Trump's Second Time Around…
What This Means for Canada and The World?

Well, it wasn't even close.

Donald Trump will be the 47th president of the United States, the Republicans will control the Senate, and it looks like they're on their way to controlling the house as well.

Who would've thought that it would be a landslide victory for Donald Trump and the Republicans? What this means for the bond market, the stock market and other investment assets is, in our opinion, rougher waters that will be more difficult to navigate.

Donald Trump will care less about a balanced budget and the national debt. His tax cuts from 2017, which are due to expire at the end of 2025 will probably continue. He will take a tougher stance on immigration.

His policies will be stimulative and somewhat inflationary if his first term was any indication. Should he continue the trend of massive government spending, the nation's debt to GDP ratio would raise our concern. That number, which is already stretched to 120% may increase further to more than 160% of GDP. This number is based on estimates by the Committee for a Responsible Federal Budget.

His pursuit of deglobalization and implementation of tariffs could also be very inflationary. It will be interesting to watch how the trade agreement with Mexico and Canada will unfold. Given President Trump's transactional approach Canada is unlikely to benefit from these negotiations. The Canadian dollar has already been under pressure as Canadian interest rates have gone down more than US rates. We believe that trend will continue.

In United States, if there is risk of re-inflation, then the bond market will not perform well as interest rates will remain high. The future of the equity markets has to be balanced with headwinds and tailwinds; headwinds being high valuations, existing speculation and record margin account indebtedness with the tailwinds of decrease in taxes and deregulation, which will help corporations and consumer spending.

Another important consideration is the correlation between stocks and bonds. Historically they've been low or negative which has been a good source of diversification for investors.

However, there have been times, notably 2022, where the correlation turned positive and both stocks and bonds were down dramatically. Given inflationary risk potential these stock bond correlations are an area that should be top of mind.

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As a firm that focusses on risk and risk adjusted returns, the question to ask is do you think the world is a safer place today than it was yesterday?

In our quarterly investment commentary, which we published and distributed some 13 days ago, we started the commentary by saying we are not soothsayers, we do not have a crystal ball nor do we prognosticate.

We continue to believe that interest rates in the United States will stay higher for longer and given what we've heard from Trump it sounds like inflation in the United States is not going away anytime soon.

As Canadians, we are the passengers on a North American, but also global bus. We've never really been the driver. America has just elected a president who will drive the bus to a destination we Canadians may not want to visit. We don't have the strong leadership that we deserve and it will be very interesting to watch what takes place over the next four years.

There is one issue of which Canadians should be aware, but most are not. We have the greatest natural resource in the world and that is replenishable fresh water. It would be great for us to sell water to the United States for hundreds of billions of dollars. The United States needs our water and if we cannot negotiate a deal, unfortunately, they will tap into the Great Lakes and just take it. And Trump is the kind of president who might just do that.

One concluding thought,

Some investors are enthused by the prospect of a potential bull run under President Trump, and that may in fact come to pass. At the same time, we've seen historically that the stock market is generally indifferent to who is in office. The dot-com crash occurred under a Republican presidency, while the massive recovery from the Great Financial Crisis occurred during a Democratic administration. If there's one thing we can predict about President Trump, it's that he's unpredictable. How he affects investment markets may be, for better or worse, much different than expected.

In the meantime, we do not want our clients concerned about its implications. When we describe our "All Weather Portfolio", these uncertain times are precisely the reason for its construction. We want our families to sleep well at night, knowing that their wealth is growing steadily and safely. That has always been our promise, and we will keep it no matter what headline appears tomorrow.

If you have any questions or comments, we would love to hear from you.

Until then,

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