

2021 Canadian Elections: Déjà Vu

Our view: The pollster got it right for a change, calling for a Liberal win. However, as in past elections when the incumbent won, this one too shall pass with little noise. In the end, we expect the re-elected minority Liberal government (who added +1 seat to their count from the 2019 elections) to push forward with their fiscal promises laid out in Budget 2021, with the addition of ~4% in new fiscal spending. Our positive and above-trend outlook for the economy in 2021/2022 remains unchanged following the election results.

The votes are in and Canada elects another Liberal minority government. With most votes counted, the verdict is in; the Liberals win another minority government. Prime Minister Justin Trudeau's Liberal Party is projected to take 158 seats (+1 from the 2019 elections) but shy of the 170 seats required to form a majority. The Conservatives end with 119 seats (-2 from the 2019 elections), despite a strong campaign run, with the Bloc Quebecois gaining two seats to take 34. The NDP gained one seat to take 25 while the Green Party ended with 2 seats (-1 from the 2019 elections). Despite taking 5.1% of the vote, almost double that of the Green Party, the right-wing People's Party of Canada did not win any seats. In the end, only a handful of seats flipped across the country, which changes very little from the pre-election scenario.

Expect the status quo, with some additional fiscal sprinkles. While much of the Liberal platform was already laid out in [Budget 2021](#), including providing more funds to various healthcare policies, boosting the availability of low-cost childcare, and various commitments related to achieving Canada's climate targets, the new platform included several initiatives that would see spending rise over the next five years, offset by tax hikes. This included ~\$80 billion, or 0.4% of GDP, in new spending (concentrated in areas such as housing and healthcare), which is expected to be partially offset by new revenues of \$25 billion from higher taxes (including a 3% tax on bank profits and 15% minimum rate on top earners). Over the next five years, the Liberals say they expect budget deficits of \$336 billion, similar to the \$331.9 billion shortfall projected in the April budget. This is well above the baseline projected by the Parliamentary Budget Officer (PBO) of \$266 billion. We believe the expected new fiscal spending plans will help to offset some softness in the recent data prints, but the broad strokes for our economic outlook (which remains above trend for 2021/2022) have not changed too much following the elections. According to consensus expectations, real GDP growth is forecasted to rise by ~5.0% in 2021 and ~4.0% for 2022.

Key takeaways for investors. In the end, we do not expect a material change in the Government of Canada bond supply, and the promised fiscal stimulus should provide a modest boost to growth next year. Equity, foreign exchange, and bond markets were unchanged following the election results, which is usually the case when the incumbent wins. While we do not expect the economy to return to full potential until late 2022, we see the growing adoption of vaccine mandates and passports to limit the chances of further economic restrictions. In addition to the continuing pandemic supports, an important factor for robust growth ahead is the Liberal commitment to accelerated immigration over the next few years coupled with more stimulus.

Please read domestic and foreign disclosure/risk information beginning on page 2

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