U.S. Election 2020: 2 Ways Results Could Shake Up the TSX

Description

The first votes of the Democratic primary were cast this past week in the Iowa caucuses. Results were uncharacteristically slow to come out, and as of this writing, the official tally had candidate Pete Buttigieg come out as the narrow winner. Bernie Sanders remains the favourite, according to current betting odds, and he has enjoyed a sizable lead in New Hampshire polling. That is the next primary stop on February 11.

In 2019, I'd discussed how much impact the Canadian federal election could have on the TSX. Former prime minister Pierre Trudeau once said, "Living next to you [the United States] is in some ways like sleeping with an elephant . . . one is affected by every twitch and grunt." Canadians should be paying close attention to the U.S. presidential election, as it could have major consequences for our economy and markets.

Today, I want to look at some of the ways TSX-listed stocks could be affected by the results of the upcoming election.

A possible spark for cannabis stocks

The 2015 federal election in Canada saw Trudeau's Liberal coast to a majority government. They made good on their election promise to legalize recreational cannabis, effective October 2018. In the years following the election, cannabis stocks enjoyed a massive run up. Shares of companies like **Canopy Growth** and **Aurora Cannabis** double-up many times over before hitting turbulence after official legalization.

Only a few states have moved forward with recreational legalization in the states. The American market holds huge potential for the cannabis market, but so far both political parties have been ambivalent when it comes to pushing for federal legalization. That could change in the 2020 election. Bernie Sanders, the current Democratic front runner, has vowed to push for recreational cannabis legalization in his first day in office.

The Democratic primary has just started, and Sanders still has formidable competition in his way. Still,

the chances are higher than ever of the United States having a presidential candidate who is open about a push for legalization on a federal level. The potential for a Sanders presidency, though it is far from certain, should get cannabis investors excited.

Volatility and the case for gold and silver

During the 2016 election, Donald Trump was viewed as a wild card, to put it lightly. After his election win, Trump embraced his former enemies in the Republican establishment. They responded in kind as he pursued a traditional Republican platform of tax cuts and deregulation.

Markets have continued their run under Trump, who slashed corporate taxes by 14% through the U.S. Tax Cuts and Jobs Act — passed in December 2017. Trump has applied constant pressure on the U.S. Federal Reserve to maintain low interest rates. He has even floated the idea of a fourth round of quantitative easing.

The Democrats, particularly progressives like Sanders and Warren, have been critical of Trump's tax cuts and pursuit of deregulation. They have also promised increased spending to pay for programs like Medicare-for-All and free tuition at public colleges. Both have floated increased taxes on "Wall St. speculation" to pay for these programs. Critics in big business, including their peers like Democratic candidate Michael Bloomberg, have been sharply critical of this platform.

As usual, a political shift will bring uncertainty. Trump is the odds-on favourite to win as the incumbent, but some of his Democratic opponents have polled well against him in national head-to-head surveys. Markets may respond to a change of the guard with skepticism or even panic. This could give an even greater boost to gold and silver to start this young decade.

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