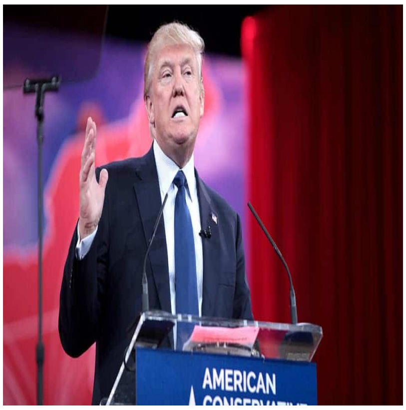

These Stocks Will Suffer Under a Trump Presidency

Description

According to a new report from **Royal Bank of Canada** (TSX:RY)(NYSE:RY), Canadian utility, telecom, and real estate stocks will face mounting headwinds under a Trump presidency.

Their report, titled "The Corner of Bay and Trump," highlights how higher U.S. fiscal spending combined with tax cuts is likely to lead to higher U.S. inflation rates.

Why would higher U.S. inflation rates be a threat to the Canadian economy?

The loonie is set to fall

For years, the Canadian dollar has had a strong negative correlation with crude prices. When oil goes up, the Canadian dollar strengthens. So with oil still below US$50 a barrel, the loonie remains incredibly weak.

A weak loonie looks here to stay.

Typically, currencies with higher interest rates tend to have stronger values versus those with lower borrowing rates. That's why the current situation–the U.S. is raising rates, while Canada is lowering them–is such a headwind.

The Bank of Canada's key lending rate stands at 0.5% after it cut the figure twice earlier this year. Meanwhile, the U.S. raised rates to 0.5% last December. On November 15, U.S. Federal Reserve governor Daniel Tarullo signaled that the Fed may hike interest rates at its next meeting.

With the Canadian economy still in trouble considering turbulent real estate and energy markets, expect the divergence of interest rates to widen. When adding in rising U.S. inflation rates, that divergence is nearly guaranteed.

U.S. inflation is a rising concern

"Fiscal policy of course is one of the important background considerations in thinking about the appropriate monetary policy to achieve the dual mandate of maximum employment and price stability," said Tarullo.

Pay attention to that last part: price stability. That means that rising rates will continue to be a key tool in fighting inflation. If Royal Bank of Canada is correct, U.S. inflation is likely to rise, meaning higher U.S. interest rates will soon follow.

Raising rates is a major tool in fighting off inflation. By increasing borrowing costs, the government can artificially manipulate the money supply and economic activity.

We're already seeing U.S. inflation rates tick up. Consumer prices in the U.S. rose 1.5% year over year in September 2016 from 1.1% in August.

Investors must pay attention to the risks they're now assuming.

"We suspect that yield-sensitive sectors–utilities, telcos and REITs–will be negatively exposed, which was reflected in their poor performance in the wake of the surprise election result," said Royal Bank of Canada analyst Matthew Barasch. "Further, those sectors positively pre-disposed to higher economic growth and rates–banks, lifecos, various industrials–and those positively pre-disposed to a more liberal energy policy will be positively exposed."

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