December 2024 Financial Planning Email Update

As we are all very aware we are heading towards a Trump/Republican Party era in the United States beginning next month. This was positive for investment markets in that all markets value certainty over uncertainty. Unfortunately, Donald Trump uses chaos as a management tool which will create uncertainty from time to time (or ongoing). Donald Trump also has many personal flaws such as racism, demeaning women and being outright rude. We as Canadians find his personality intolerable however the markets do not care about any of that. What the new Republican administration represents is lower taxation and less government regulation. This next four years therefore will create a positive, healthier, more favourable environment for current and new investment in the United States. During Trump's first term the S & P 500 averaged 12% per year while we all endured his uncertain methods such as announcing major U.S. policy on social media. We will see the stock market climb a wall of worry. As our recommended portfolios have a very high weighting in U.S. stocks and bonds, we suggest that our investment future should be bright. That being said stock market returns have been driven far more by the strength of the U.S. business cycle, consumer spending, and corporate profit growth than the party in the administrative office. While policy changes and regulatory reductions will impact specific sectors, historical evidence indicates that the current state and trajectory of the economy are more critical for broader financial markets.

Investment Implications of Trump Election Proposals:

Based on pledges made on the campaign trail, here are five key things we'll all be watching for from the President-elect. We believe, however, that investors often overstate the impact that the federal government has on broad financial markets. In fact, monetary policy is likely to have a greater influence on markets in the next few years with lowering of interest rates than any forthcoming legislation or executive action. Ultimately, policymaking is about setting priorities. No administration gets everything it wants, nor do markets necessarily respond to the political initiatives in the "obvious" way.

1.Tariff Policy Platform:

On the campaign trail, Trump suggested that he will not apply his proposed tariffs immediately. Well we now know that he says he will sign an executive order on his first day in office to impose a 25% tariff on all goods coming into the United States from both Canada and Mexico. Is this another threat as a negotiating tactic? We will see. Again creating chaos is his forte. It's possible that tariffs could be applied only very temporarily. This would be somewhat similar to what we saw in the first Trump administration with significant volatility and short-term sell-offs followed by recoveries as the tariff wars played out. The tariffs would have a material impact on inflation in the United States and we may see several industries in the U.S. taking the government to court to eliminate any tariffs. The tariff would be paid by the business bringing in the imported goods and would then pass on the higher cost to the U.S. consumer thus making the tariff inflationary. The Peterson Institute earlier estimated that a 20% tariff on Canadian goods would cost the average U.S. family US$2,000 per year, most notably from increases in oil and gas prices. We will also definitely see retaliatory tariffs being imposed by Canada and Mexico if need be. The US needs to trade just as much as everyone else. Pursuing the"America First" agenda will receive push back inside the US from the 34 border states in particular.

Market implications

- Policy uncertainty. A period of trade policy uncertainty could potentially weigh on markets until greater clarity emerges. That is when we as long term investors see opportunity and need to remain patient.
- Strong U.S. dollar. Despite the latest reporting that Trump is considering forcing a weaker dollar to encourage exports, the U.S. dollar is strengthening amid expectations that policies would result in stronger U.S. growth compared to the rest of the world.
- Protection for select industries. Tariffs on European and Chinese goods could benefit U.S. companies in certain industries, such as steel, aluminum, and paper.

2.Tax Policy Platform:

Trump is likely to focus his legislative efforts around an extension of the Tax Cuts and Jobs Act as well as a cut in corporate taxes.

- Cut funding for the Internal Revenue Service.
- Cut corporate tax rate to 15% for companies that produce their goods in the U.S.
- Remove tax from Social Security benefits.
- Work with Congress to make individual tax cuts for U.S. taxpayers above and below $400,000 income level and estate tax thresholds permanent.
- Could extend the Tax Cuts and Jobs Act (TCJA) special 20% tax deduction for pass-through businesses that are set to expire.
- Withdraw from or renegotiate the international tax agreement.
- Remove tax on tipped income and overtime pay.

Market implications

- Reduced demand for tax-advantaged investment vehicles. Historically, there has been lower demand for them during periods of lower taxes.
- Real estate investment trusts (REITs) are likely to benefit. If the special 20% pass-through tax deduction is extended, that would allow REIT shareholders to deduct 20% of taxable REIT dividend income they receive, not including dividends that qualify for capital gains rates.
- Trump's proposed corporate tax cuts and regulatory reductions are likely to boost corporate earnings and support positive equity market sentiment. U.S. equities rose sharply higher as the election outcome became clear.

3.Immigration and deregulation Policy Platform:

The key items on Trump's agenda – immigration and tariffs, as well as deregulation – generally do not need legislative action, so the composition republican sweep of the House of Representatives is largely unimportant to the implementation of those policies. Trump can move ahead with those as soon as he takes office.

- Implement a sweeping mass deportation program to remove all illegal immigrants from US.
- Issue executive orders to place conditions on immigration.
- Resume the building of wall at U.S. southern border.
- End automatic citizenship for children of undocumented immigrants born in U.S.
- Partner with local law enforcement on "catch and release" strategy.

Market implications

- Negative impact on certain industries. Those that utilize immigrants for labor, such as hospitality, health care, manufacturing, construction, and agriculture, could face challenges like higher labor costs and lower profit margins.
- Potential demographic and growth challenges. The birth rate for U.S. citizens is relatively low.
- Notably, federal regulatory exposure is highest in the energy, utilities, and financial sectors, making them the most likely to benefit from reduced regulatory pressures. In energy, this could include removing barriers to oil and gas developments and expanding leases on federal lands and offshore, as well as resuming LNG export permits that were paused by the Biden administration.
- Trump has pledged to begin deportation of 15-20 million illegal immigrants immediately. If this were to come to fruition, it could be very inflationary since the labor market is already tight and some industries have labor shortages. However, the Fed would be unlikely to react with monetary policy changes until inflation shows up in the data, which could take time. Higher wage growth could trigger a Fed slowdown in rate cuts.

4.Federal Reserve (Fed) Policy Platform:

- Could resume dovish pressure/rhetoric toward the Federal Open Market Committee.
- Potential plans to make the Fed less independent.
- Uncertain whether Fed Chairman Jerome Powell would be reappointed when his term expires in 2026.
- May propose non-traditional candidates for Fed chairman and governors. Trump needs the approval of the Senate which is referred to as the HR department. As the Senate now has a

Republican majority Trump will likely be able to appoint an ally who would not act independently.

Market implications

- Challenges to Fed independence raise risks to markets. Inflation expectations could potentially reaccelerate, resulting in higher interest rates and lower equity valuations.

5.Fiscal Policy Platform:

- Rein in government spending on foreign aid, clean energy and climate mitigation funds, and immigration.
- Protect Social Security and Medicare reforms from benefit cuts.
- Extend tax cuts implemented in first administration.
- Establish "Department of Efficiency" under Elon Musk with goal of cutting $2 trillion in spending.

Market implications

- Level of fiscal discipline: when there's a one-party sweep as is the case now, we're likely to see higher fiscal deficits.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Thank you! Have a great day!

Respectfully Yours,

Gary

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