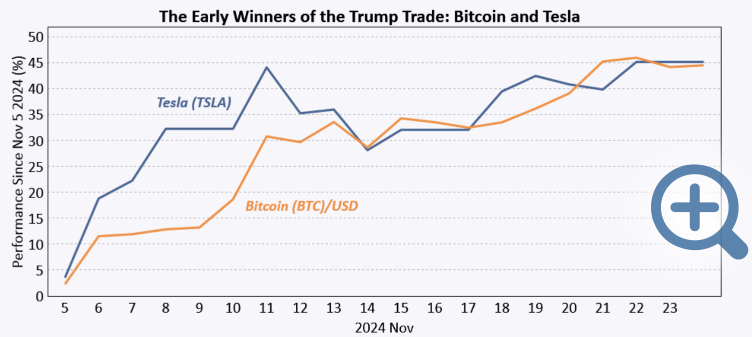
DUMP THE TRUMP BUMP?

The aftermath of the US presidential elections has produced some notables moves in global asset classes. With the Republican Party winning a clean sweep of the House, Senate and Oval Office, investors were quick to reprice perceived winners ("Trump trades") and losers from the new administration. Small cap stocks, banks, cryptocurrencies and the US dollar surged, while gold, long-term bonds and international currencies and stocks faced downwards pressure. Per the chart to the right, Bitcoin and Tesla have soared in near lockstep since the election. Now that a few weeks have passed and the initial knee-jerk reactions are behind us, it is a good time to assess the merit and sustainability of these recent moves.



Sources: Macrobond, Nasdaq, Forstrong Global Asset Management Inc.

While political outcomes, particularly in the world's largest economy, do have important implications, it's important not to overstate their importance. Undoubtedly, there will be asset classes that do better or worse under Democratic or Republican administrations, but history has shown that from a high level, there is not a reliable pattern of outperformance under either party. As Trump assembles cabinet members ahead of his inauguration in late-January, we will get more insight into how his team will function and what their policy priorities will be. However, at this point speculation far outweighs facts. Trump's first term was characterized by a revolving door of advisors and often unpredictable policy actions, which necessitates a more "flexible" analytical framework.

There are a number of Trump trades that make inherent sense to us and should have some staying power. Trump's affinity for deregulation and low corporate taxation appears to be firmly entrenched. Heavily regulated industries should be clear beneficiaries of a less onerous and costly regulatory environment. Assessing the degree of regulatory sensitivity across industries is a subjective exercise, but banks are a notable standout. The upheaval in US regional banks starting in early-2023 gave rise to fears that a return to a much tighter regulatory environment would be forthcoming. A reversal of the Dodd-Frank financial sector regulation rollback (enacted during Trump's first term) is now considerably less likely. Smaller, more domestically-oriented US companies should disproportionately benefit from an extension or expansion of tax cuts. Key provisions of the Tax Cuts and Jobs Act, which was originally introduced in 2017, are set to expire at the end of 2025. A reversion to higher taxes is not in the cards.

The sustainability of other recent moves is less clear cut. The US dollar rally and weakness in international assets have been largely attributable to expectations of pro-growth US policy and the impact of tariffs levied on trading partners. These assumptions, while rational, miss some key counterpoints. Firstly, a strong dollar would be a stick in the spokes of Trump's re-industrialization push. Expansionary fiscal policy would likely be met with "competitive fiscalism" from other nations seeking to keep pace. That said, the degree of US fiscal stimulus may be constrained by the starting point (the fiscal deficit is currently over 6% of GDP), inflation concerns and the recent appointment of Scott Bessent as Treasury secretary. One of the facets of Bessent's "3-3-3 Plan" is to rein in the fiscal deficit to 3% of GDP. He's also been outspoken about tariffs being used as a negotiating tactic rather than a key policy implement. Regardless, tariffs are not usually a one-sided affair, and if implemented would most likely draw retaliation from trading partners.

As for crypto, gold and long-term bonds, we think other factors will take precedence. A friendlier regulatory environment would be a boon for crypto, but ultimately, it's sheer speculative risk appetite that drives prices. Gold is influenced by a confluence of macro factors, but recently the upswing in central bank purchases has been pivotal.

Lastly, we see elevated risk for long-term bonds irrespective of who is in the White House, as resilient growth and inflation should put upwards pressure on yields.

GLOBAL STRATEGY OVERVIEW

CASH

Continued rate cuts from the Bank of Canada have reduced the attractiveness of holding cash. However, cash remains a viable portfolio hedge against equity risk, particularly as long-term bonds have an unfavourable risk/reward profile. Cash has been kept below benchmark in client portfolios, but has been increased this quarter.

BONDS

Our aversion towards developed market bonds remains, as we expect resilient growth and inflation to put upwards pressure on longer-term bond yields. This vulnerability was exacerbated with bond yields grinding lower last quarter. Fixed income exposure has been decreased further below benchmark in client portfolios.

EQUITIES

Biotechnology (biotech) stocks are highly sensitive to interest rates. The Fed rate cutting cycle should help to reduce operating costs and enhance valuations. With the Inflation Reduction Act implementation and patent cliffs approaching, large pharmaceutical companies, sitting on significant cash reserves, are expected to accelerate M&A activity in the space. A position in biotech stocks has been initiated in balanced and growth strategies this quarter.

OPPORTUNITIES

US mortgage REITs offer a hefty double-digit dividend yield. The potential for a "bull steepening" of the US treasury yield curve would help widen net interest margins, while the underlying US housing markets remains robust with healthy homeowner balance sheets. Mortgage REIT exposure has been initiated in balanced strategies and maintained in income strategies this quarter.

FORSTRONG STRATEGIES	INCEPTION DATE	1 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEARS	SINCE INCEPTION
BALANCED								
Global Income	30/06/08	-0.10%	8.50%	14.89%	3.82%	4.01%	5.55%	7.17%
Global Balanced	30/06/03	-0.04%	10.48%	17.26%	4.05%	6.16%	7.00%	7.02%
Global Growth	30/06/03	0.12%	13.62%	22.75%	5.11%	8.27%	8.54%	8.26%
Canadian Income	30/06/08	-0.38%	7.85%	14.86%	3.57%	4.11%	4.89%	6.18%
Canadian Balanced	30/06/03	-0.07%	10.08%	17.57%	4.67%	6.56%	6.57%	7.08%
Canadian Growth	30/06/03	0.15%	13.39%	22.99%	5.35%	8.40%	7.79%	8.11%
GLOBAL EQUITY								
Emerging Markets Equity	31/01/19	-2.07%	9.67%	15.78%	1.60%	3.56%	NA	3.13%
Global Ex-North America Equity	31/12/19	-2.31%	9.84%	18.25%	4.02%	NA	NA	5.22%
ALTERNATIVE INCOME								
High Income Opportunities	30/06/22	-1.00%	5.82%	13.33%	NA	NA	NA	10.79%

* Performance as of October 31st, 2024
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