3 Reasons a Donald Trump Presidency Is Bullish for the TSX

Description

News of a Donald Trump presidency means a massive economic change of course for North America; in fact, billionaire Stan Druckenmiller, who only months ago stated gold was his largest holding, entirely sold his gold holdings and is now betting on economic growth.

As for Canada and the Toronto Stock Exchange, the TSX is currently trading at a fairly expensive 19 times 2016 earnings, which is above the 10-year average of 17.9. Canadian GDP is expected to grow by only 1.9% in 2017, and an upward revision in GDP and corporate earnings could help the TSX to support a higher valuation.

Could a Trump presidency cause this? Analysts at **Bank of Montreal** think it could be possible, providing the positive economic proposals from a Trump presidency (massive tax cuts and infrastructure spending) are implemented to a greater degree than the negative economic proposals from Trump's platform (protectionist policies that could see restrictions on Canadian imports into the U.S.).

This outcome is likely. Congressional Republicans are overwhelmingly free trade, and since NAFTA has been in place for over 20 years, many U.S. manufacturers have parts of their manufacturing chain in Canada, making disentangling this difficult. **CIBC** also stated that Canada and the U.S. could enter an agreement with each other, without Mexico, and this could actually benefit Canadian businesses to an extent.

With this in mind, here are three ways the TSX could benefit from a Trump presidency and how to profit from it.

1. Improved U.S. growth

Exports to the U.S. are a huge economic engine for Canada, and this means that any improvement in the U.S. economy is a boost for Canadian exports, providing Trump's more protectionist policies are watered down. About 76% of Canadian exports go to the U.S., making it a big driver of Canadian GDP growth and Canadian corporate earnings.

Trump is planning a massive set of tax cuts that are almost certain to provide an economic boost (at least in the short to medium term). Trump is significantly cutting both personal and corporate taxes, and BMO estimates that these cuts would reduce government revenues by $6 trillion over a decade. Having this money floating around in the economy instead will provide a major economic boost.

At the same time, Trump is planning massive infrastructure spending. This would be $500 billion of spending over five years. These proposals would likely lead to improved Canadian business activity.

2. A weak Canadian dollar

The Bank of Canada has stated that a weakening loonie is a key part of the Canadian economy making an adjustment from being an oil-based economy to a non-oil based export economy. A weak Canadian dollar makes exports more competitive by making Canadian goods cheaper in other currencies. It also benefits Canadian companies with U.S. dollar–based revenues.

A Trump presidency is likely to benefit the U.S. dollar. Trump’s tax and infrastructure plans as well as deregulation combined with deficit spending should work to strengthen the U.S. dollar. Interest rates are also likely to rise faster (due to more economic growth), which will in turn make the dollar stronger relative to the Canadian dollar.

3. Potentially stronger oil prices

Stronger U.S. economic activity will be good news for U.S. oil demand (the largest global consumer of oil), and Trump’s uncertain policy towards the Middle East and lack of support for the Iran deal could see Iranian oil production curtailed once again as well as higher oil prices due to Middle East uncertainty.

At the same time, Trump’s support of the Keystone XL pipeline is good news for Canadian oil producers, who would be able to receive higher prices for their heavy oil. While Trump is promising more U.S. production, U.S. oil producers are limited in how fast they can grow production due to high debt levels.

Overall, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is the best way to play these developments. TD has heavy U.S. operations, which should benefit from more U.S. growth, higher U.S. interest rates, and a weak Canadian dollar.

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