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WOOD GUNDY

November 2024 Market Update

Welcome to November. Autumn is starting to look towards winter. Retailers start to stress about whether this Christmas will be a success, and many of us are well behind in our fall yard cleanup.

The much anticipated U.S. election has come and gone and President-Elect Trump (DJT) has won a very resounding victory to return to the White House. The Republicans have won control of the U.S. Senate and appear to have maintained control of the U.S. House. The next three days following the election saw the U.S. equity markets perform very strong. The stock market breathed a sigh of relief that the outcome was quick, it had a clear winner, and there was no major violence. The market was happy that there was no chaos.

The strength in the markets following the election was concentrated in a few areas. Sectors that have been subject to increased regulations and regulatory scrutiny (financial institutions, grocers, technology) saw strength as DJT has promised to remove many regulations, and reduce/eliminate some of the regulatory institutions. Companies that would benefit from tariffs also saw strength (American steel companies). There were sectors and companies that have been weak following the election (green, renewable energy, and multi-national corporations that have divisions worldwide). As we look towards the next four years, the one point we can say with some certainty is that it will not look like the past four years. With DJT appearing to have more control over Congress than he had in his first term, change is certain. There is a big difference between what is promised in campaign platforms versus what is actually delivered and implemented. As a Canadian, and a Canadian investor, it is necessary to look at how this U.S. election outcome might affect us and our economy. In the near term, it will cast a shadow of uncertainty over the Canadian economic outlook. While we can expect the U.S. focus to primarily be directed at China, there is no firm understanding of where Canada sits in the cross-hairs of the new President. The U.S. trade deficit with Canada and Mexico has widened by about $100 billion since DJT left office and he is certain to want to change the direction of the dollars (even though the trade has been beneficial to all these countries). He has threatened a 10% tariff on everything the U.S. imports from other countries. The tariff on China would be much higher. I will make the guess that a 10% tariff on all goods coming from Canada into the U.S. will not happen. Aside from it logistically not being possible, tariffs are really an import tax with much of the tax paid by consumers. One of the lessons we learned from this past week is that Americans voted with their wallets. They were not at all happy with the cost of living increases the past four years, and clearly blamed the Democrats. The campaign promises of large tariffs would be highly inflationary and result in higher costs of living. We are now less than two years away from the next House of Representatives election. DJT and the Republicans will not want to jeopardize control over the House.

Still, there are reasons for Canada to be concerned. In his first term, DJT imposed tariffs on all Canadian steel and aluminum. This tariff lasted one year, and it did weaken the Canadian economy. We do not know if this same tariff will be implemented in his upcoming term. In 2026, the free trade deal currently in place between Canada, Mexico, and the U.S. comes up for discussion and re-negotiation. In 2026, any of the three countries can announce withdrawal from the free trade agreement. The withdrawal cannot occur though for another ten years (2036). Since the current deal was negotiated by DJT, I do not envision he would pull out of a deal he made. This would be admitting defeat. Still, it is difficult to foresee that a new agreement in 2026 would be favorable to Canada. There are some economic controls in Canada that irritates not just the U.S. and Mexico, but most of our trading partners (our dairy, eggs, chicken supply management systems) and these topics are much at risk in 2026. U.S. economic tariffs may be used by DJT to pressure Canada in other areas (defence spending).

As we have written about previously, Canada must look to diversify global trading partners (over 75% of our exports go to the U.S.) as well as re-establish manufacturing industries in Canada (we have very little). A country needs money to operate. It requires trade outside of its borders to generate revenues. We cannot simply rely on taxing our citizens to generate revenues. This is like opening a retail store, but the only people you can sell to are your staff members. Your business will not survive. For years, now decades, Canada has felt protected by three oceans and a benevolent U.S. This is changing, we should have learned this lesson before now.

As investors, is there anything we should be doing? No major changes needed. As we have been doing, we will continue to look at Canadian companies that have operations in the U.S. and other countries as well as here in Canada. As things progress in the U.S., we will monitor for any Canadian companies that could be at risk of U.S. tariffs. The next four years will bring about some uncertainty and we, as investors, may need to adapt and change as well. But, as we wrote in last months update, businesses adapt to political change and the market, though more volatile in the short term, will perform well over the four years and longer.

A few administrative items:

1) As the year-end approaches, we are in the process of reviewing the realized capital gains/losses for those that it applies. If you have any questions about your year-end review, please reach out to us.
2) Please be aware of any CRA deadlines for tax benefits such as RRSP contributions (March 1, 2025) or RESP contributions (December 31, 2024). Your personal contribution room can be verified via the CRA website.
3) While charities welcome gifts of cash, donating eligible securities directly in-kind to a registered charity can result in additional tax savings. Please let us know if charitable giving is something you would like to discuss further. For administrative purposes, this should be completed by December 15, 2024.
4) Tax Free Savings Account (TFSA) contribution limit for 2025 will be $7,000 or a lifetime limit of $102,000.
5) Friendly reminder to take a moment to review and verify that all of your beneficiary information is up-to-date, including your life insurance policy and registered accounts.

As always, remain optimistic yet cautious.

Best Regards,
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