Wealth Management
& Capital Markets Perspective

Wealth Management
Dominion Securities

For the clients of Grimes Handscomb Asset Management of RBC Dominion Securities | Fall 2020

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America heads to the polls

By RBC Global Asset Management

Election Day is fast approaching, and with that comes increased attention around what might transpire come November 3. In order to ensure you are well-positioned to navigate the associated headlines, this piece highlights the key information investors need to know about the upcoming election. It also focuses around important lessons that investors can glean from past election cycles.

A look at the candidates and polls

It was confirmed in August that former Vice President Joe Biden would be the Democratic nominee contesting Trump and the Republican Party. Polls continue to put Biden moderately ahead, and his lead expanded after the first presidential debate. Biden's market-assessed odds of victory improved from just over 55% to around 65%.

Biden leads Trump, gap widened after first debate

Note: As of 10/1/2020. Based on prediction markets data and RBC GAM calculations. Source: PredictIt; RBC GAM

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Election models continue to be even bolder in their assessment. The FiveThirtyEight model shows an 81% chance of victory for Biden, while The Economist magazine calculates an 89% chance. Our sense is that the truth may lie in the middle – Biden is more likely to win than the market thinks, but perhaps not quite as certain as these models claim. In turn, the most likely Congressional orientation is a Democratic Party sweep of both the House of Representatives and the Senate, though the latter should be close.

Moving forward, there are an unusual number of X-factors during this year's election. Indeed, there could potentially still be more on the way given ongoing protests over racial injustice, a Supreme Court nominee battle, and the prospect of unprecedented mail-in balloting. All of this combines with the general uncertainty of holding an election during an economic and health crisis.

Could the election results be delayed?

It probably isn't realistic to expect the official election results on November 3. The prospect of delay is largely a function of the complexities associated with mail-in balloting, and the risk of a contested election. While the election results could be contested in a legal sense, it is less likely to be in genuine doubt from an economic or financial market perspective. If Biden maintains his significant lead in the polls and betting markets, it would be hard for a few closely fought states to matter enough to do anything other than delay the inevitable.

The implications of a Biden presidency

Biden's comfortable lead warrants some discussion on the implications of his presidency, particularly given markedly different policy visions compared to Trump. Biden's platform proposes substantial changes to the relatively status quo Trump plan that could affect economic growth in various manners.

- **Negative initiatives for the economy.** Biden is expected to deliver higher taxes, increased regulations, and take a stronger stance on taming COVID-19.
- **Positive initiatives for the economy.** Biden is expected to deliver larger fiscal stimulus for the economy. He is seen as less protectionist, and favours more immigration. In addition, the aforementioned virus control policies represent a potential economic positive over the medium term.

Overall, we remain of the opinion that a Biden presidency might be modestly positive for the economy. However, the prospect of higher corporate taxes could weigh on investor sentiment. In addition, this better growth profile, higher public debt and a reduced need for monetary support could combine to induce slightly higher bond yields.

Biden platform and implications

Biden policy stance vs. Trump	Short-term economy	Long-term economy	Equities	Bond yields
Stricter COVID-19 controls	–	+		
Tax increases		–	– –	
Fiscal stimulus	+ +	+	+	+
Trade/Immigration		+	+	
Regulations		–	–	
Overall	+	+	–	+

Note: As at 9/24/2020. Source: RBC GAM

Should investors fear an October surprise?

In U.S. politics, the term October surprise relates to a startling news event in the lead-up to an election which could influence the outcome. History provides countless examples of such events, and indeed, the news that Trump tested positive for COVID-19 broke in the early hours of October 2.

While October surprises tend to dominate news cycles, history suggests they offer little concern for investors. Looking at the historical performance of the S&P 500 from October 1 to Election Day during the past 23 elections, markets were positive nearly 74% of the time, enjoying median gains of 1.6%.

The only two notable downside events that occurred in the immediate lead-up to an election were in the midst of the Great Depression and Global Financial Crisis. As this suggests, the events that occur outside the political sphere matter most for investors.

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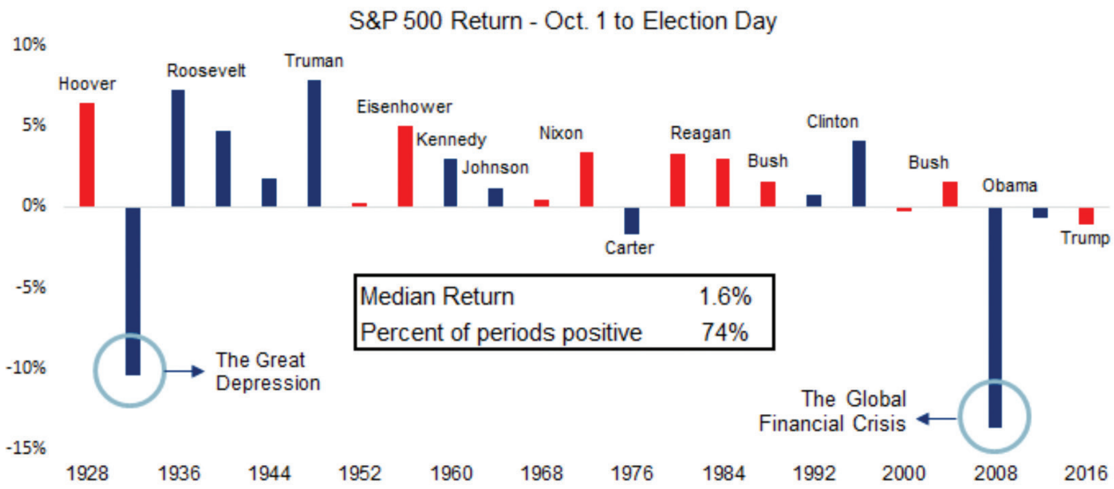
The impact of an October surprise

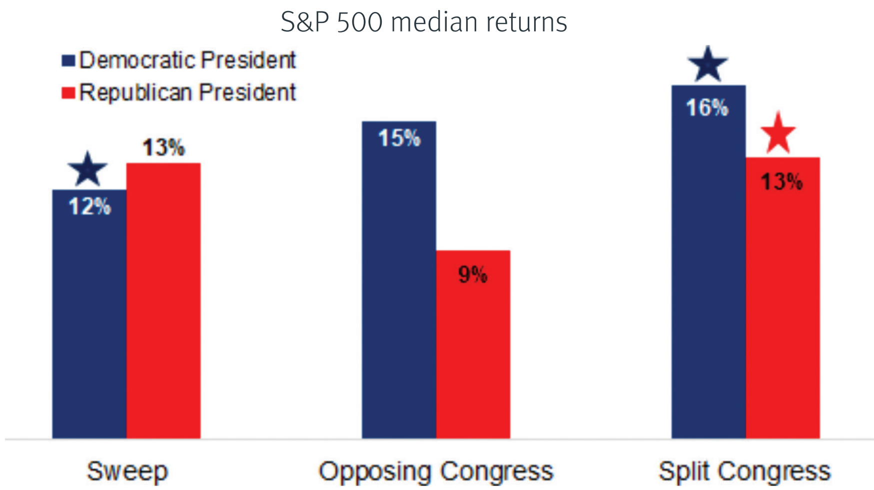


Source: RBC GAM, Bloomberg. S&P 500 return (USD) from October 1 to Election Day. Studied U.S. elections occurred every 4 years beginning in 1928 on the Tuesday after the first Monday in the month of November.

Gauging the post-election market response

Traditionally, markets see the business-friendly policies of the Republican Party as the preferential outcome. However, analyzing the historical performance of U.S. equity markets under various forms of government would indicate that the government regime doesn't matter nearly as much as the headlines would suggest.

Returns based on government control



Projected results:

The 2020 U.S. presidential election will likely form either a unified government under Democratic control or a split Congress, which could occur with either a Trump or Biden presidency. While American voters are heavily vested in these matters, investors should take comfort as each scenario has historically led to strong returns. It's important not to put too much emphasis on these figures given the small sample sizes involved.

Source: RBC GAM, Bloomberg. S&P 500 return (USD) November 6, 1928 to October 6, 2020. Returns attributed to governments immediately after election and accounts for changes in government control following mid-term elections. Sweep accounts for period where president's party controls congress. Opposing Congress accounts for period where the opposing party of the president controls congress. Split congress accounts for periods where Democrats and Republicans each have control of one of the House of Representatives or the Senate.

An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

Publication date: October 8, 2020.

Key takeaway: New governments bring with them their own political agendas. However, assuming this will drastically impact the direction of stock prices oversimplifies the complexities of the market which largely hinge on corporate revenue and earnings. In this regard, it's the executives running companies, making decisions on what projects and investments to make, that have a larger impact on investment returns than who is in the White House. Simply put, the president is not the stock market.

Financial markets dislike uncertainty – political uncertainty is no exception. While we may experience some eye-catching headlines and elevated levels of volatility in the weeks ahead, history provides compelling evidence that long-term investors shouldn't concern themselves with the outcome of any one election. While the candidates and hot-button election issues will always be different, the long-term performance of the market is remarkably similar.

Administrative corner

Conveniently access your funds with electronic payments

By adding banking details to your accounts with us, you can access the funds you need more quickly and easily. Once set-up, you can electronically transfer funds directly to your bank account simply by contacting a member of our team – thereby reducing paperwork and avoiding the hassle of handling cheques.

Benefits of electronic payments:

- Access your funds faster – no waiting for a cheque to arrive;
- Reduce chances of a lost or stolen cheque;
- Set up regular (eg. monthly) automatic electronic fund transfers (both Canadian and U.S. Dollars) to your account at a Canadian financial institution;
- Receive Registered Retirement Income Fund (RRIF) payments electronically into your Canadian bank account;

It's easy to set up! Please contact us to add the electronic payment capability to your investment accounts.

Get to know... Shelley Knox

Born and raised in Montreal, Shelley has now lived in Toronto for over 20 years. A graduate of McGill University, Shelley began working in the financial services industry soon after moving to Toronto, and joined RBC Dominion Securities in 2007. She has completed the Certificate in Financial Analysis and Investment Management at the University of Toronto, and has obtained the distinguished designations of Associate Portfolio Manager, Canadian Investment Manager (CIM), and Fellow of the Canadian Securities Institute (FCSI). Shelley is insurance-licensed, and has also completed the Options Licensing Course with the Canadian Securities Institute.

Shelley works closely with other group members in a portfolio management capacity. By providing clients with timely information, Shelley is instrumental in implementing various strategies and recommendations to our valued clients. Outside of office hours, Shelley is an avid cyclist. Whether completing a charity ride from Toronto to Montreal, riding her mountain bike in B.C, riding the gravel roads of the Eastern Townships in Quebec or riding a fat bike through the snow covered trails north of Toronto...if it has two wheels, Shelley is on it!

Benchmarks

Equity market 12-month trailing return (for month ending September 30, 2020)	
S&P/TSX composite total return index	0.0%
S&P 500 total return (C$)	15.8%
S&P 500 total return (U$)	15.1%
DJIA total return (C$)	6.3%
DJIA total return (U$)	5.7%
Nasdaq composite price return (C$)	40.4%
Nasdaq composite price return (U$)	39.6%

RBC CM Canadian bond market indices 12-month trailing return (for month ending September 30, 2020)	
Short-term index	4.9%
Intermediate-term	8.2%
Three-month T-Bill (C$)	1.2%
Three-month T-Bill (U$)	1.1%

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