November 7, 2016

Views from our Investment Specialists

The U.S. Elections

The following are the views of our investment specialists on the U.S. elections and the likely consequences of a Clinton or Trump victory and implications, if any, to the positioning of the mandates that they manage.

PanAgora Asset Management Inc.
Tactical Asset Allocation: Counsel Managed Portfolios

Traditionally, the U.S. election has had little impact on the markets. If anything, the equity market tends to rally going into the presidential election because the result removes one source of political uncertainty. This year it has been slightly different because of the stark contrast between the two candidates. The election of Hillary Clinton, to a large extent, represents a continuation of current policies. On the other hand, the election of Donald Trump, represents a drastic departure, as well as rising uncertainty due to the vagueness and contradictions of many of his proposals.

Prior to Friday October 28th, the markets had expected a Clinton win based on many polls. Since then, the polls have tightened even though many still give Hillary a slight edge. The market has reacted to this change with rallies in safe assets such government bonds, precious metals, Swiss Francs and declines in risky assets such as equities and high yield bonds. There are three implications from the market development over the last week.

1) A Trump win is no longer totally unexpected event – not a black swan as some people claimed it to be.
2) The reactions seem to be in line with risk-off events that have happened in the past.
3) It is possible that a Trump win would lead to a continuation of the risk-off reaction and a Clinton win would reverse much of last week's market movement.

Our portfolios have had a slight overweight in risky assets over the last few months based on the stabilization of global economy, low bond yields, and continued monetary stimulus. From a macroeconomic perspective, we believe this is the correct position. We will maintain this positioning going into November 8 for the following reason:

1) the result of the election is highly uncertain.
2) In the event of a Trump win, the market reaction might not be as severe as feared since information regarding his possible win is already priced in the market.
3) Different reactions of risky assets and safe assets provide some diversification protection for our asset allocation portfolios.

Lincluden Investment Management
Canadian dividend equities

As we approach election day, what appeared to be a clear path to the White House for Clinton only a few weeks ago, has turned into a close race – too close to call with any degree of certainty. This has fueled volatility in markets and stoked investor fears, as the prospect of a Trump victory heralds even more uncertainty. We would expect that a Trump victory will result in a short term sell-off in equity markets, and a rally in gold and treasuries. A Clinton win would bring the opposite - a relief rally in equities and a possible sell off in gold and treasuries.

By industry sector, we would expect energy to favour a Trump victory, healthcare to be hurt by a Clinton win, and financials to be negative to neutral if either wins.

Longer term, we believe that much will depend on who controls Congress and the Senate, regardless of who wins the presidency. Importantly, a value investor must not only consider the probability of events and the impact of the outcomes, but must factor in whether markets are adequately pricing in the risk. The portfolio holds attractively priced, quality stocks with good fundamental prospects and is biased towards conservative investments. We have not repositioned the portfolio in speculation of either outcome but have systematically determined whether each of our holdings will survive over the long term, provide our required return over our investment horizon and generate the required dividends under most reasonable scenarios.

Sionna Investment Management
Canadian value equities

Increasingly in the lead up to tomorrow's U.S. election, some investors are questioning how the results will impact the markets, both in Canada, the U.S. and abroad. We take a bottom-up approach to investing, and do not expect this event, regardless of the results, to have a long-term impact on intrinsic values or cash flows of the business in which we invest.

However, we believe that there will likely be some short-term volatility, regardless of who wins. We look at that as an opportunity to potentially invest in new businesses or add to our current positions at attractive valuations. Nonetheless, we know that political (and regulatory) risk is real and can have an unexpected impact on the intrinsic value of an investment.

We will continue to follow the situation in the U.S. closely and will revisit our intrinsic values should circumstances warrant it.

Marsico Capital Management
U.S. Growth Equities

As with all presidential election cycles there is a period of uncertainty until the votes are tallied. Up until today, we have witnessed U.S. markets price-in Trump's jump in the polls and the Clinton email scandal. From a broader perspective, the major areas of focus for this election cycle continue to be the war on terror, the economy, foreign policy and healthcare. Based upon the electoral map, we feel a Clinton victory is highly likely and that is causing us to focus our efforts on several themes. However regardless of who is elected president, the political structure in government is most likely to remain divided as the Senate may return to control by the Democrats with a simple majority and the House will remain Republican but with less control than prior years.

We continue to invest in steady, sustainable growth franchises with moats around their business that generate sufficient free cash flow to return capital to shareholders via a combination of dividends and share buybacks – companies like UnitedHealth Group, discussed below. These types of companies will continue to form the backbone of your portfolio for the foreseeable future, companies which will continue to grow and gain market share regardless of the political environment. For example, Facebook should continue to perform as they expand their mobile advertising platform, regardless of the election outcome.

Economically, the major policies, regardless of candidate, are likely to support a comprehensive stimulus program focused on infrastructure build. The candidates have outlined various plans within their first 100 days that can earn support from allies in Congress. For example, Hillary Clinton's first point of order will be a $300 billion infrastructure plan. This is something we are monitoring closely because, once put in place, a stimulus event like this would have a multi-layer effect on the economy.

Regarding Healthcare, a Clinton presidency will remain focused on access and affordability. She has stated on numerous occasions that in order to increase access the country needs to strengthen and build upon the Affordable Care Act (ACA) established under President Obama. This focus will strengthen the public exchanges to ensure that the 20 million individuals who received additional coverage remain covered, it will expand Medicaid coverage, and it will allow Medicare buy-ins for individuals who want coverage before age 65. This increased access is one of the reasons for MCM's position in UnitedHealth Group Inc.- the industry leader in the Medicaid and Medicare businesses. Another area where Clinton remains focused is on drug pricing and capping out-of-pocket expenses for families. Due to this increased scrutiny on drug companies and the uncertainty created by the need to fix the Affordable Care Act, MCM has reduced their overall weighting in the Health Care space and remains focused upon innovation as a primary investment theme for our Health Care interests.

Mackenzie Investments
Canadian small cap equities; International value equities

The election of the next US president and Congress sets the stage for important changes in US government policies, creating both winners and losers. Markets continue to price in a Clinton victory at this stage, although with declining odds. While the latest polls suggest a toss-up in popular opinion, Clinton maintains the clear advantage based on the U.S. electoral college system.

As a result, a Trump victory would represent an underpriced 'risk-off' event, benefiting safe-haven assets like U.S. Treasuries, global high-quality government bonds, the US dollar, Japanese yen and gold. The countries most exposed to Trump's protectionist trade policies include Mexico, China and possibly Canada. Relatedly, cyclical and trade-dependent currencies would likely sell off after the election, especially MXN (the bellwether indicator of Trump's status in the polls), CAD, AUD and EM currencies. Global stock markets would also sell off initially as investors demand wider risk premiums to compensate for the increased uncertainty.

Some equity sectors may *relatively* benefit under Trump, such as traditional energy producers and pipelines, infrastructure-related companies (construction equipment and heavy machines), industrial import substitutes, defensive stocks and bond proxy stocks. We may also see a rebound in those sectors that have faced pressure because of an expected Clinton victory, such as big banks and pharma. Losing sectors under a Trump victory could include companies with positive exposure to Obamacare, such as hospital facilities and services, and international trade (especially to Mexico), such as rail and trucking.

Under a Trump victory, safe-haven assets like US Treasuries and the USD could eventually give way to more fundamental pressures if Trump succeeds in implementing his more extreme fiscal policy proposals, which would lead to dramatically higher budget deficits over the next 10 years. If Congress blocks Trump's more aggressive policies, US stocks could react more like UK stocks following Brexit. After an initial sharp decline, the USD could weaken given the reduced chance of more extreme policies, setting the stage for an equity rebound.

In contrast, a Clinton victory represents a continuation of status quo policies, reducing market uncertainty. Global stocks and other risk assets may rally modestly with her election as the "Trump risk premium" gets priced out. However, Clinton supports more stringent regulation of big banks and tighter regulation of drug companies. Stocks in these areas could continue to underperform after a Clinton win, especially if the Democrats sweep both the White House and Congress. Winning sectors after a Clinton victory include alternative energy and those sectors most negatively exposed to a Trump win. Under Clinton, the initial and medium-term market reactions should be more modest.

Irish Life Investment Managers Ltd.
Retirement strategies

Likely market movements post the US Presidential Election

- A Clinton victory is perceived as most likely and would mean fewer policy changes, so market reaction would likely be minimal.
- A Trump victory may lead to more volatile markets given his more radical policy proposals particularly around trade and US relationships with the rest of the world - lack of clarity on some policy proposals would also contribute to uncertainty and which could take a number of months to resolve.
- A Trump victory would likely mean a general 'risk off' move in markets with equities declining and bond prices rising with yields falling.
- EM markets would be expected to be most sensitive.