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Passing the Baton

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World stock markets have posted strong returns this year as central banks adopted further easing measures, geopolitical risks lessened and the global manufacturing slowdown appeared to level off. With major central banks all printing money simultaneously for the first time since the financial crisis, monetary policy will likely remain a tailwind next year. However, it is difficult to imagine central banks cutting interest rates much further, particularly as rates are already below zero in many parts of the world. On the policy front, the baton has been passed from central bank governors to government leaders, and we are starting to see a global shift toward supportive fiscal policies.

Cuts, or lack thereof, in Canada and the U.S.

The 2018 tax cuts were a key reason the U.S. was able to generate GDP above its highest long-term potential. The U.S. continues to run large deficits and irrespective of who wins the 2020 election, fiscal restraint is not on the agenda. In Canada, the newly re-elected Liberals' platform carried some new spending measures in addition to a phased-in increase of the basic personal amount tax credit. If the federal government is unable to offer much on the fiscal front, the Bank of Canada now presides over the highest interest rates in the developed world, leaving room for cuts.

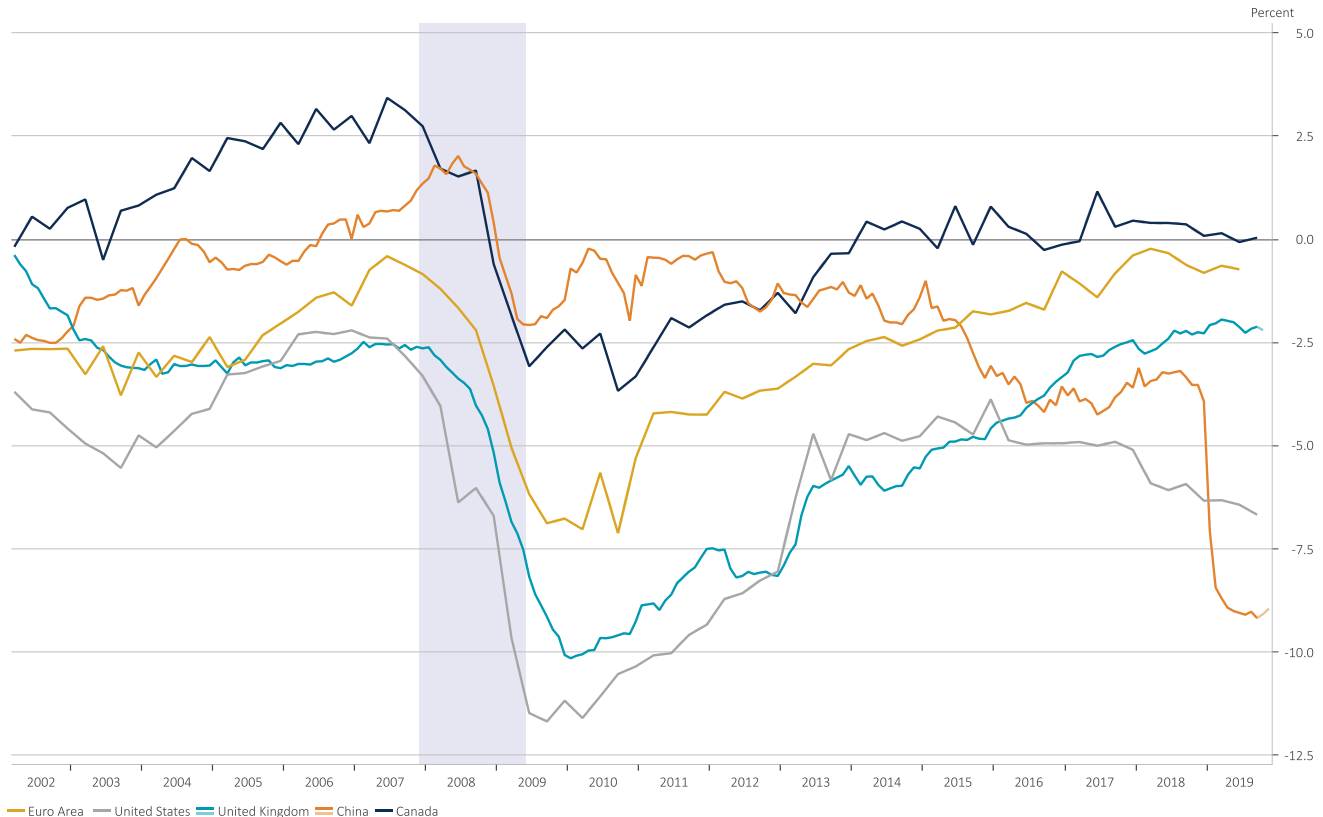
Europe, Japan and China look to spend

In Europe, the leadership of the European Central Bank changed from Mario Draghi to Christine Lagarde. One of Lagarde's key qualifications is her ability to work with European governments. It is expected she will keep interest rates, and thus government funding costs, effectively at zero. We see a strong case for fiscal expansion, with some measures already underway outside Germany. Germany is well known for its constitutional requirement for a balanced budget. However, meaningful fiscal stimulus is not off the table. Opposition parties are starting to push for investment in infrastructure and environmental projects while public sentiment is moving slowly in favour of greater public spending. This could result in a series of political negotiations to change the balanced budget rule or a declaration of an "emergency" need to increase spending. Across the English Channel, the U.K.'s Conservative party won a significant majority, giving Prime Minister Boris Johnson considerable power domestically. Unlike past administrations with their fiscally conservative policies, Johnson is focused on increasing public spending.

Japan recently announced measures worth about 13 trillion yen (1.7% of GDP) to boost the economy. This comes at a time when a consumption tax hike is expected to offset some of this spending. These measures have given the central bank breathing room, as monetary policy is becoming increasingly ineffective. China is also participating in the global shift toward supportive fiscal policies. Although a grand stimulus is

unlikely unless there is a collapse in growth like in 2014-2015, we still expect Beijing to take some steps. For example, China's Ministry of Finance recently approved a bond sale with the proceeds to be used for increased infrastructure investment.

General Gov Budget as % GDP



MACROBOND

Source: Macrobond, November 2019

Globally coordinated fiscal policy

Since the aftermath of the financial crisis, fiscal policies have not given a coordinated boost to global GDP until now. As central banks continue to struggle to achieve their inflation targets, government leaders will continue to be pressured to support the economy through fiscal policy. How much and how fast these policies will be implemented are up for debate, but we expect to see a lift from fiscal policy in the short to medium term. What this continued spending means for fiscal balances in the long term is a topic for another day.

Have a safe and happy holiday!

Combined top 15 equity holdings as of November 30, 2019 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Microsoft Corp.	6. Gilead Sciences, Inc.	11. Apple Inc.
2. Enbridge Inc.	7. Toronto-Dominion Bank	12. Bank of Nova Scotia
3. Canadian Natural Resources Ltd.	8. Alphabet Inc.	13. Canadian Pacific Railway Ltd.
4. AltaGas Ltd.	9. Royal Bank of Canada	14. Magna International Inc.
5. iA Financial Corporation	10. ATCO Ltd.	15. E-L Financial Corp.

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