TD Asset Management

Investing in the Trump Era: 100 Day Update

In the months following Donald Trump's election victory, global equity markets moved notably higher. This was partly due to the strengthening global economy, but the promise of sweeping legislative changes that would benefit U.S. corporate earnings was also a tailwind.

However, the TD Wealth Asset Allocation Committee ("we") has become somewhat more cautious on equities overall, and in early March we moved to a neutral stance for the asset class. This was largely due to our belief that valuations are stretched. Within equities, we remain positive about the U.S., which should benefit from strong earnings growth and the potential for corporate tax cuts and other legislative changes.

While many of the new administration's early legislative efforts have been stymied, President Trump did make some progress on his agenda during his first 100 days in office, including:

- Energy—allowed both the Keystone XL and Dakota Access pipelines to move forward, and signed an executive order to remove restrictions on fossil fuel production
- Trade—signed an executive order to withdraw from the Trans-Pacific Partnership and took the first steps toward renegotiating the North American Free Trade Agreement

Yet he was unable to repeal the Affordable Care Act (ACA), many of his proposed policies are still pending, numerous positions in his administration remain unfilled and concern is growing over potential gridlock in Washington.

Pending measures that have the potential to positively impact corporations include:

- Fiscal stimulus
- Tax reform
- Repatriation of offshore profits
- Decreased government regulation

However, the potential benefits from these policies appear to have been at least partially priced in by investors. Given this, there is potential for disappointment if President Trump fails to implement them.

Overall, we are cautiously optimistic, due in part to the cyclical momentum in the U.S. economy. Credit and profit indicators are strong, inflation continues to pick up as the labour market approaches full employment, and manufacturing data is robust, which should be supportive of U.S. equities.

Currency Implications:

	Trump Effect	Rationale
U.S. Dollar	↑	Fiscal stimulus is expected to lead to modestly higher economic growth, inflation and interest rates
Canadian Dollar	↓	Expected to underperform
Gold	↓	Higher rates would increase the opportunity cost of holding gold

Fixed Income Implications:

	Trump Effect	Rationale
Investment Grade Corporate Bonds	↔	Improving economy should improve corporate fundamentals, but higher interest rates would have a negative impact on bond valuations
High Yield Bonds	↔	Improving U.S. economy should improve corporate fundamentals, but higher interest rates would have a negative impact on bond valuations
Canadian Government Bonds	↓	Fiscal stimulus may push rates higher
U.S. Government Bonds	↓	Fiscal stimulus may push rates higher

Equity Implications:

	Trump Effect	Rationale
U.S. Equities	↑	U.S. equities should benefit from the proposed fiscal stimulus plans and corporate tax reductions
Canadian Equities	↔	Canadian equities should benefit from improving U.S. economy and infrastructure spending, but may be offset by trade uncertainty. In addition, lower U.S. corporate taxes could make Canadian-based production less competitive
International Equities	↔	Positives from U.S. equities may be offset by trade uncertainty

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	S&P 500 Fundamental Implications:		S&P/TSX Fundamental Implications:	
Sectors	Trump Effect	Rationale	Trump Effect	Rationale
Industrials	↑	Economic growth and infrastructure spending would be tailwinds, but a stronger US$ would be a headwind for global companies	↑	Economic growth and infrastructure spending would be tailwinds
Financials	↑	Economic growth, less regulation, higher interest rates, lower taxes and steeper yield curve would be tailwinds	↑	Higher interest rates and steeper yield curve would be tailwinds
Consumer Discretionary	↑	Lower corporate taxes would be a tailwind	↔	Limited direct impact, although auto industry could face trade headwinds
Information Technology	↑	Economic growth and repatriation of offshore profits would be tailwinds, but a stronger US$ would be a headwind for global companies	↔	Limited direct impact
Energy	↔	Coal producers, oil and gas producers, energy infrastructure companies and drilling companies should benefit from Trump's policies, but they are likely to be marginally negative for renewable energy companies	↔	Coal producers, oil and gas producers, energy infrastructure companies and drilling companies should benefit from Trump's policies, but they are likely to be marginally negative for renewable energy companies
Materials	↔	Economic growth would be a tailwind, particularly for metals producers, but trade war with China and strong US$ would be headwinds	↔	Economic growth in U.S. would be a tailwind, particularly for metals producers, but trade war with China would be a headwind
Healthcare	↔	Less regulation would be a tailwind, but a stronger US$ would be a headwind for global companies. ACA reform is less likely to be a catalyst due to delay in tabling reform legislation	↔	Limited direct impact
Telecoms	↔	Tax reform and potential industry consolidation would be tailwinds, but higher rates would be a headwind	↓	Higher rates would be a headwind
Consumer Staples	↓	Higher rates and a stronger US$ would be headwinds	↔	Limited direct impact
Utilities	↓	Higher rates would be a headwind	↓	Higher rates would be a headwind
Real Estate	↓	Higher rates would be a headwind	↓	Higher rates would be a headwind

For more information, contact your Advisor.