



## Ray Dalio Is Worried About Politics: Will Turmoil Affect Canadian Stocks?

### Description

On August 21, Ray Dalio, chairman and CEO of investment firm Bridgewater Associates, published a letter in which he predicted politics will “play a greater role in affecting markets” than any time since 1937. Whether or not the United States is able to overcome political turmoil will have a more significant effect on the economy than “classic monetary and fiscal policies.”

The first half of 1937 saw a major downturn in the U.S. economy at an even sharper rate than was seen during the onset of The Great Depression in 1932. Dalio opined on the threats facing democratic order, including irreconcilable divisions that are stronger than the principles binding rule of law. The years since the 2008-2009 financial crisis have seen political polarization intensify in the United States, and it has resulted in legislative gridlock and vicious political battles.

Popular faith in government and media has also been on a sharp decline. This is not unique to the United States; similar numbers and populist movements are appearing in Europe. Canada has been touted by world leaders as a bastion of political stability and order. However, ominous signs are beginning to emerge. An Edelman poll released in February 2017 showed 43% of Canadians had trust in their government, down 10% from the previous year.

There were concerns that the problems at **Home Capital Group Inc.** ([TSX:HCG](#)) would lead to a housing crisis that could rival the U.S. crash which preceded the Global Financial Crisis. However, a collapse of the alternative lender was averted with outside private and public aid. In spite of a recent correction, housing prices remain extremely high relative to median family income in the GTA and Vancouver. In the United States and Europe, wealth and income inequality has been correlated with political conflict and the rise of populist discontent.

The S&P/TSX Index has fallen 1.5% in 2017 with Canada reporting a streak of positive economic and jobs data not seen since the early 2000s. In his letter, Ray Dalio noted that the U.S. economy had shown strength on the surface, but that the gains seen in the recovery have not reached significant layers of American society.

The stock of **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) erupted after the November 8 election of

Donald Trump, gaining 19% in early March. TD Bank has the largest U.S. exposure of any major Canadian bank, and the pro-growth policies promised by the administration had investors salivating. Now, after a legislative failure in repealing healthcare, and a White House plagued by controversies and resignations, markets are mirroring investor anxiety.

Investors should be cognizant of economic trends that have led to political conflict. The Edelman poll shows that Canadians are beginning to express discontent with the government, which can precede gridlock or upheaval. It is a mistake to assume that Canada is exempt from political instability which has stricken its global partners.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:HCG (Home Capital Group)
3. TSX:TD (The Toronto-Dominion Bank)

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