

Election Preview

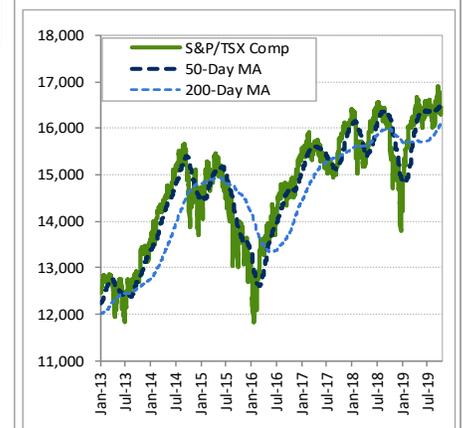
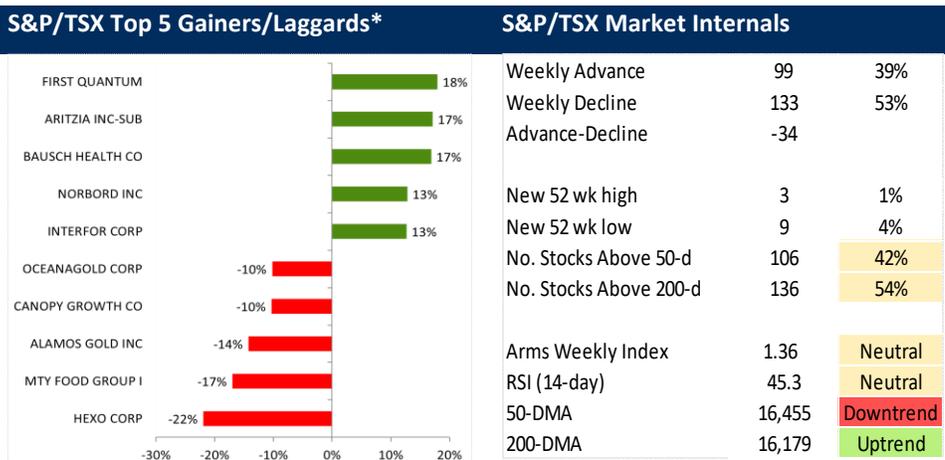
Based on recent polls, a minority government is a very distinct possibility as the Liberals and Conservatives are in a statistical tie with about 34% support. In our view, a Conservative minority government will find it difficult to enact many of its campaign promises and Andrew Sheer is clearly aware of this challenge.

- Taxes.** Both Liberals and Conservatives are offering broad-based tax cuts. The Liberals and Conservatives are likely to agree on a reduction in the tax rate for lower income earners and remove federal taxes on EI payments for maternity/parental leave.
- Housing.** All three parties are looking for ways to improve housing affordability, although each is offering a slightly different path. The Liberals and NDP favour incentives for first time buyers and disincentives such as a national foreign tax on vacant homes. The Conservatives prefer a market approach such as extending mortgage amortization periods and easing stress test restrictions.
- Spending & Deficits.** The NDP is in favour of major new spending initiatives focused on health care, climate and social programs. The Liberals and NDP will see eye-to-eye on many spending initiatives. All parties will be running deficits, but the Conservatives are the only party promising to balance the budget in five years. Cost savings would be found by reducing Canada's foreign aid budget and reviewing all federal subsidies.



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.4	Underweight
Consumer Staples	4.0	Overweight
Energy	16.2	Underweight
Financials	33.0	Overweight
Health Care	1.3	Underweight
Industrials	10.9	Underweight
Technology	5.2	Market weight
Materials	11.0	Market weight
Communications	5.7	Market weight
Utilities	4.7	Market weight
Real Estate	3.7	Overweight

Technical Considerations	Level	YE Target
S&P/TSX Composite	16,426	15,600



Source: Bloomberg, Raymond James Ltd.

Sectors are based on Bloomberg classifications

Source: Bloomberg, Raymond James Ltd; * 5-day price return

Please read domestic and foreign disclosure/risk information beginning on page 6
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Get out and Vote!

A record 4.7 million Canadians voted in the advanced polls, almost 30% of all eligible voters. Based on recent polls, a minority government is a very distinct possibility as the Liberals and Conservatives are in a statistical tie with about 34% support. In our view, a Conservative minority government will find it difficult to enact many of its campaign promises and Andrew Sheer is clearly aware of this challenge. During an interview on CTV he said, *“Our message would be that the party that wins the most seats has a mandate to implement what they put before Canadians. They have a mandate to form a government,”* fearing the Liberals may form a coalition with the NDP. Clearly, a Liberal minority will find greater success in passing legislation as there is policy overlap with both the NDP and Green parties. As the Liberals are the incumbent party we give them a slight edge in retaining power. If this is the case on October 21, to understand the potential implication, we review high-level campaign pledges for each of the main parties to see where there is some common ground. From this perspective, we can start to see some of the investment implications of the election.

- **Taxes.** Both Liberals and Conservatives are offering broad-based tax cuts. The Liberals and Conservatives are likely to agree on a reduction in the tax rate for lower income earners and remove federal taxes on EI payments for maternity/parental leave. The Liberals and NDP will likely find some common ground on increasing taxes on the wealthy as both parties have proposed some form of “luxury tax”. On the corporate side, only the NDP and Green parties are proposing hiking corporate tax rates to help fund new spending initiatives.

G7 Top Marginal Tax Rates & Average Wage

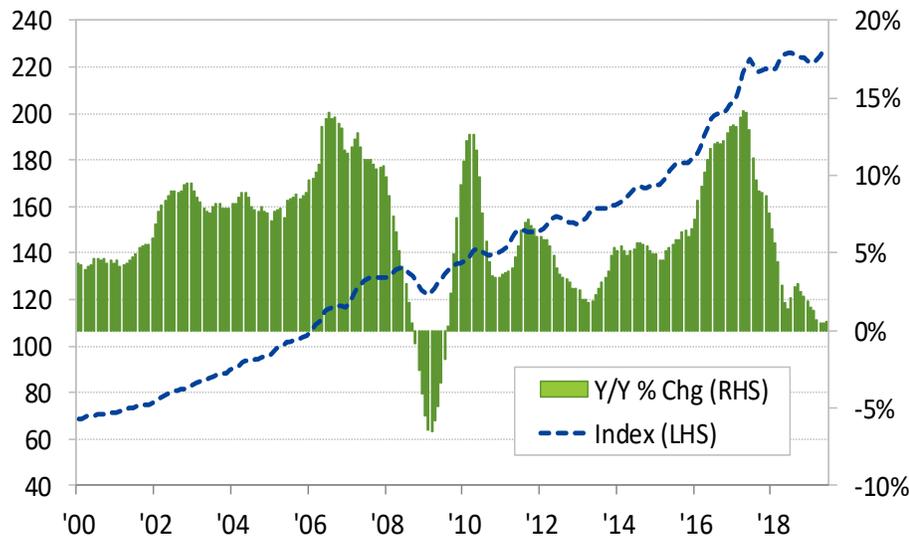
Country	Top Marginal Tax Rate (%)	Average Wage (USD) based on PPP
Canada	53.5	42,730
France	55.2	51,503
Germany	47.5	67,254
Italy	42.3	45,291
Japan	55.8	51,848
United Kingdom	45.0	57,095
United States	43.7	54,951

Source: OECD

- **Housing.** All three parties are looking for ways to improve housing affordability, although each is offering a slightly different path. The Liberals and NDP favour incentives for first time buyers and disincentives such as a national foreign tax on vacant homes. The Conservatives prefer a market approach such as extending mortgage amortization periods and easing stress test restrictions.

Canadian National Housing Price Index

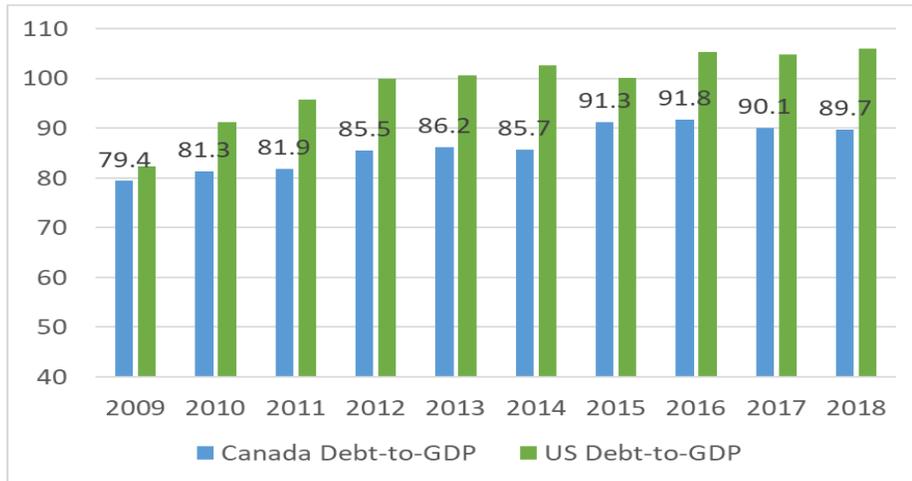
Teranet-National Bank Home Price Index



Source: Bloomberg

- Climate.** All the major parties agree climate change is an important issue. The Liberals and NDP have outlined specific targets to meet a significant reduction in emissions, which will be achieved through corporate tax incentives and additional funding to support businesses and individuals to fight climate change. The Conservatives' approach is more focused on individuals by offering incentives to combat climate change. The Conservatives are the only major party that have specifically outlined initiatives to support Canada's existing energy infrastructure. The Liberals and Conservatives *may* be able to find some common ground on this issue, particularly with the completion of the TransMountain expansion pipeline.
- Spending & Deficits.** The NDP is in favour of major new spending initiatives focused on health care, climate and social programs. The Liberals and NDP will see eye-to-eye on many spending initiatives. For example, both parties have proposed a national pharmacare program and increased spending on climate prevention initiatives. All parties will be running deficits, but the Conservatives are the only party promising to balance the budget in five years. Cost savings would be found by reducing Canada's foreign aid budget and reviewing all federal subsidies. The NDP have committed to having Canada's debt-to-GDP ratio fall over the 10-year fiscal horizon. The Liberals, who promised in 2015 to balance the budget by 2019, are now promising a balanced budget in 2040, but of course we must not forget that "the budget will balance itself". The argument for running larger deficits is that Canada's debt-to-GDP at the federal level stands at 31%, which is 7% below the 52-year average. However, if you consider provincial debt, which the federal government could backstop, Canada's financial condition does not appear as rosy and our debt-to-GDP is actually closer to 90%.

Canadian & US Debt to GDP

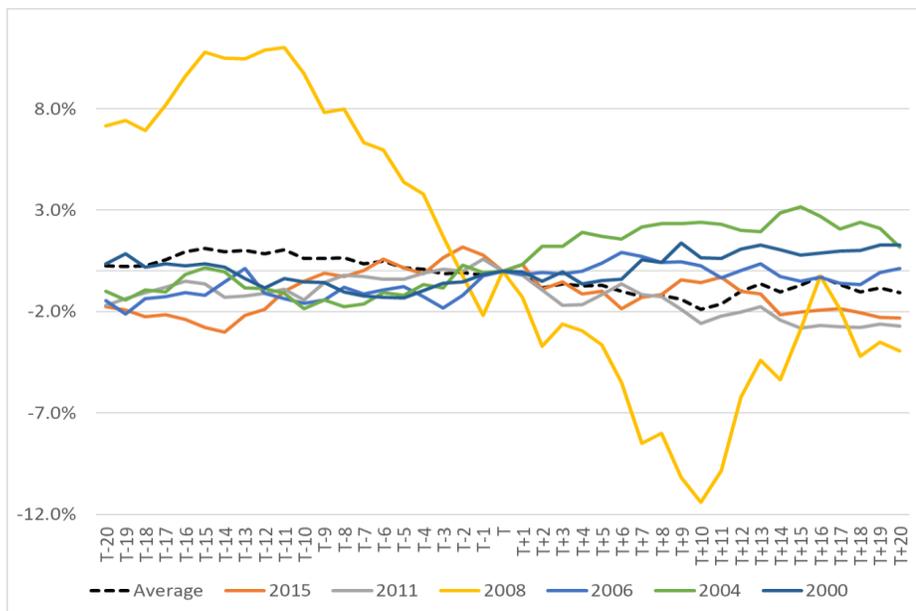


Source: Bloomberg

Investment Implications

- Currency.** Under a Liberal government, the Canadian dollar may be marginally weaker when compared to a Conservative government. However, our currency is influenced by many factors and the election is only one of them. Based on the last six Canadian elections, the loonie has remained relatively stable 20 trading days before and after the election (excluding the 2008 financial crisis). On average, the loonie was largely flat heading into an election and then slips ~1% over the next 20 trading days following the election.

Currency Performance Around Elections



Source: Bloomberg

- **Consumer Discretionary.** Lower taxes for lower income earners, higher minimum wages and other social benefits may assist retailers that focus on lower income households. Higher taxes on the wealthy may discourage and/or delay some purchases, which could negatively impact luxury retailers.
- **Banks & Insurers.** All three parties are looking for ways to improve affordability although their paths are different. Nonetheless, the next government appears set to pass legislation that will be supportive of the housing market, which could benefit the banks, mortgage lenders and housing-related retailers. A national pharmacare program, which would take significant effort to rollout, if implemented, may negatively impact insurers. That said, there is a great degree of uncertainty surrounding this initiative as well as how insurers would fit within the program.
- **Infrastructure.** New spending directed towards climate initiatives may benefit engineering and construction firms that engage in green initiatives, home and commercial retrofitting. Further, corporations moving towards zero-emission or involved in creating products that reduce or eliminate emissions may pay less in taxes. As for our existing energy infrastructure, without a majority Conservative government, it appears the space may remain challenged.

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