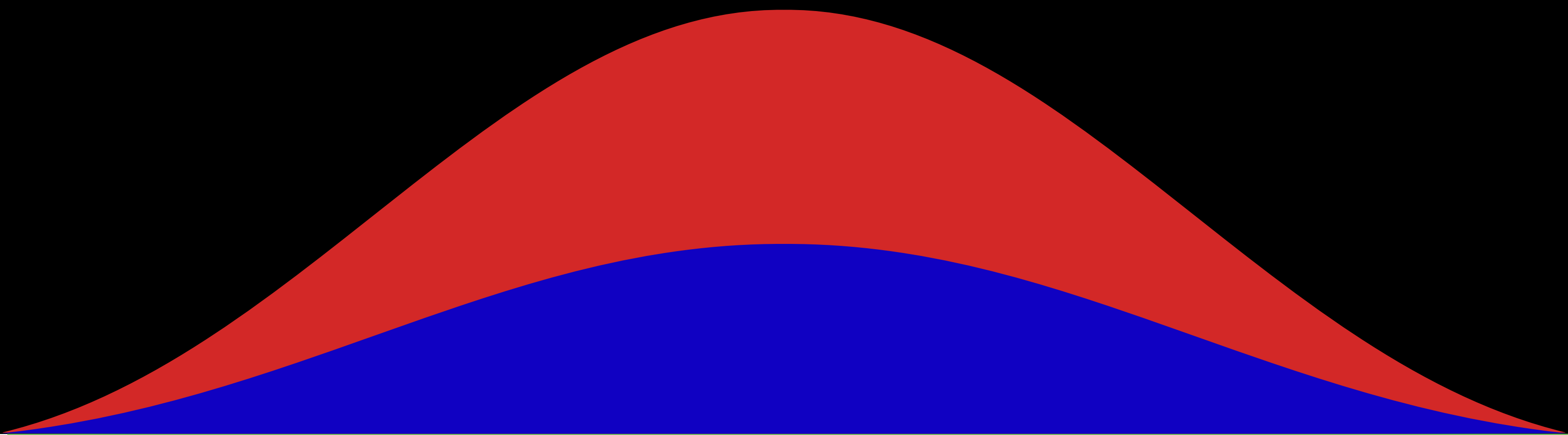
TD Wealth

Now the dust has settled ...

Monthly Perspectives
November 2024

15 minutes



Wealth Investment Office

Now the dust has settled …

Brad Simpson, Chief Wealth Strategist; Neelarjo Rakshit, Chadi Richa, Andrej Krneta, senior equity analysts; Daniel Carabajal, senior fixed income analyst; David Beasley, Christopher Blake, senior portfolio managers | TD Wealth, with files from TD Economics and TD Asset Management

Well, it's over. After months of debate, harangues and dire predictions, the people of the United States have spoken. It's time to put away the signs, turn off the cable networks, close the podcasts and assess the state of financial markets now that the dust has settled.

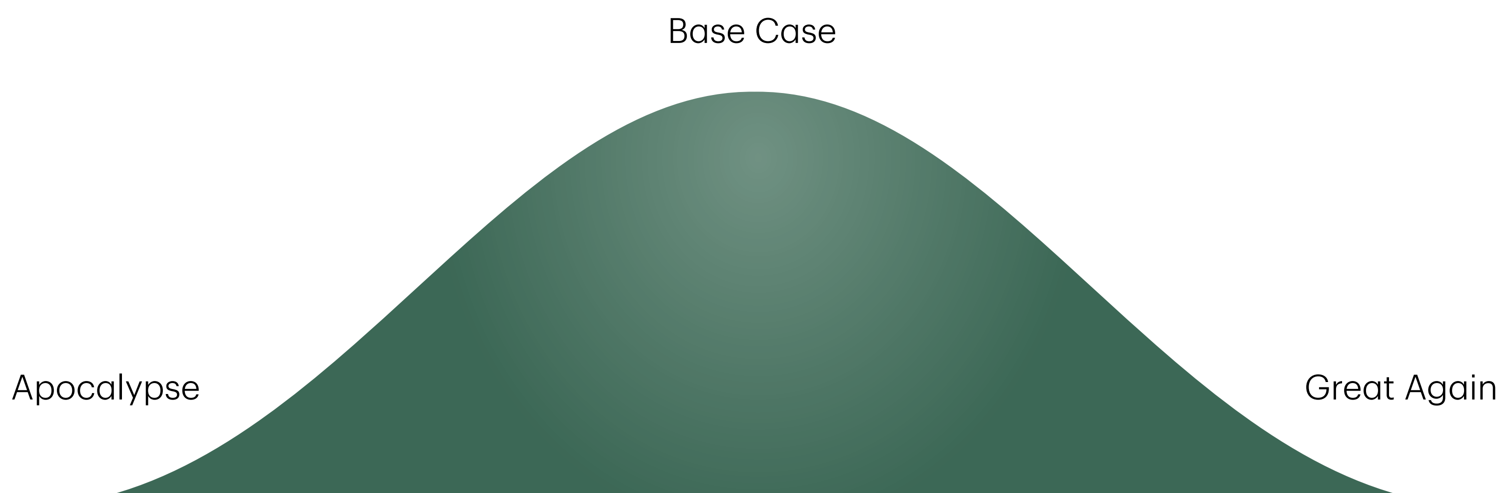
Perhaps the most important observation: the Democrats weren't just beaten — they were decisively beaten, with Trump winning all seven swing states along with the popular vote — something a Republican hadn't done since 2004. This is important because the Trump economic agenda of lower taxes, higher tariffs and less red tape is far more likely to happen now that the Republicans control all three branches of the U.S. federal government. For some, this outcome will lead to dire predictions of the coming apocalypse; for others it will inspire prognostications that everything will be great again. But if this election proved anything, it's that predictions aren't worth much.

Our base case assumption places us somewhere in the middle, which is where, on average, most things usually land. (For a summary of our base case please see our *Q4/24 Portfolio Strategy Quarterly*, "U-Turns," or the *PSQ En Bref* version.)

7 Post-Election Questions

1. Will inflationary policy keep the Fed from cutting rates?
2. Will mass deportations shrink the labour pool and lead to a recession?
3. Will a focus on blue-collar workers put an end to the tech rally?
4. Will deregulation finally unshackle the big banks?
5. Will we see a reversal from the transition to renewable energy?
6. Will Biden's signature legislative achievement be repealed?
7. How will Trumponomics impact real estate prices?

Figure 1: Prognostications, predictions and base cases



For illustrative purposes only

We believe in taking an adaptive approach. That doesn't mean we position in advance for every change we're anticipating. It means we position for either eventuality — and then adapt once the outcome is known. We now know the so-called "known knowns." That's what this edition of *Monthly Perspectives* is all about. Now that the dust has settled, and we know the political direction of the United States, we can position portfolios for this new financial environment. Below you'll find the answers to a handful of the most pressing economic and market questions, informed by our team at the Wealth Investment Office and colleagues at TD Economics and TD Asset Management.

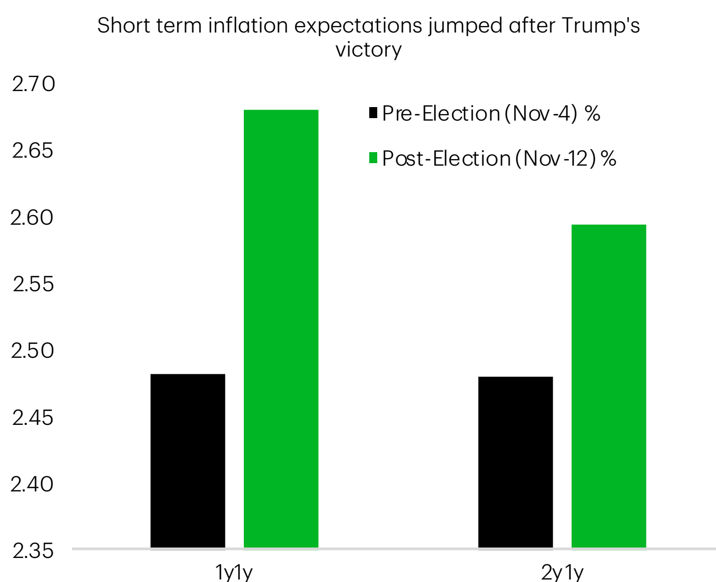
The waiting is over and the dust is settling. It's time to get back to the business of investing.

Will inflationary policy keep the Fed from cutting rates?

One of Trump's big campaign promises was the imposition of strict trade tariffs as a way of supporting domestic manufacturers. The incoming president has threatened 10% tariffs across the board — on allies and adversaries alike — and has suggested that the main target of his ire, China, could face tariffs as high as 60%. (The Canadian economy, as a main trading partner, could also be hard hit.)

Economists agree that this sort of industrial policy, along with lower corporate taxes, is likely to raise prices — and possibly throw a wrench into the Fed's plans for combatting inflation. While there's no consensus, TD Economics has cited estimates of a 50- to 100-bp rise in inflation relative to the current trajectory (Figure 2). The good news is that we haven't seen any strong reaction from the market — a signal that, while investors acknowledge the likelihood of higher inflation and higher deficits under a Trump presidency, most people don't think it will be as bad as some are predicting.

Figure 2: Inflation expectations rise post-election



Source: Bloomberg Finance L.P. *based on U.S. forward inflation swap
1y1y : The 1-year inflation market expects one year from now.
2y1y: The 1-year inflation market expects two years from now.

The real question Is how the Fed is likely to respond — and the answer to that question is, probably not at all. Or at least not over the short term. Central banks, and particularly the data-dependent administration of Fed Chair Jerome Powell, are used to looking past short-lived news cycles and market shocks. That being said, over the longer term, the new policy agenda is expected to slow the pace of rate cuts.

TD Economics (TDE) changed its projection immediately after the election. It now has the Fed cutting in December and again in January, but then pausing in March. The Fed is then expected to continue with a "cut-pause-cut" pace through 2025, resulting in a policy rate at the end of next year of 3.5%, up from the previously forecast 3.0%. In the first half of 2026, TDE has the Fed cutting to 3.0%. This implies that economists at TD don't see any change to the final "neutral" rate, just that the Fed gets there about six months later.

Will mass deportations shrink the labour pool and lead to a recession?

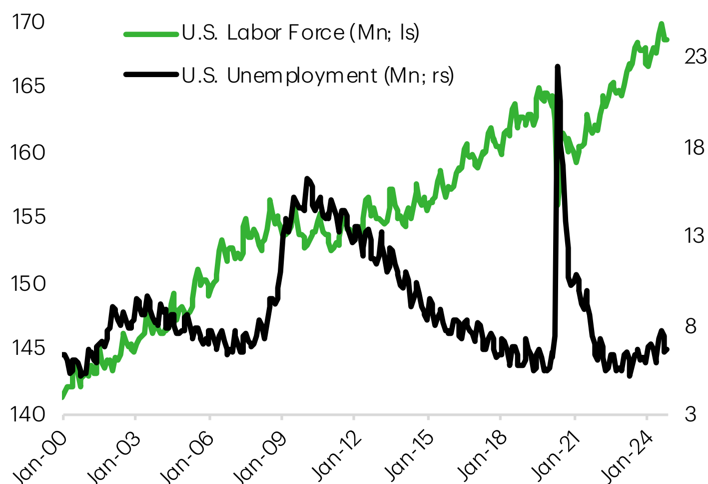
There's some concern that all the work the Fed has done to keep the U.S. on track for a soft landing may be undone if heavy-handed tariffs and mass deportations lead to a recession. In the worst-case scenario, 60% tariffs could be imposed on China immediately and millions of undocumented migrants could be deported quickly. If that were to happen, the impacts — higher import prices and a shrunken labour pool — would likely be inflationary and damaging to the economy.

It's notable, then, that on the day after the election, the S&P 500 rallied 2.5%, while the S&P U.S. Aggregate Bond Index fell only 0.6%. For detractors of the incoming president, the positive market reaction may seem counterintuitive. But we should keep in mind that, in his previous term, Trump declined to follow through on his most controversial campaign promises. Markets are betting that his bluster may be just that — a tool used to secure a more advantageous negotiating position.

Other aspects of the Trump platform, meanwhile, are extremely pro-growth. Corporate tax cuts implemented under Trump in 2017 under the Tax Cuts and Jobs Act would have been repealed under a Democratic administration. Now that businesses can be assured that these tax cuts will stay, a potential headwind to corporate earnings has been lifted. The relief is even greater for smaller companies, which have struggled disproportionately under a higher-rate regime (due to higher relative debt loads). The small-cap Russell 2000 Index, for example, rose 5.8% on news of the Trump victory.

Trump also plans to deregulate broadly in the areas of energy development and finance, which could lead to a rise in M&A activity. Altogether, these pro-growth policies offer some rationale for the equity market's jubilant reaction in the wake of the results. Of course, it all depends on the assumption that tariffs and deportations in Trump's second term won't be as draconian as they were made out to be on the campaign trail.

Figure 3: Fewer workers could spur wage inflation



Source: Macrobond and Wealth Investment Office, as of November 15, 2024

Will a focus on blue-collar workers put an end to the tech rally?

Much of Trump's rhetoric on the campaign trail focused on blue-collar issues and restoring the U.S. manufacturing sector to its former glory. This may lead some to wonder whether the new administration will neglect the tech giants that now dominate the U.S. economy. These concerns seem largely misplaced, however — and particularly if one notes the strong relationship that Trump has been building with Elon Musk and other tech leaders.

Following the results of the U.S. election, we see three themes that will prevail on the investor landscape in the technology and communications sectors: (1) posture towards Big Tech; (2) export restrictions to China; and (3) trade tariffs. The new administration's policy on these topics will have the most impact on mega-caps within the technology and communication-services sectors, as well as the semiconductor industry.

First, we see a major shift in the potential for mergers and acquisitions. The ongoing tech rally has been conspicuously devoid of large M&A transactions and IPOs, which typically accompany bull markets. To some extent, this is due to a "chill" created under the Biden administration, which sought to impose more stringent regulation and antitrust burdens on Big Tech — with a lot of speculation about the possibility of breaking them up in the way that telcos were in the 1980s.

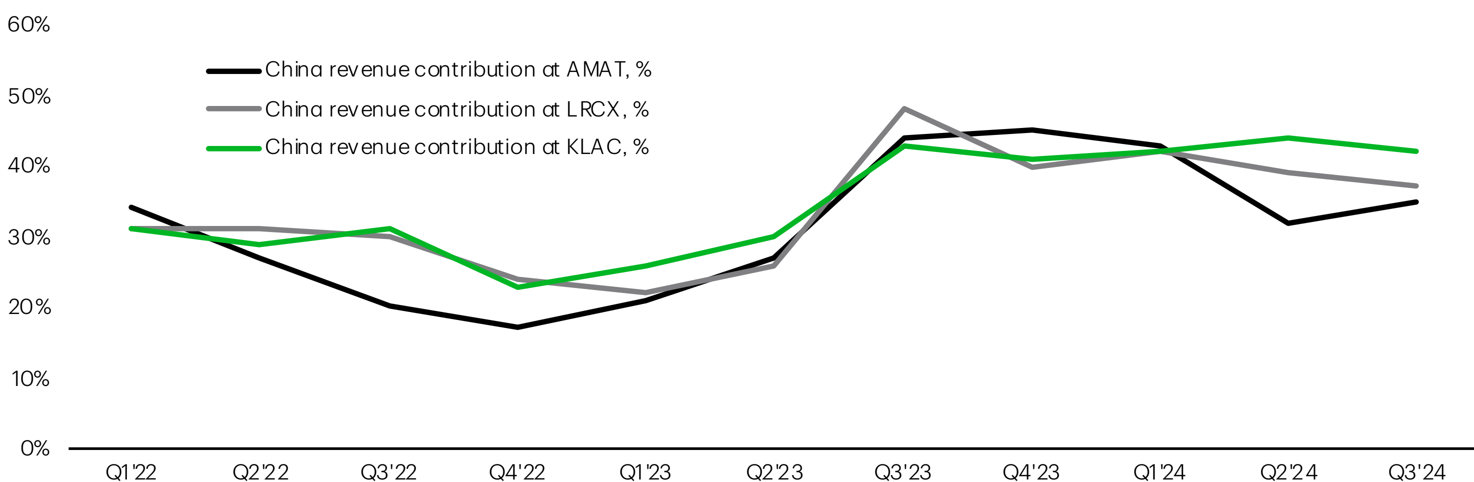
We believe that the new administration will be more lenient, and we look to potential personnel changes at the Federal Trade Commission that would be more receptive to transactions by large tech companies. Investors may respond to this more favourable regulatory environment by driving equity valuations higher in anticipation of future transaction premiums.

The semiconductor industry, meanwhile, is likely to see a meaningful impact, given the incoming administration's prior record. On the one hand, further restrictions on the export of chipmaking machinery to China will have a negative impact on revenue (Figure 4). On the other, chipmakers with a U.S. manufacturing footprint will enjoy a competitive advantage over peers with either off-shore fabrication facilities or those using manufacturing services outside the U.S. The new administration may also want to increase the funding from the CHIPS Act, providing further support to those chipmakers looking to on-shore production.

Will deregulation finally unshackle the big banks?

We view the outcome of the U.S. election as positive for U.S. banks on many levels. An "animal spirits" economy and the potential for tariffs could mean higher interest rates than previously expected, which could lift net interest income. The biggest change should come in the form of a return to a more balanced regulatory backdrop that would favourably impact capital requirements.

Figure 4: China a big market for U.S. chipmaking equipment



Source: Wealth Investment Office and company reports, as of November 2024

Following a reshuffle of leadership positions at financial regulators, the final Basel III Endgame Proposal — set up in response to the 2007 global financial crisis — will likely be less onerous than the original version. Uncertainty around the final capital requirements drove U.S. banks to hold excess capital, which came at the expense of stock repurchases. As a result, the share-buyback ratio (share buybacks divided by net income) over the past four years was 41%, less than half of the preceding three years (Figure 5). The ability to return more capital to shareholders will allow the banks to be more capital-efficient and could lead to a re-rating in valuations.

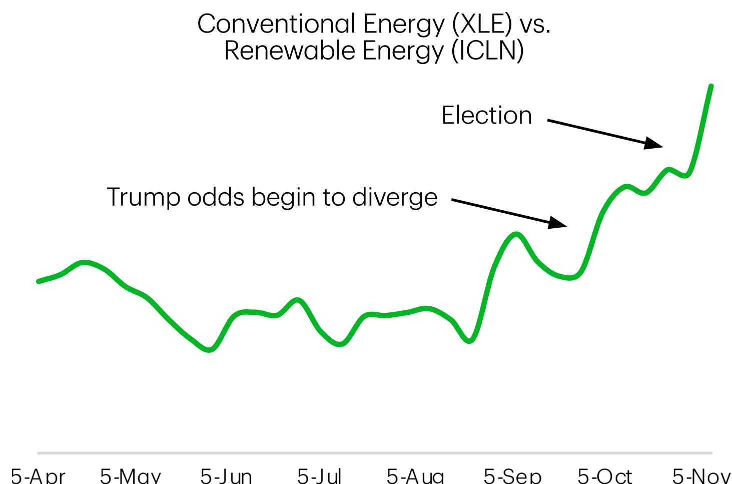
Furthermore, we could see a pick-up in bank M&A activity. Consolidation has been brewing for a while. Scale and diversification are more necessary than ever to be competitive — not only against banks, but fintech companies as well. And finally, there's the reduced risk of new rulemaking from the Consumer Financial Protection Bureau. Potential ramifications include blocking rules to cut credit card fees, overdraft fees and debit interchange fees.

Will we see a reversal from the transition to renewable energy?

On the campaign trail, Trump repeatedly invoked the famous "drill, baby, drill" call in support of oil and gas exploration and production. Following his election, conventional energy stocks saw a surge in buying activity, while stocks associated with renewable energy (the stated preference of the Democratic Party) sold off.

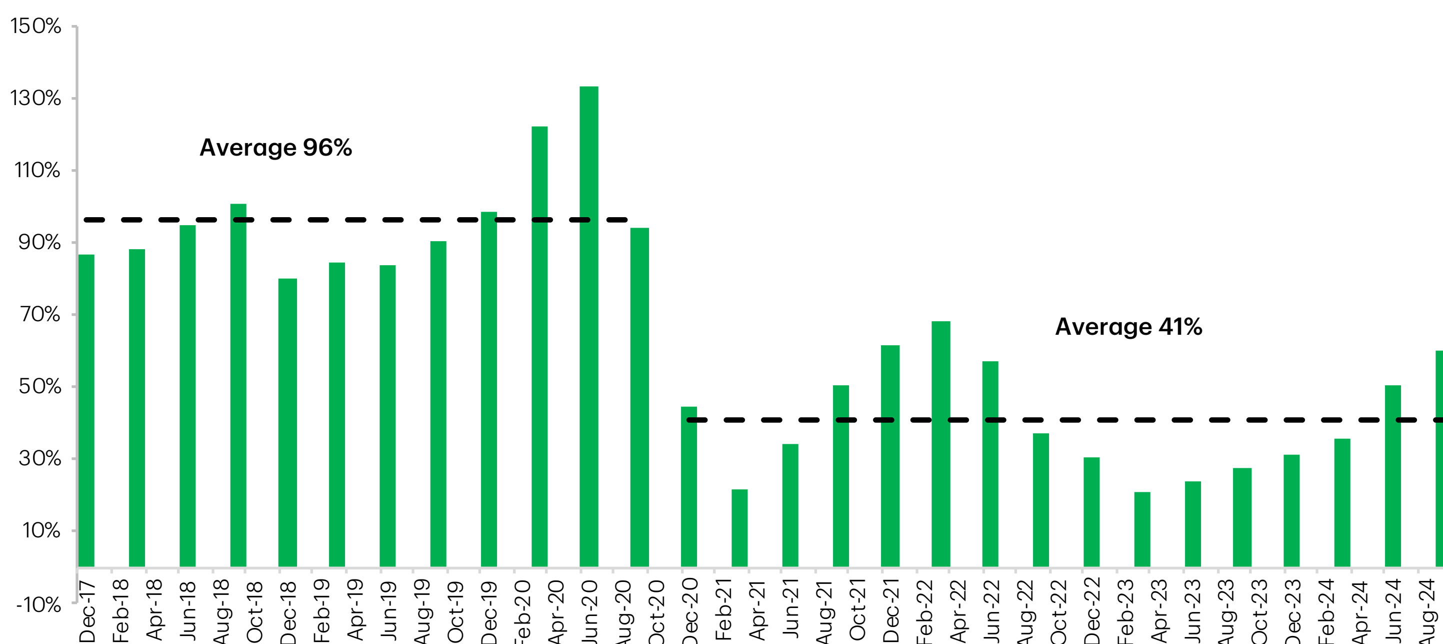
Even before the election, as Trump's odds of winning began to diverge from Harris, the market began pricing in this rotation from renewables to conventional energy (Figure 6), given the widely accepted view that a Trump White House would likely favour oil and gas production through lower regulations on operating activity and a rollback on climate initiatives. This could also be seen in the outperformance of oil and gas stocks versus the price of oil itself.

Figure 6: Hydrocarbons outpace renewables on Trump election



Source: FactSet and Wealth Investment Office as of November 13, 2024

Figure 5: Banking share buybacks may rise under Trump



Source: FactSet, Wealth Investment Office as of September 30, 2024

Going into 2025, another reason to be exposed to energy is for its utility as an inflation hedge. There is reason to believe some of the Trump White House policy may be inflationary, particularly from increasing tariffs and fiscal spending. Oil is a natural inflation hedge, as can be seen by the relationship between it and inflation-indexed Treasuries such as the 10-year Treasury Inflation Protected Securities (TIPS). An allocation to the commodity itself, rather than equities in the energy sector, should provide that protection.

Will Biden's signature legislative achievement be repealed?

It's doubtful that Republicans will repeal the Inflation Reduction Act. The Trump administration may try to make minor cuts here and there, but we believe there won't be a major reversal to the pace of renewable deployment we've seen in recent quarters.

Two reasons inform our view on this subject. First off, most projects benefiting from the law's tax credits have already broken ground in Republican-controlled states and districts. These have contributed to significant job creation and wage creation over the past few years. Second, Trump ran on a platform of ending inflation and lowering prices, and cheap electricity provided by renewable energy projects — solar and wind power, in particular — could help lower consumer energy bills (Figure 7).

The long-term picture for renewables is less clear. While demand should continue to increase amid ongoing load growth within the U.S. due to onshoring/near-shoring, sustained data-centre demand and increased corporate demand for renewables (given their own decarbonization goals), longer-run stock performance may need direct government and regulatory support, which is less likely under a Trump administration.

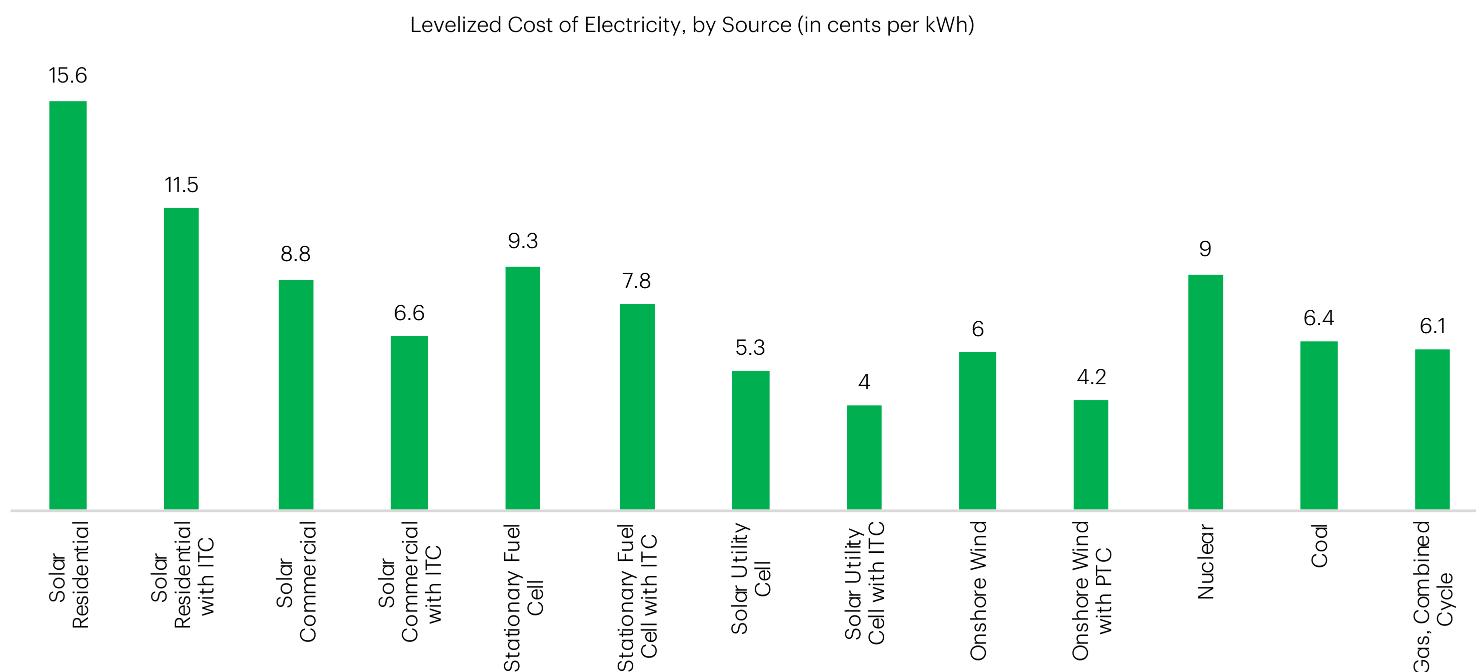
In addition, the potential imposition of additional tariffs on imported solar panels and steel is a concern and may result in an inflationary effect. Although Trump's push for more tariffs is tied to a desire to support domestic manufacturing, we don't believe that U.S. clean-energy manufacturers will be able to suddenly meet all the demand for solar, wind and battery-storage projects immediately. Significant tariffs might drive the prices of electricity generated by renewables to increase.

How will Trumponomics impact real estate prices?

The outlook on real estate is a bit cloudier than other sectors due to a highly segmented industry that has led to wide performance dispersion (Figure 8). As such, the Trump administration poses an assortment of pros and cons that could have differing impacts on the various segments.

Let's start with the pros. A Trump administration will likely bring with it increased volatility and, therefore, increased demand for safe-haven assets like residential and commercial real estate. Trump has also been known to favour deregulation — especially around the permitting process and environmental assessments — which have had a track record of boosting property values by reducing barriers for businesses.

Figure 7: Renewables now compete on price



Source: TD Cowen as of October 2024

Unfortunately, there is a "cons" side of the ledger as well. To start, any proposals for new or increased tariffs on imports from China and Mexico could result in heightened costs for construction materials, affecting all real estate property types from residential housing to industrial and data centres. For commercial real estate (CRE), this could create a double-edged sword, with a slowdown in development raising prices for properties that have already been built.

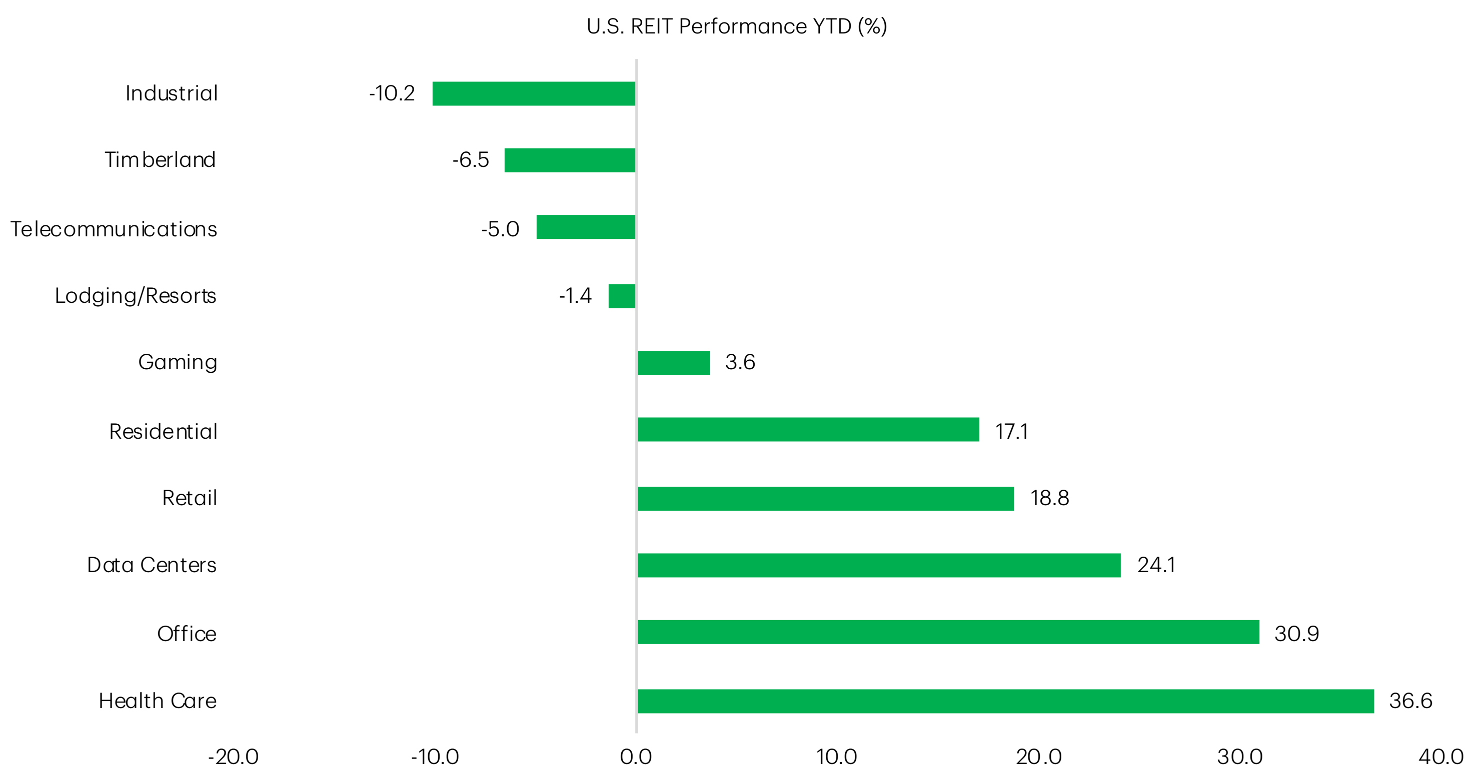
There's also the inflationary nature of Trump's policies, which may lead the Fed to hesitate to cut interest rates. This would pose a challenge for developers reliant on favourable financing conditions. Finally, stricter immigration policies under the Trump administration could exacerbate labour shortages, driving up costs and delaying real estate projects. For CRE, this could mean increased development costs and likely higher rents as developers pass costs on to tenants.

Final thoughts

The 2024 U.S. election was one of the most divisive in American history. Now that it's over, though, we're all investors once again in the same boat. For some, the temptation will be to double down on a perceived pro-business policy, which we saw in the days immediately following the election, as the so-called Trump trade pushed equity markets higher and bond markets lower. For others, the temptation is to exit markets before the institutions are degraded any further.

Either way, now's not the time to make impulsive decisions. Now is the time to talk to your advisor and adapt to the current environment with professional investment management. Periods like this just reinforce the importance having a well-diversified portfolio that has been built to achieve long-term goals.

Figure 8: Wide dispersion among real estate industry segments



Source: FactSet and Wealth Investment Office as of November 11, 2024

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	99,361	0.85	5.30	18.24	32.06	8.05	11.33	8.41	8.21
S&P/TSX Composite (PR)	24,157	0.65	4.53	15.26	27.99	4.72	7.94	5.15	5.14
S&P/TSX 60 (TR)	4,858	0.67	5.48	17.40	31.83	8.04	11.51	8.84	8.56
S&P/TSX SmallCap (TR)	1,515	1.39	3.91	19.66	30.17	3.54	10.82	6.04	4.67
S&P/TSX Preferred Share(TR)	2,009	-1.38	1.77	18.83	31.15	0.96	6.26	2.60	2.83
U.S. Indices ($US) Return									
S&P 500 (TR)	12494	-0.91	3.66	20.97	38.02	9.08	15.27	13.00	10.58
S&P 500 (PR)	5705	-0.99	3.32	19.62	36.04	7.40	13.44	10.95	8.43
Dow Jones Industrial (PR)	41763	-1.34	2.25	10.81	26.35	5.25	9.08	9.16	7.39
NASDAQ Composite (PR)	18095	-0.52	2.82	20.54	40.80	5.30	16.89	14.60	11.71
Russell 2000 (TR)	11846	-1.44	-2.24	9.56	34.07	-0.05	8.50	7.94	8.30
U.S. Indices ($CA) Return									
S&P 500 (TR)	17395	2.15	4.53	27.53	38.45	13.39	16.57	15.41	11.31
S&P 500 (PR)	7944	2.06	4.18	26.10	36.48	11.64	14.72	13.31	9.15
Dow Jones Industrial (PR)	58147	1.70	3.11	16.82	26.75	9.41	10.31	11.48	8.11
NASDAQ Composite (PR)	25194	2.55	3.67	27.08	41.25	9.46	18.21	17.04	12.46
Russell 2000 (TR)	16494	1.59	-1.42	15.50	34.50	3.90	9.73	10.23	9.02
MSCI Indices ($US) Total Return									
World	17023	-1.96	2.54	16.94	34.29	6.90	12.57	10.36	8.93
EAFE (Europe, Australasia, Far East)	11478	-5.42	-1.40	7.34	23.58	3.22	6.76	5.78	6.04
EM (Emerging Markets)	2962	-4.32	3.79	12.17	25.95	-0.99	4.35	3.83	7.31
MSCI Indices ($CA) Total Return									
World	23702	1.06	3.40	23.28	34.71	11.12	13.84	12.71	9.66
EAFE (Europe, Australasia, Far East)	15981	-2.51	-0.57	13.16	23.97	7.30	7.96	8.03	6.74
EM (Emerging Markets)	4124	-1.38	4.65	18.25	26.35	2.92	5.53	6.04	8.02

Currency									
Canadian Dollar ($US/$CA)	1.39	3.02	0.91	5.22	0.43	4.00	1.14	2.15	0.68
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	8110	-1.54	-3.08	4.87	10.77	3.87	2.27	2.16	2.85
Hang Seng (Hong Kong)	20317	-3.86	17.14	19.18	18.73	-7.14	-5.46	-1.65	2.24
Nikkei 225 (Japan)	39081	3.06	-0.05	16.79	26.65	10.59	11.26	9.06	6.66

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	3.55	3.02	3.22	3.29
US Treasury Yields	4.55	4.16	4.29	4.48

Bond Indices ($CA Hedged) Total Return	Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
FTSE TMX Canada 91-day Treasury Bill Index	469	0.45	1.20	4.27	5.12	3.60	2.41	1.66
FTSE TMX Canada Universe Bond Index	1158	-1.01	1.20	3.21	11.34	-0.09	0.46	2.09
FTSE TMX Canada All Government Bond Index	1085	-1.18	0.98	2.50	10.80	-0.68	-0.09	1.76
FTSE TMX Canada All Corporate Bond Index	1418	-0.50	1.88	5.35	12.94	1.62	2.02	3.03
U.S. Corporate High Yield Bond Index	301	-0.63	2.40	6.69	15.39	2.20	3.78	4.20
Global Aggregate Bond Index	258	-1.60	0.56	2.24	8.88	-1.19	-0.09	1.77
JPM EMBI Global Core Bond Index	532	-2.05	2.03	5.79	17.38	-2.18	-0.54	2.10
S&P/TSX Preferred Total Return Index	2009	-0.70	1.77	18.83	31.15	0.96	6.26	2.60

Source: TD Securities Inc., Morningstar®, TR: total return, PR: price return, as of October 31, 2024

Wealth Investment Office, TD Wealth

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