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Economic & Market Update

Campaign Carousel

Although the concluded 2019 Canadian federal election campaign involved a surprising amount of old-school mudslinging, vitriolic rhetoric, wide-ranging accusations, and blast-from-the-past photos and videos (so much for doing politics differently), this newsletter's interest is only in the impact that party policies might have on investment markets (sorry to let you down!).

The concluded Canadian federal election campaign was more about drama than substance.

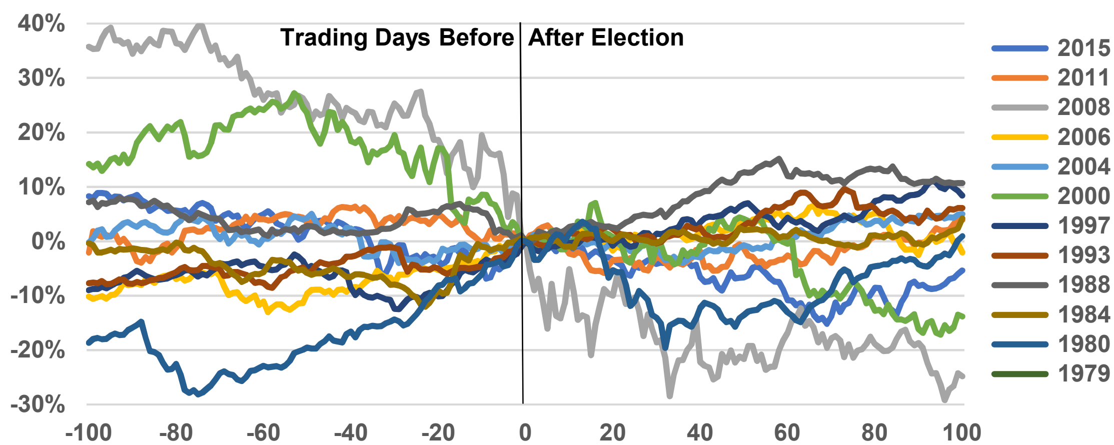
This might explain the muted investment market reaction.

In the weeks leading up to the election date I didn't find much proposed by any of the leaders to be economically optimistic and in my opinion, the political value even seemed questionable.

Here's a quick summary of what was featured: A travel bursary up to $2,000 to go camping for four days (Trudeau), a promise to review mortgage stress tests and to allow for longer mortgages (Scheer), a proposal to tax robots (May), and, imitating the French government, a proposal to slap a tax on advertising by foreign tech giants like Facebook and Amazon (Trudeau).

Not a word with respect to a post-commodity boom economic strategy, or trade alternatives as trade with the People's Republic of China becomes harder to justify, or tax policies that legitimately encourage the commercialization and marketability of technology so that Canada's tech sector has a fighting chance to contribute as much as a percentage to national GDP as the U.S. tech sector does. As a portfolio manager, all of this was very disappointing.

Chart 1:
S&P/TSX Performance Around Canadian Federal Elections

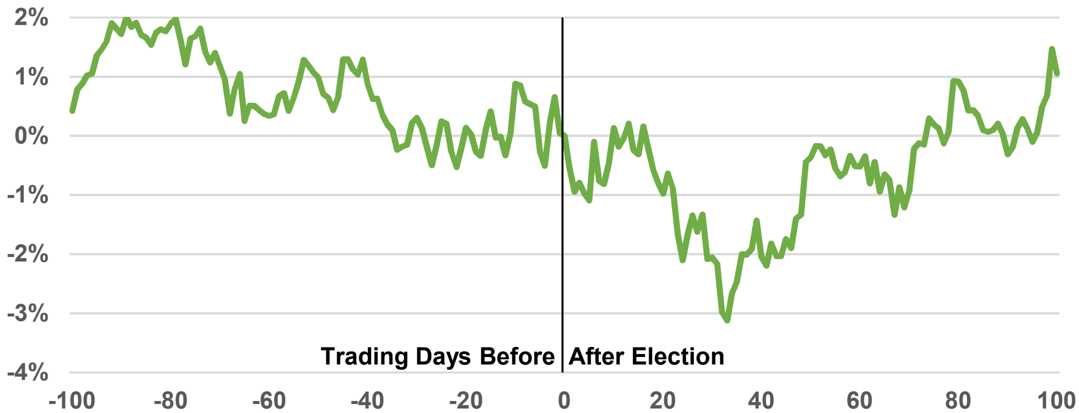


Source: Bloomberg Finance L.P. as of 10/25/2019

Since there was not that much economically to focus on, it might be interesting to look back on the effect that previous federal elections have had on Canadian stocks. **Chart 1** tends to show that the general direction of share prices before the election is usually maintained following the election.

Chart 2 averages the performance of the S&P/TSX Composite Index around the previous 12 federal election dates. We can see here as well that the trend up to election day is maintained for about a month afterwards before reversing.

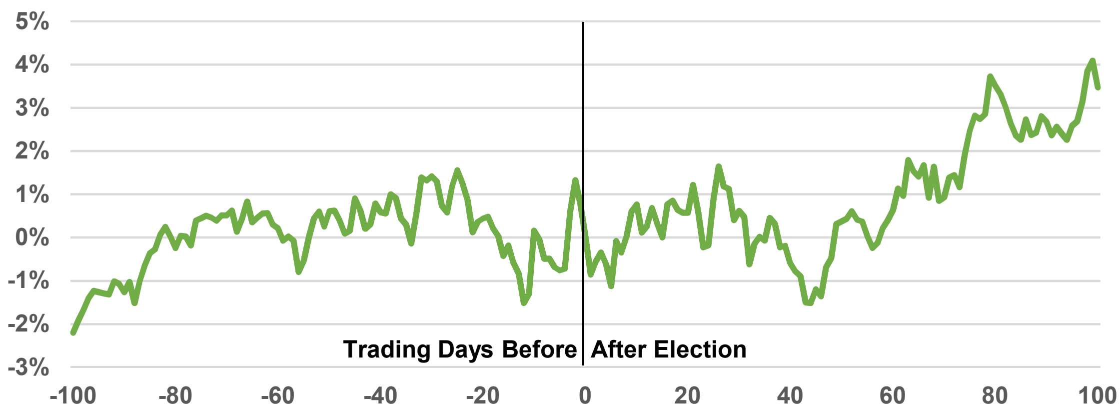
Chart 2:
S&P/TSX Average Performance Around Canadian Federal Elections



Source: Bloomberg Finance L.P. as of 10/25/2019, Averaged for all federal elections since 1979.

Chart 3 looks at the performance of the S&P/TSX relative to the MSCI World Index. Compared to stock markets elsewhere in the world, Canadian stocks actually performed well after federal elections. Perhaps this is because an element of uncertainty is reduced post-election. Essentially, we know what we are dealing with for the next few years.

Chart 3:
S&P/TSX Composite Index Average Performance Relative to the MSCI World Index Before and After Canadian Federal Elections

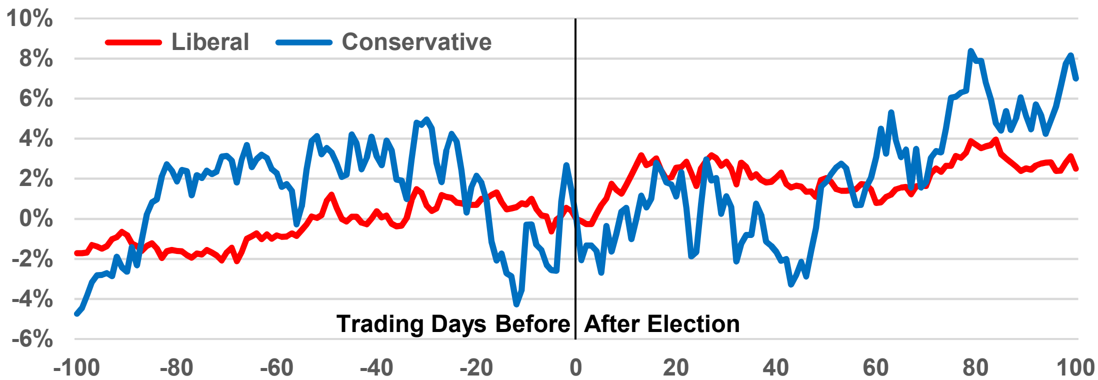


Source: Bloomberg Finance L.P. as of 10/25/2019, Averaged for all federal elections since 1979.

Chart 4 divides up the relative performance of Canadian stocks by the winning party. Since 1979 there have been six victories each for the Liberals and the Conservatives (including the Progressive Conservatives before they were merged with the Reform Party). Here we can see that Conservative victories have led to better results 100 trading days past the election. This might have something to do with the Conservative's more pro-business policies. Or, other concurrent global events could have also impacted these results.

Chart 4:

S&P/TSX Composite Index Average Performance Relative to the MSCI World Index Before and After Canadian Federal Elections



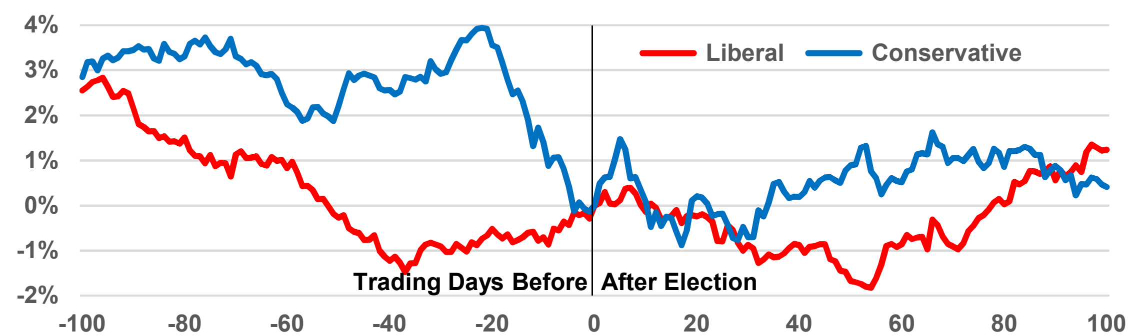
Source: Bloomberg Finance L.P. as of 10/25/2019, Averaged for Liberal victories in 1980, 1993, 1997, 2000, 2004, 2015, and for Conservative victories in 1979, 1984, 1988, 2006, 2008, 2011.

Finally, the Canadian dollar has a habit of falling versus the U.S. dollars before most federal elections as **Chart 5** illustrates, and then stabilizes somewhat thereafter. This also may have something do to with the reduced degree of uncertainty once the results are in.

The Canadian dollar also tends to stabilize versus the U.S. dollar following elections. Probably also related to a reduction in uncertainty.

Chart 5:

Canadian Dollar Versus U.S. Dollar Average Performance Around Canadian Federal Elections



Source: Bloomberg Finance L.P. as of 10/25/2019, Averaged for Liberal victories in 1980, 1993, 1997, 2000, 2004, 2015, and for Conservative victories in 1979, 1984, 1988, 2006, 2008, 2011.

Model Portfolio Update[1]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	15.0	None
U.S. Equities	35.7	None
International Equities	9.3	None
Fixed Income:		
Canadian Bonds	24.5	None
U.S. Bonds	3.5	None
Alternative Investments:		
Gold	7.5	None
Commodities & Agriculture	2.5	None
Cash	2.0	None

There were no changes to the specific holdings or the targeted overall asset allocation in the model portfolios during the month of September.

No changes in the model portfolios during September.

Given September's reputation as being a volatile month for markets, things were relatively docile. The only asset class that suffered notable loses was gold which fell in response more dismal economic numbers which tends to reduce the risk of inflation. Gold was also up over 30% year-to-date heading into September, so there might have been some profit-taking on behalf of investors.

September was calmer than expected along stocks to generally do well.

Gold was the one significant sore spot for the month.

Generally, stocks did well globally as well as in North America during the month. Investors were buoyed by the notion of continued economic stimulus, both fiscally and monetarily. Even though there were some signs of slowing economic growth, this heightens the prospects for more interest rate cuts and more government spending.

Stocks responding favourably to potential rate cuts and government spending.

[1] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of 10/25/2019. The asset allocations of individual clients invested in this Portfolio will differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

Similar to September, October is also known is a challenging month for the markets. This has the potential to increase investor anxiety and could trigger adverse responses to negative headlines such as impeachment proceedings, trade war rhetoric, and further potential for economic sluggishness, especially in Europe.

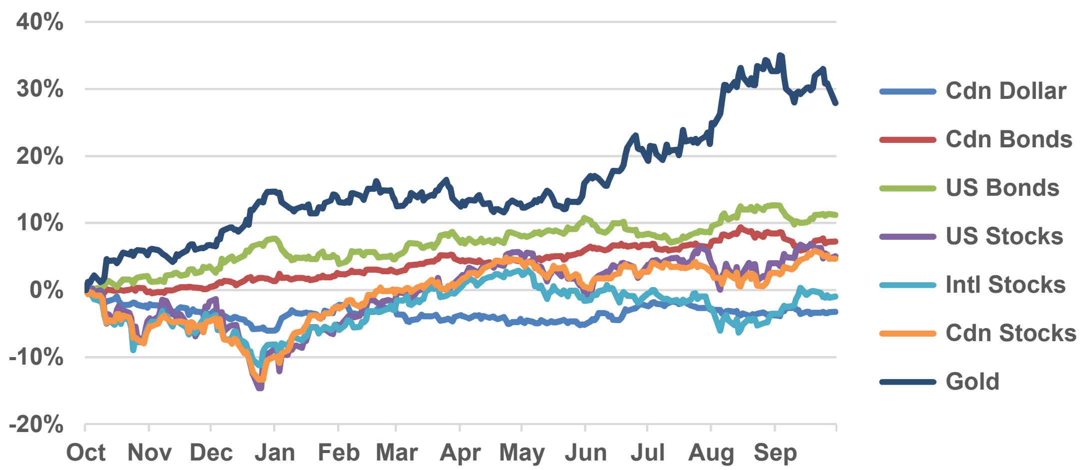
However, the implied odds of a U.S. Federal Reserve ¼% rate cut has blipped up to 77% after being as low as 40% on the last day of September.[2] If the potential for a rate cut becomes any more certain, it could lift stocks in the face of bad news. Also, the U.S. federal government continues to spend on infrastructure, the military, and border walls etc. which provides an on-going foundation of stimulus. Eventually, this becomes a problem when bondholders need to be paid back, but the short-term effect tends to be positive.

A high probability that excessive government spending and more rate cuts will be the theme going forward.

Below is the 12-month performance of the asset classes that we have use in the construction of The Charter Group's model portfolios. (**Chart 6**).[3]

Chart 6:

12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. from 10/1/2018 to 9/30/2019

[2] Bloomberg Finance L.P. as of 10/25/2019 – implied odds are based on the trading in interest rate-futures contracts on the Chicago Mercantile Exchange.

[3] Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the iShares Canadian Universe Bond Index (XBB); US bonds are represented by the iShares Core US Aggregate Bond Index (AGG); U.S. stocks are represented by the iShares Core S&P 500 Index (IVV); International stocks are represented by the iShares MSCI EAFE Index (EFA); Canadian stocks are represented by the iShares S&P/TSX 60 Index (XIU); Gold is represented by the iShares Gold Trust (IAU).ruler

Top Investment Issues[4]

Issue	Importance	Potential Impact
1. China's Economic Growth	Significant	Negative
2. Canadian Dollar Decline	Moderate	Positive
3. U.S. Fiscal Spending Stimulus	Moderate	Positive
4. Long-term U.S. Interest Rates	Moderate	Positive
5. Short-term U.S. Interest Rates	Moderate	Positive
6. Global Trade Wars	Moderate	Negative
7. Stock Market Valuations	Medium	Negative
8. Canada's Economic Growth (Oil)	Medium	Negative
9. Massive Stimulus in China	Light	Positive
10. East Asian / South Asian Geopolitics	Light	Negative

[4] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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The Charter Group is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of October 25, 2019.

The Charter Group is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc. which is a subsidiary of The Toronto-Dominion Bank.

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