



2 Stocks to Watch Ahead of Canada's Election Season

Description

The Canadian federal election is scheduled to take place on or before October 21, 2019. The next election promises to be one of the most contentious in living memory. As usual, the economy will be a huge focus. Can investors expect shifts in policy that will provide a boost for the market in the next decade?

In the spring of 2018, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) [CEO Dave McKay](#) warned that there was “significant” investment outflow from Canada to the United States. The *US Tax Cuts and Jobs Act of 2017* slashed corporate taxes in the US by 14%. U.S. stocks experienced huge gains in 2017 in anticipation of the legislation. Companies reported record profits in 2018, especially financial institutions, but many of these gains were already priced in.

McKay and other business leaders in Canada are pushing for a modernization of Canada's tax laws. Canada has remained competitive when it comes to corporate tax, but there is renewed focus on personal income taxes. According to the Fraser Institute, Canadian workers across the income spectrum pay significantly higher personal income tax than their U.S. counterparts.

Some economists argue that high marginal tax rates discourage productive economic activity. There is much debate on just how much impact these rates have, but you can bet it is enough to be politicized. Success breeds imitation, and the Ontario Progressive Conservatives marched their way to a stunning majority on a campaign of “opening Ontario up for business, while mixing in some populist rhetoric.

Canadian banks are unlikely to enjoy the kind of windfall their U.S. counterparts experienced after the 2017 U.S. tax reform package. However, some type of tax reform is almost guaranteed to be on the platform for all opposition parties this year.

Magna International ([TSX:MG](#))([NYSE:MGA](#)) [CEO Don Walker was also vocal](#) on the topic of Canadian tax rates in the spring of 2018. In May, Walker said that it had become costlier to do business in Ontario, especially in the wake of U.S. tax reform. Doug Ford's PCs ran on a campaign of reducing Ontario's corporate tax, although only by 1% as the rate already stands at 11.5%. This change has yet to come down the pipe, however.

Magna will lobby for a boost, but it has been an absolute powerhouse in the face of economic headwinds going by its recent earnings. In 2018, Magna reported record sales of \$40.8 billion which was up 12% from 2017. It posted record cash from operations of \$3.7 billion and record diluted earnings per share of \$6.61, a 13% year-over-year increase.

Shares of Magna have climbed 5.1% in 2019 as of late afternoon trading on March 21. The stock is still down 10.7% from the prior year. Magna and other auto giants are still waiting on the USMCA to be ratified by Congress, but the agreement alleviated some anxiety. Now the company will eagerly await a push to lower the cost of doing business in its home country.

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