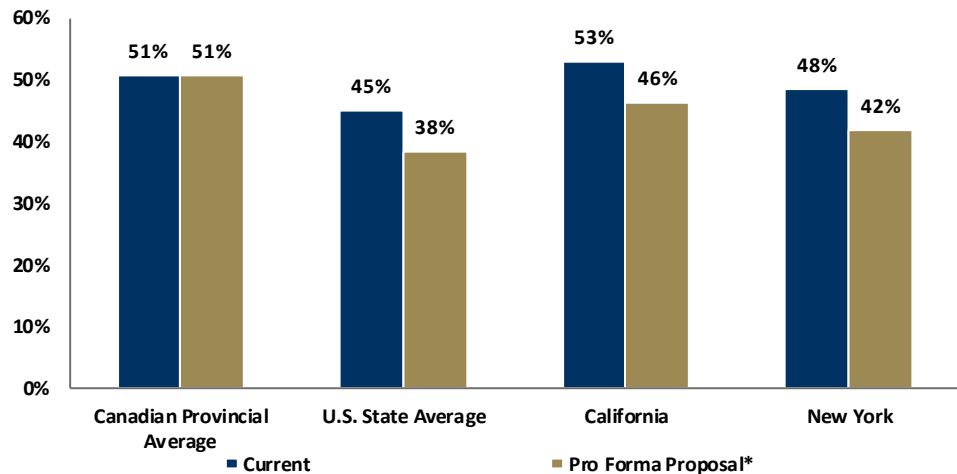
Second, over the past several years, Canada has implemented a number of income tax rate changes both at the provincial and more recently the federal level. While these changes have puts and takes, for our purposes, the biggest change has been the increase in the highest marginal tax rate across all Canadian provinces.

Currently, marginal tax rates for the highest earners are, on average, about 6 percentage points higher in Canada than they are in the U.S. with a few U.S. states such as California, New York, New Jersey and Minnesota ranking higher than some Canadian provinces.¹

However, if we assumed full implementation of Mr. Trump’s proposed cuts, the average gap would rise to about 13% with every Canadian province ranking above every U.S. state in terms of highest marginal brackets.

Exhibit 6: Proposed personal income tax rates would tilt the balance significantly

Combined Federal and Provincial/State highest marginal tax brackets



Source: RBC CM Canadian Equity Strategy; *Note: Assumes highest marginal U.S. Federal tax rate moves from 39.6% to 33% with no other offsetting changes

One can debate how much this matters, but as the Fraser Institute points out, Canada’s largest energy-producing provinces already have tax rates significantly above those of the U.S.’s largest energy-producing states, while the same can be said when one compares Canada’s manufacturing-heavy provinces to those of the U.S. rust belt.

Mr. Trump’s proposals would only further widen that gap, which at the margin could negatively impact Canada as it competes for labour, especially if we return to the days of higher oil prices and labour shortages.

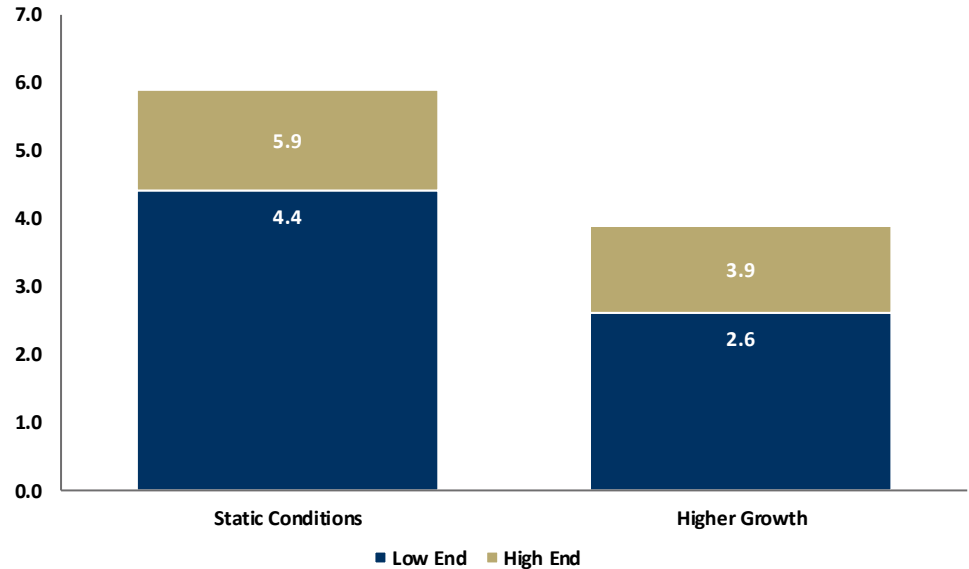
In final point, the proposed repatriation tax would be similar in nature to the 2005 Homeland Investment Act (HIA), which created a window in which corporations could repatriate foreign income at a rate of 5.25%. Our [FX team](#) points out that while the HIA had a limited economic impact, it did lead to repatriation of upwards of \$350 billion from overseas and a significant rally in the U.S. dollar.

¹ Note: This does not fully capture the difference as the highest tax brackets in Canada tend to take effect at a much lower threshold than do the highest tax brackets in most U.S. states.

Congressional support: Support would likely be high for some version of a tax reduction plan as this has been a cornerstone of the Republican Party for some time. However, considering the potential impact on the budget and long-term budget deficits, there would likely be significant resistance from some in the party. Below is one estimate (the only one we are aware of that takes into account recently announced changes to Mr. Trump’s plan) of the potential revenue impact assuming full adoption of Mr. Trump’s plan.

Exhibit 7: Even under a high growth scenario, Federal revenue would drop sharply

Estimated decline (in trillions of USD) of Federal tax revenue under Mr. Trump’s proposal (2016 to 2025)



Source: Taxfoundation.org; Note: High end assumes pass-through business income is taxed at new corporate rate and not at personal tax rate. Static Conditions assumes CBO base case model is used. Higher Growth assumes that GDP is cumulatively impacted by between 6.9% and 8.2% over and above CBO projections between 2016 and 2025. Note: Estimates do not include impacts outside of taxes such as increased spending and costs of interest to service new debt.

Policy Proposal #2: Immigration reform

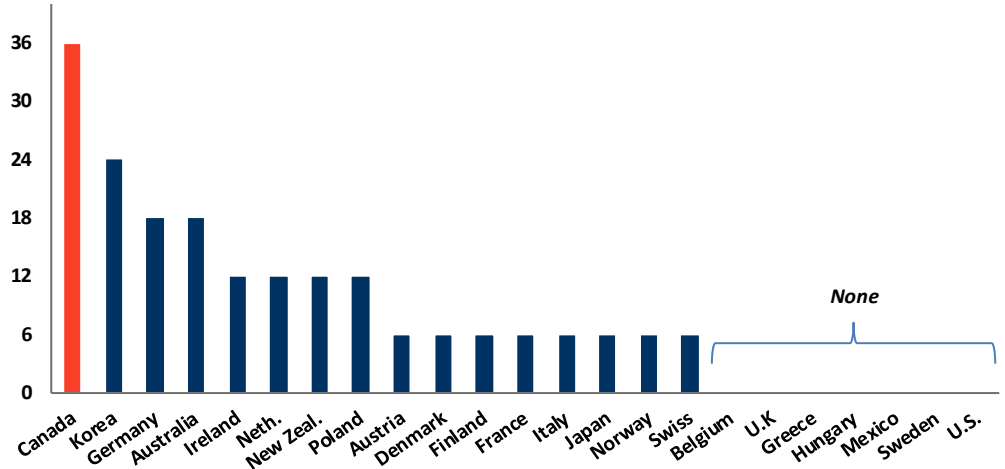
Mr. Trump has made a variety of proposals on the immigration front; however, for our purposes, we will focus on 1) the plan to deport millions of illegal immigrants and 2) the building of a wall to restrict illegal immigration.

Roughly 20% of Canada’s population is foreign born, which is about twice that of the U.S., with about 50% of all workers that enter the country each year considered highly educated according to the OECD.

Further, Canada has in place a number of programs designed to make it easier for highly skilled immigrants to remain in the country, which tends to be in stark contrast to U.S. policy.

Exhibit 8: Canada provides skilled immigrants with significant time to find work

Time (in months) provided for job search under Job Search Permit



Source: OECD

Under Mr. Trump’s plan, the immigration divide between Canada and the U.S. figures to widen even further. Not only would Canada stand to benefit from increased access to lower cost unskilled workers, but also from increased access to skilled immigrant labour as the U.S. market is potentially viewed as less hospitable to immigrants overall.

Congressional support: Support would likely be high at least as it pertains to some deportations (let’s call the wall unlikely); however, Democrats would likely attempt to filibuster any extreme changes in the Senate. We would note, however, that some of Mr. Trump’s immigration policy could be achieved through Executive Order and without the consent of Congress.

Policy Proposal #3: Trade

Mr. Trump’s primary focus on the campaign trail as it pertains to trade has been China, proposing a 35% tariff on Chinese imports and forcing a revaluation of the yuan, which Mr. Trump believes is “grossly undervalued” on the order of between 15% and 40%. He also specifically mentions renegotiating NAFTA and rejecting TPP.

Canada has not been specifically mentioned in Mr. Trump’s trade policy proposals; however, tariffs on China and a “renegotiation of NAFTA” would likely have a direct and indirect impact. A 35% tariff on Chinese goods would not only act as a tax of sorts on U.S. consumers, but also one could probably safely assume that China would retaliate in some way with barriers of its own. Thus, tariffs would likely act as a drag to U.S. growth, offsetting some of the aforementioned tax cut benefits.

As for NAFTA, Canada, Mexico and the United States have become more and more interlinked in the 20+ years since NAFTA became law. In fact, most of the non-energy goods exchanged between Canada and the U.S. (and Mexico and the U.S.) tend to be in intermediate goods as opposed to for final sale in the U.S. In other words, Canada and Mexico tend to be parts of the manufacturing value chain for U.S. companies and thus disentangling them would likely be far more difficult, not to mention damaging, than simply trying to put up barriers to trade between the three countries.

Congressional support: Support would probably be limited as many Congressional Republicans would likely oppose policies that were anti-free trade (Mr. Trump's support ironically could come from Democrats on this issue). The biggest risk here again might be the potential use of Executive Powers, which would essentially allow Mr. Trump to impose tariffs and then force Congress to roll them back, which could take some time. Thus, even if Congress were to ultimately reject the idea of trade barriers, the damage could be done, at least for a time.

Policy Proposal #4: Energy policy/environment

Mr. Trump calls for the cancelling of the Paris Climate Agreement and specifically lays out plans to encourage investment in coal and natural gas at the expense of renewable energy. Further, he has expressed a desire to renegotiate the nuclear deal with Iran and indicates that he would "ask TransCanada to renew its permit application for the Keystone Pipeline."

While we realize it may not be popular to say this, we would view Mr. Trump's environmental stance (especially as it pertains to energy policy) as positive for Canada. Keystone approval would help to resolve some of Canada's accessibility issues (although this is less important than it was a few years ago) as well as potentially improve price realizations for Canadian crude and spur some new investment in the oil sands. Further, should the nuclear agreement with Iran be jeopardized in any way and thus Iranian barrels be put at risk, the positive impact on oil prices could be significant.

The potential offset to this would be the issue of energy supply. Mr. Trump favours drilling pretty much everywhere, including the opening up of Federal lands and the drilling of the Outer Continental Shelf. Thus, under Mr. Trump's plans, U.S. energy production may be significantly higher in the years to come (all else equal), which could have negative implications for oil prices and by extension Canada. That said, given his tax cut and infrastructure proposals, oil demand growth would likely also be quite robust, at least for a time, so increased supplies may not matter as much.

Congressional Support: Support would likely be high for most of this; although, it is not entirely clear that Mr. Trump even needs Congressional approval for his proposals as much could be done through Executive Order.

Policy Proposal #5: Infrastructure investment

While Mr. Trump's platform is lacking in specifics (he has indicated he will outspend Secretary Clinton on this front), he indicates that he believes U.S. infrastructure is suffering from a lack of investment and he plans to rectify this.

Any increased spending on infrastructure would likely be positive for Canada as it stresses commodity supplies and feeds through to increased U.S. economic growth. Again, Mr. Trump's free trade stance could offset some of the benefit to Canada.

Congressional Support: Support would probably be mixed, as once again, the issue of the budget and how the interplay of Mr. Trump's tax cuts and increased spending impacts future deficits. It seems unlikely that a Republican-controlled Congress would simultaneously authorize large tax cuts, while at the same time authorize massive spending increases, so the interplay of these two might make infrastructure spending less likely.

Policy Proposals: Sum total

Full adoption of the above policies would lead to a variety of outcomes that could have an impact on Canada and Canadian stocks. The biggest would probably be higher growth on the back of lower tax rates (personal, corporate and repatriation) and increased spending, offset by increased trade barriers and the impact of mass deportations.



Oil prices would likely be higher driven by increased demand (and potentially Iranian disruption); however, increased supplies brought about by more liberal drilling rules could eventually be a drag.

Long-term interest rates would also likely be higher driven by increased economic activity and much larger borrowing levels/deficits.

Lastly, the U.S. dollar would likely strengthen on the back of stronger growth and the impact of repatriation.

Of course, the likelihood of all of the above coming to pass is low, but as we pointed out, on average roughly 75% of what a candidate proposes on the campaign trail eventually becomes law, so we would by no means be dismissive of even most of the above.

One thing that would make us a bit cautious is that the pro-growth policies above – lower taxes, higher spending – require Congressional approval, whereas those policies that could act as a drag on growth – mass deportations, trade barriers – could be partly achieved via Executive Order. As we have seen with the Obama Administration, which has faced a recalcitrant Republican Congress for much of the past eight years, governing through Executive Order is far smoother than waiting for Congressional approval. Thus, some of the drags, at least in the short run, may be more likely than some of things designed to bolster growth.

Exhibit 9: There are puts and takes for Canada, but we believe more puts

Positive for Canada
Stronger U.S. growth driven by tax cuts and potentially infrastructure spending
Higher oil prices driven by increased U.S. demand and potential conflicts with Middle East
Keystone XL approval improves Canadian access to U.S. market and price realizations
Strict immigration policy improves Canadian access to immigrant labour pool
Negative for Canada
Reduction in corporate tax rates weakens Canada's competitive position
Reduction in personal tax rates weakens Canada's ability to attract talent
Potential renegotiation of NAFTA
Other potential outcomes
Higher long-term interest rates driven by larger deficits and higher growth
Stronger U.S. dollar driven by higher growth and repatriation tax
Eventual oil supply response driven by more liberal drilling policies

Source: RBC CM Canadian Equity Research

Overall TSX Impact

While we would not be surprised to see an initial negative reaction by investors, especially if Mr. Trump's victory comes as an Election Day surprise, we would expect the sum total of his policies, even with only partial adoption, to be net positive for Canadian stocks.

Increased U.S. economic growth coupled with higher long-term interest rates and potentially higher oil prices (and better access for Canadian crude) could all act as positive drivers for TSX outperformance. There are offsets to be sure, including trade barriers and a loss of competitive advantage in terms of corporate tax rates; however, we believe the good is likely to outweigh the bad, at least as far as the stock market is concerned.

Sector views

We believe there are a number of sectors and subsectors in the S&P/TSX that would be impacted to varying degrees by a Mr. Trump election. Given time constraints and the number of moving parts involved, we will share some general thoughts rather than dig too



deeply into the weeds. In the event of a victory by Mr. Trump, we would expect significantly more will be written on a sector basis.

For ease of use, we will start with a table that provides our views in point format and then touch on some of these thoughts in a bit more detail.

Exhibit 10: There are puts and takes for Canada, but we believe more puts

Policy proposal #1: Reduce tax rates	
Winners	Losers
Banks driven by steeper yield curve	Broader Canada from reduced competitive position both from corporate and personal tax reduction
Lifecos driven by higher long-term rates	Utilities from higher long-term interest rates
Auto parts driven by stronger U.S. growth	Telcos from higher long-term interest rates
Rails driven by stronger U.S. growth	REITs from higher long-term interest rates
Commodities driven by increased U.S. demand	
Policy proposal #2: Immigration reform	
Winners	Losers
Technology from improved access to talent pool	Humanity
Broader Canada from improved access to talent pool	
Policy proposal #3: Trade	
Winners	Losers
None	Auto parts
	Industrials broadly
	Consumer businesses with significant U.S. exposure
	Commodities driven by reduced Chinese activity
Policy proposal #4: Energy policy/environment	
Winners	Losers
E&P's and Integrations from better access to U.S. market and higher price realizations	The environment
Midstreams from stepped up approval process	Eventually Oil & Gas if policies lead to significant supply response
Utilities from improved coal environment	
REITs from improved financial outlook for oil-rich provinces	
Policy proposal #5: Infrastructure investment	
Winners	Losers
Industrials	None
Utilities	
Materials from increased demand	

Source: RBC CM Canadian Equity Research

Banks and lifecos could benefit from a steeper yield curve

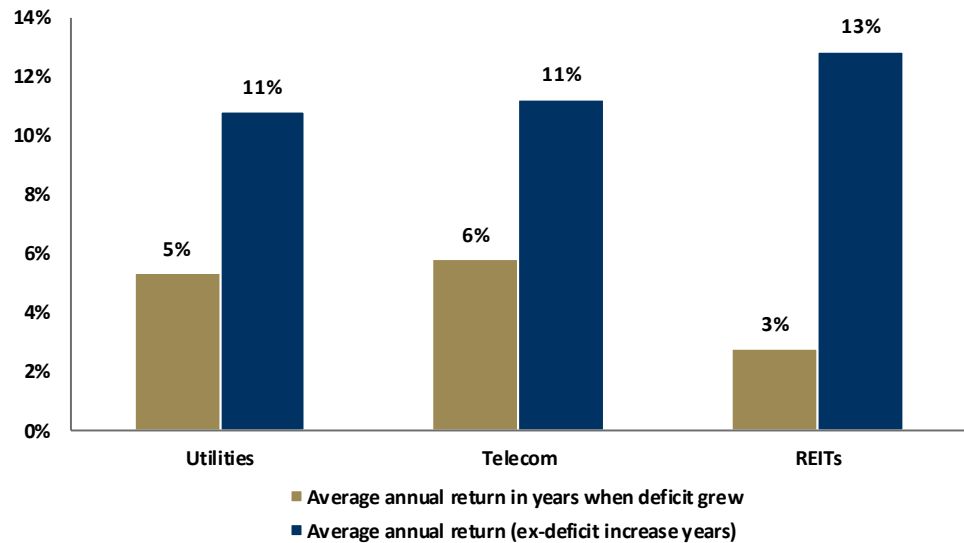
Even with only partial adoption, Mr. Trump's tax cuts are likely to lead to higher long-term interest rates as economic growth and budget deficits increase. Higher rates would be expected to benefit banks through a steeper yield curve, while lifecos would benefit both from a balance sheet and income statement perspective from higher rates. Further, regulations could potentially become less onerous in the event of a Republican sweep, which would also be a benefit to banks.

REITs/Utes and Telcos could be negatively impacted by higher rates

Continuing the theme of potentially higher rates, the more yield-sensitive sectors would likely feel some negative impact as they tend to be negatively correlated to long-term bond yields. We would note that all three sectors have traditionally been poor performers during periods of growing U.S. deficits.

Exhibit 11: Utes, Telcos and REITs have traditionally lagged during periods of rising deficits

S&P/TSX sector performance (1981 to 2016) in periods of rising and falling U.S. deficits



Source: RBC CM Canadian Equity Research; Note: Excludes dividends received; Also excludes the periods from 1998 to 2000 and 2008-2009, which significantly skew the data.

However, there are some potential positives within Mr. Trump’s proposals that could benefit Utilities and to a different extent REITs.

In the case of Utilities, Mr. Trump’s comments regarding coal and infrastructure investment could be positive, as some of them have built out significant U.S. footprints in the past few years. Coal remains the largest and cheapest input for electricity generation and to the extent that Mr. Trump’s policies (it is worth mention that Mr. Trump’s VP, Mike Pence, is a coal supporter) benefit the coal industry, Utilities could stand to benefit.

As for REITs, increased economic activity would potentially benefit occupancy and rents, while anything that helps out the Oil & Gas sector would benefit those REITs that have significant exposure to the more oil-rich provinces.

Consumer sectors could be negatively impacted by trade barriers

As with some of the other sectors, there would likely be a fair bit of give and take as far as Consumer Staples and Discretionary stocks are concerned.

Any move to rollback NAFTA would weigh on those areas that rely on significant access to U.S. market with Auto Parts a notable standout. The offset would be the potential for higher U.S. growth and the positive flow through to Canadian businesses that sell into the U.S. market.

Industrials could benefit from increased U.S. infrastructure spending offset by potential trade barriers

In similar fashion, trade barriers would be a concern, potentially offset by increased U.S. economic activity and increased infrastructure spending.

Rails could potentially be a beneficiary, not only from increased economic activity, but also from anything that helps to revive the coal market (although Eastern U.S. rails have significantly more exposure on this front).

Technology could get a boost from immigration

One of the unsung heroes in the Canadian economy has been the revitalization of the technology sector, which has not only benefitted from strong M&A, but also from significant government investment in R&D, not to mention a liberal immigration policy. According to the Brookfield Institute, the Technology sector accounted for ~7% of Canadian GDP in 2015, as well as ~6% of jobs Canada-wide with average salaries about 150% the national average.

We would expect any radical changes to U.S. immigration rules to benefit the Canadian technology sector as the flow of well-educated immigrants to Canada could increase. We would note that “How to move to Canada from the U.S.” currently produces more than 300 million Google hits.

Energy and Materials potentially big winners

We believe all subsectors of the Energy sector would stand to benefit from a Trump Administration. As mentioned, approval of Keystone XL and a generally more favourable attitude toward pipeline expansion would benefit the Midstream subsector, while upstream companies would potentially benefit from higher prices and better price realizations brought about by pipeline expansion. Lastly, the services sector, albeit small, would likely stand to benefit from the eventual increase in activity brought about by increased drilling.

Base metals would likely stand to benefit from increased demand brought on by increased U.S. economic activity and infrastructure spending; however, the extent to which the U.S. and China clash over trade could act as an offset, especially if the Chinese economy slows.

As for gold, we see puts and takes to a Trump victory. On the one hand, stronger growth and higher U.S. bond yields could be a negative for gold prices. However, on the other hand, we would acknowledge that a victory by Mr. Trump could add significantly to the “fear trade” with greater risk of global skirmishes as a result of Mr. Trump’s hard stances on a number of issues.

Conclusion

Polls for the upcoming U.S. Presidential election have narrowed to the point that we no longer believe Canadian investors should dismiss (if they have been) the prospects of a Donald Trump presidency.

Contrary to what some may think or report, we do not believe a Donald Trump presidency would be bad for Canada; and, in fact, we think many of his policy proposals (although we acknowledge they are light on details) would likely be positive for U.S. growth (at least for a time) and by extension positive for Canada, which still relies heavily on U.S. growth for its growth outlook.

There are, of course, puts and takes to this and while we think Canadian stocks likely benefit after a potential digestion period, we also think some of Mr. Trump’s policies could have negative longer-term ramifications, especially as they relate to budget deficits and immigration.

Above all else, we would not panic over the events of the next six weeks or by what happens on Election Day. Good businesses with strong management teams and track records of compounding shareholder value will tend to weather very well the whims and follies of the political cycle. Using the opportunities that the market presents to buy or add to these businesses on bouts of market unrest has proven to be a winning strategy for many years and one we would continue to adhere to, regardless of who should become the 45th President of the United States.



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