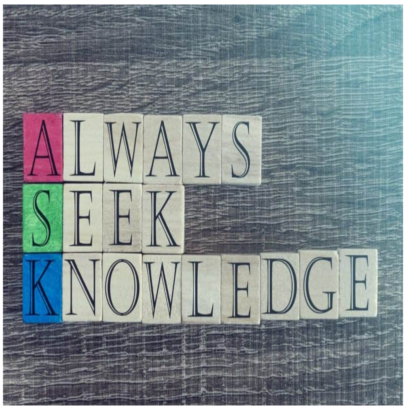

Canada Election: What to Expect for the TSX

Description

Happy election day! It has been a bumpy ride to the finish line, but we are finally here.

This past weekend, I'd discussed two sectors I expect to get a boost no matter how this election shakes out. As we approach the vote count, it is almost a certainty that we are going to see a minority government in Canada. How should investors prepare for the reality that Canada is going to be moving forward with a weaker government?

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For one thing, we may see a dip in the Canadian dollar in the near term. The loonie has shown impressive strength in 2019. Canada's currency has been in the top spot in the Group-of-10 currencies and has climbed nearly 4% against the U.S. dollar this year. The Bank of Canada has elected to hold firm on its benchmark rate in 2019, even in the face of broader economic headwinds. By contrast, the United States Federal Reserve has dropped its benchmark rate twice. Over the long haul, the Canadian dollar is still expected to exhibit strength into the new year.

Let's look at how Canada's largest bank, **Royal Bank** (TSX:RY)(NYSE:RY), is sizing up the landscape ahead of the election. The stock has climbed 3.3% over the past three months.

Analysts have advised investors not to get too excited about budget deficits. Canada still holds a triple-A rating, and none of the possible election outcomes portend a change that could pose a threat. "Both election policy platforms point to more fiscal stimulus and higher deficits ahead," RBC Dominion Securities technical strategist George Davis said about the platforms of the two leading parties, the Liberals and Conservatives. "The projected deficits do not represent a major departure from the 1% of nominal GDP anticipated in the next few years."

Nathan Janzen and Josh Nye, senior economists at Royal Bank, have expressed confidence in Canada's short-term growth prospects regardless of how the election shakes out. "From a purely Canadian economic growth perspective, the risks are probably tilted to a slightly larger support to near-term growth coming from the government sector," they said in a recent report.

Another RBC Dominion Securities report, penned by Canadian rates strategy head Mark Chandler and rates strategist Simon Deeley, released their fiscal forecast. In the event of a Liberal/NDP/Green coalition, the report "expect(s) deficits in the range of $21 billion to $27 billion through 2023-24." In the event of a Conservative victory, the report suggests that the deficit would be roughly $16 billion smaller over a four-year stretch.

How will the TSX index react?

The S&P/TSX Composite Index fell 49 points on Friday, October 18. Investors may want to anticipate some temporary weakness in the event of a minority government, but this should be short-lived. Gains on the TSX will continue to be capped by the lagging energy sector. Instead of tracking the main index, risk-averse investors should pursue a stable blue chip like Royal Bank.

Investors should keep a close watch on the election results today. Later in the week, we will evaluate how investors should move forward once the framework for the new government has taken shape.

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