

Justin Trudeau: Coveting thy neighbor

By Warren Lovely

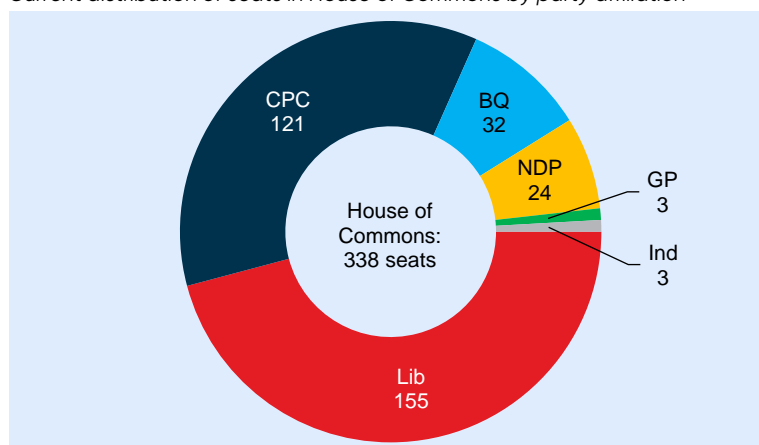
Hard to believe any self-respecting leader would be glancing enviously at the U.S. political situation right now. Dysfunction has ruled in America for much of the past four years, and the unfortunate events during the final few days of the Trump regime have genuinely shocked the world.

But in one important respect, Justin Trudeau appears to be coveting what Joe Biden and his fellow Democrats will very soon have: majority control in the legislative branch of government and with it, a freer hand to implement an ambitious and progressive agenda. (Looked at another way, majority control means less pesky interference from and accommodation towards the opposition.)

Recent posturing and procedural maneuverings suggest Trudeau may be less interested in making a still-youngish minority parliament work and increasingly willing (you might say eager) to head back to the polls if need be. When the vote does come, he'll be searching for what he lost in 2019: majority control of the House of Commons. As a reminder, Canadians re-elected the Liberals just 15 months ago, albeit with a plurality of seats (157 out of 338). Note: Two defections put the Liberal caucus at 155 members currently (Chart 1).

Chart 1: Current party standings in House of Commons

Current distribution of seats in House of Commons by party affiliation



Source: NBF, Parliament of Canada | Note: "Ind" = independent; 170 required for majority

How long do minorities last?

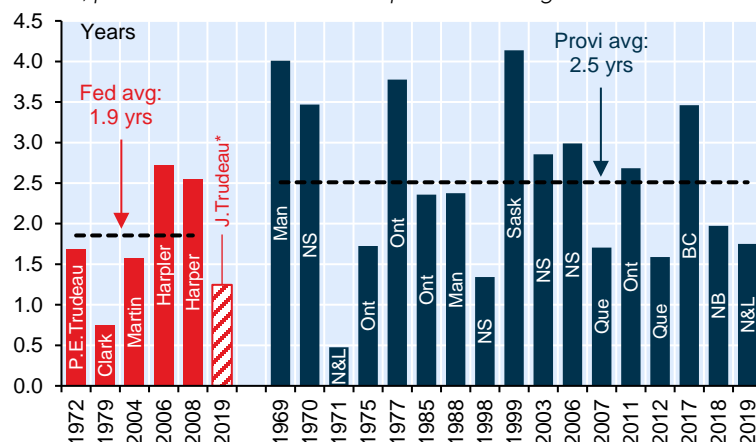
Not to be unduly guided by history, but the average minority government (based on the last half century of experience at the federal and provincial levels) has lasted ~2½ years or almost 30 months between elections. Minorities have tended to be shorter federally (less than two years), typically lasting longer provincially.

Looking at more recent provincial minorities, New Brunswick went two years before heading back to the polls in Sep-2020. British Columbians managed just fine with a minority for 3½ years until a vote was finally held Oct-2020. The writ was just dropped in Newfoundland and Labrador, with a February 13th election coming 1.7 years after a May-2019 vote left the provincial Liberals with a minority. Refer to Chart 2 and the more detailed table on page 4 for additional background on Canadian federal/provincial minorities.

Success and conversion rates for minority governments are also telling, and surely not lost on some within the federal Liberal party.

Chart 2: Half-century look back at Canadian minorities

Federal/provincial minorities & time elapsed until next general election



Source: NBF, Parliament of Canada, provincial legislatures | Note: Federal average excludes J.Trudeau minority; provincial results exclude May-2019 PEI election

Three out of five times federally and 13 out of 16 times provincially, the party that had been governing with a minority was re-elected in the following election. Often, the minority party not only won but successfully converted its legislative standing into majority control. Justin Trudeau's father, P.E. Trudeau, did just that back in the mid-1970s. It took Stephen Harper two tries, but he moved from minority to majority in 2011. The minority-to-majority conversion record is even more impressive provincially. New Brunswick & British Columbia offer two recent examples of success. Note: Prince Edward Island's 2019 vote left the PCs just short of a majority. But a victory in a subsequent/recent byelection edged that party over the majority threshold. We'll see what happens on The Rock in a month's time.

Is a minority preventing Trudeau from governing? Hardly

It's hard to argue that minority standing has prevented Trudeau's Liberals from taking necessary legislative action, most critically in response to the COVID-19 pandemic. This minority government has, with varying degrees of opposition support, delivered truly historic stimulus—a larger and/or quicker fiscal policy response than that observed in many advanced countries (including a number where the governing party enjoys a majority). In the current parliamentary session (i.e., 43rd Parliament, 2nd Session), the Liberals have survived key votes (be it on the response to the Throne Speech, on the remit/reach of committees, as well as on the none-too-trivial issue of appropriating funds to keep the government running). In other words, the minority parliament Canadians duly elected in late 2019 has worked, even if it's been a bit uncomfortable and less-than-convenient for Mr. Trudeau and his followers by times.

Nonetheless, many political commentators saw last week's mini cabinet shuffle as a tweaking of the Liberal team ahead of a vote that could come as early as the spring. The PM has freshened up the detailed marching orders for his ministry via supplementary mandate letters. Check them out [here](#), including what Trudeau would have Deputy PM & FinMin Chrystia Freeland focus on. Note: Among a number of things, Freeland's to do whatever it takes in the short term

to shore up the economy, whilst preserving Canada’s “fiscal advantage” and presenting a new “fiscal anchor”.

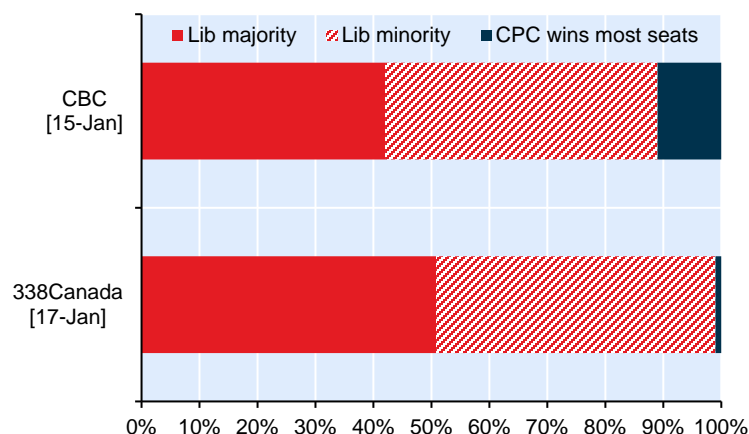
In a similar vein, many see the upcoming 2021 federal budget serving as a *de facto* Liberal re-election platform—a fiscal blueprint that MPs might not even get voted on if the PM doesn’t care for how the opposition reacts to it. Trudeau could simply take his ball and go home... or rather, wander over to Rideau Hall to secure an election writ from Governor General Julie Payette.

Liberals likely encouraged by public opinion polling

Politicos on both sides of the aisle are no doubt already busy crafting election stratagems. Regardless of the specific tactics to be used, it’s not too hard to see why election fever is heating up. Just look at public opinion polling, or the more thoughtful aggregations of said polls by noted experts. Éric Grenier at the CBC—best of the best in our opinion—gives the Liberals a ~90% chance of winning a theoretical election (if one were held today). He sees it as more than 40% likely that Trudeau snags a much-coveted majority. P.J. Fournier over at 338Canada.com sees a near-certain Liberal victory (99% odds) based on current polling, including roughly 50-50 chance of a Liberal majority (Chart 3). Caution: Seat projections and election odds are based on public opinion polls. As we’ve seen in the past, polls are not always perfect indicators of how electors actually vote.

Chart 3: At the moment, odds heavily favour Liberals

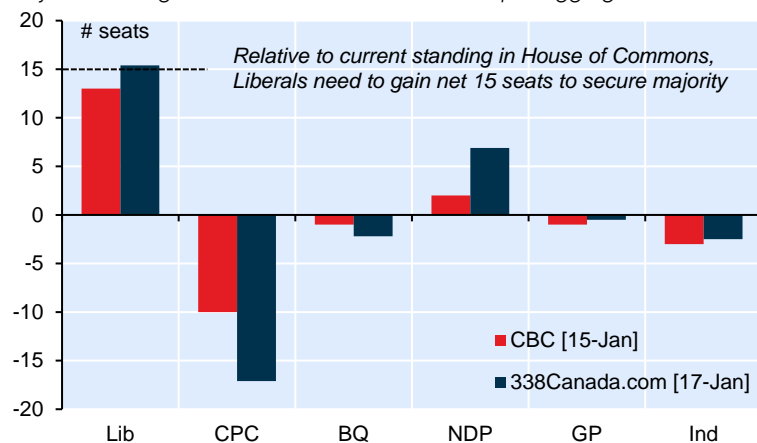
Projected odds of winning theoretical federal election



Source: NBF, CBC, 338Canada.com

Chart 4: Extra Liberal support comes at expense of CPC

Projected change in seat count vs. current: Latest poll aggregations

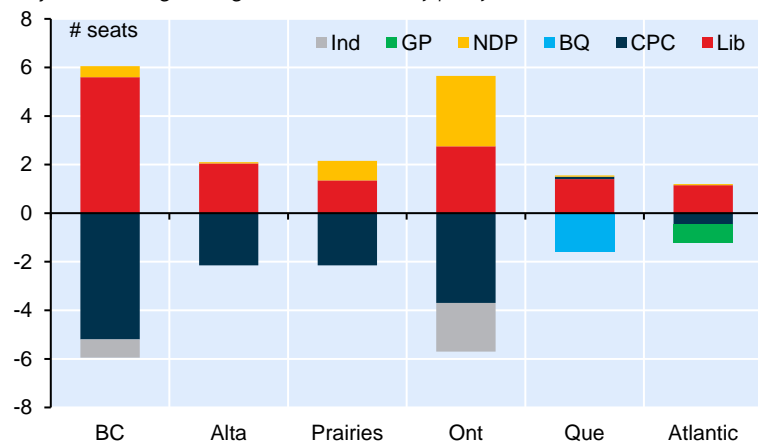


Source: NBF, Parliament of Canada, CBC, 338Canada.com

In other words, polls aren’t flagging much apparent downside for Trudeau, assuming he can avoid appearing too opportunistic—a character trait Canadians have historically been willing to tolerate to a degree. Detailed modeling suggests the Liberals could improve their standing in a few regions. As an aside, when you have absolutely zero MPs in Alberta and Saskatchewan, there’s no worse you can do.

Chart 5: Shifting political sands at regional level

Projected change in regional seat count by party vs. current



Source: NBF, Parliament of Canada, CBC, 338Canada.com | Note: Changes based on average of latest projections from CBC & 338Canada.com vs. current standing in HOC

Should investors care?

Notwithstanding seemingly clear odds, an election means uncertainty, which isn’t exactly the favoured condition for financial markets. If you’re looking for a strong and consistent pre- or post-election narrative in rates (outright or vs. the U.S.), currencies or equities, you’ll be disappointed. There are some *loose* tendencies, but nothing a statistician would feel particularly confident in. Refer to the charts on page 3 for perspective on yield differentials and CAD, part of a larger federal election performance package we maintain.

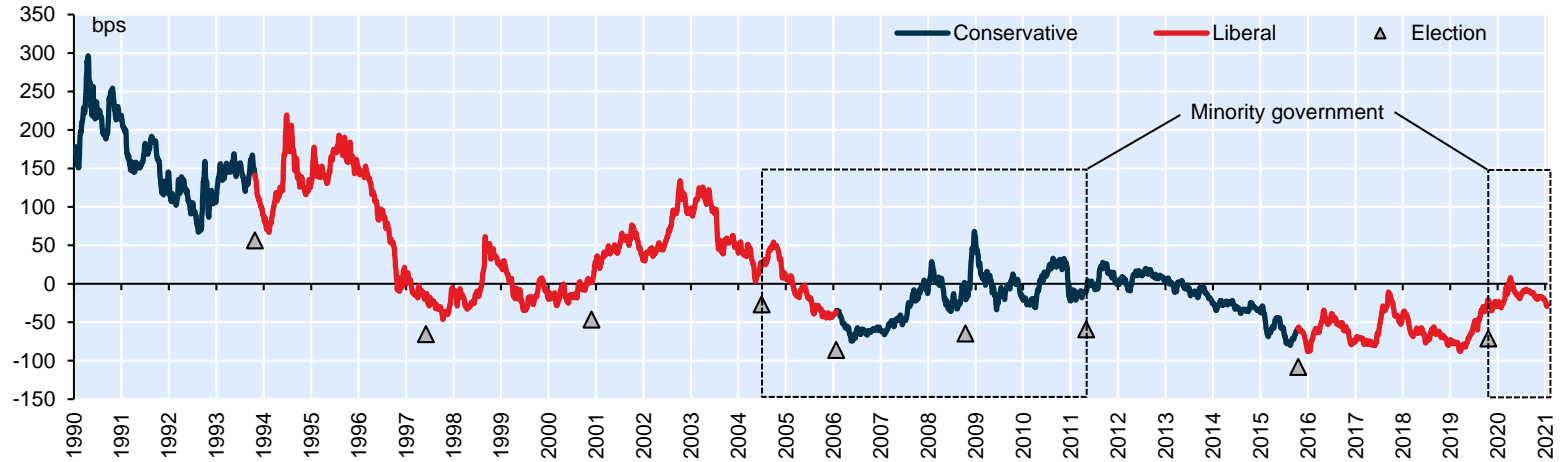
It seems much could depend on the eventual discounting of promises made by the various parties as the next vote comes into focus. We’ve a lot to learn yet. Moreover, Canada won’t be operating in a political bubble; transformation will be the watchword south of the border, with Biden outlining an ambitious initial plan of attack.

For Canada’s federal government, there’s the not-so-subtle issue of how to rebuild the economy post-virus. Views differ by political persuasion, including the extent to which Ottawa should be actively subsidizing the return to full employment through longer-term stimulus spending. There are any number of other issues to contend with: ensuring Ottawa’s fiscal sustainability; addressing inequality; transitioning to a less carbon-intensive economy; developing new markets (and maintaining favourable access with existing trade partners); supporting provincial health systems longer term; managing immigration; defining Canada’s place on the international stage; etc. No question, it would be easier for Trudeau to move forward with his party’s preferred agenda and approach if he controlled the majority of seats in the House of Commons.

We’ll have plenty more to say on this, in the same way we offered up comprehensive preview of the 2019 vote. We understand there will be lots to follow in Washington in the days, weeks and months ahead. But spare a thought for Canada; 2021 could be a pretty interesting political year for us Canucks too.

Chart 6: Longer-term political perspective on Canada-U.S. interest rate differentials

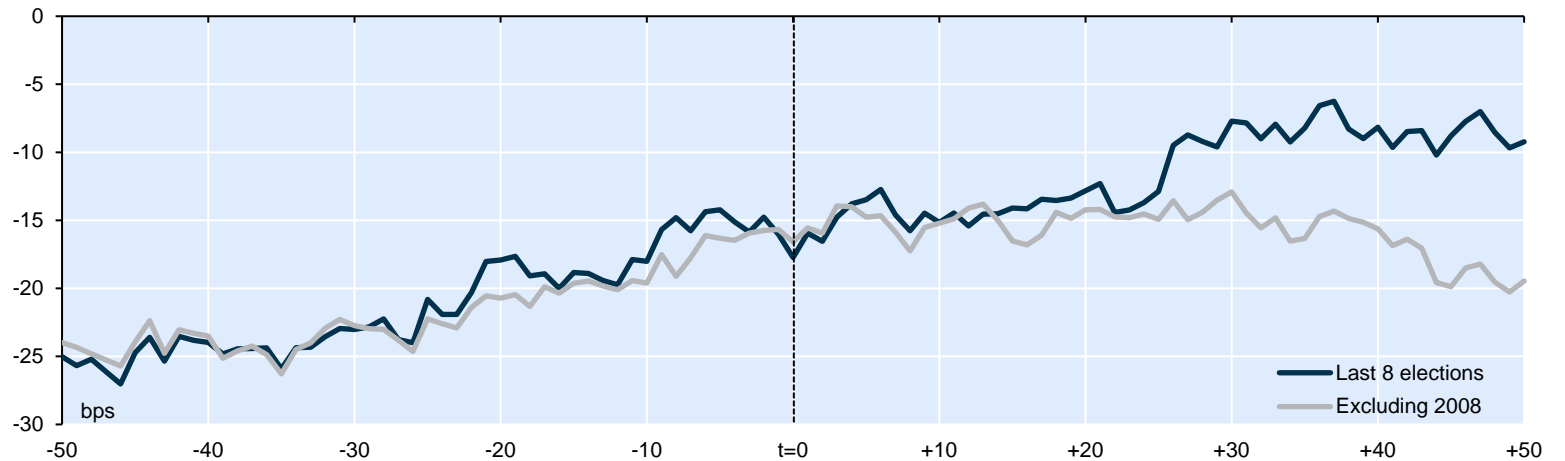
Canada-U.S. 10-year yield spread, delineated by federal party in power & election timing



Source: NBF, Bloomberg | Note: Based on 5-day moving average; arrows denote election day

Chart 7: Historically, a tendency for Canadian yields to modestly underperform USTs in pre- and post-vote period

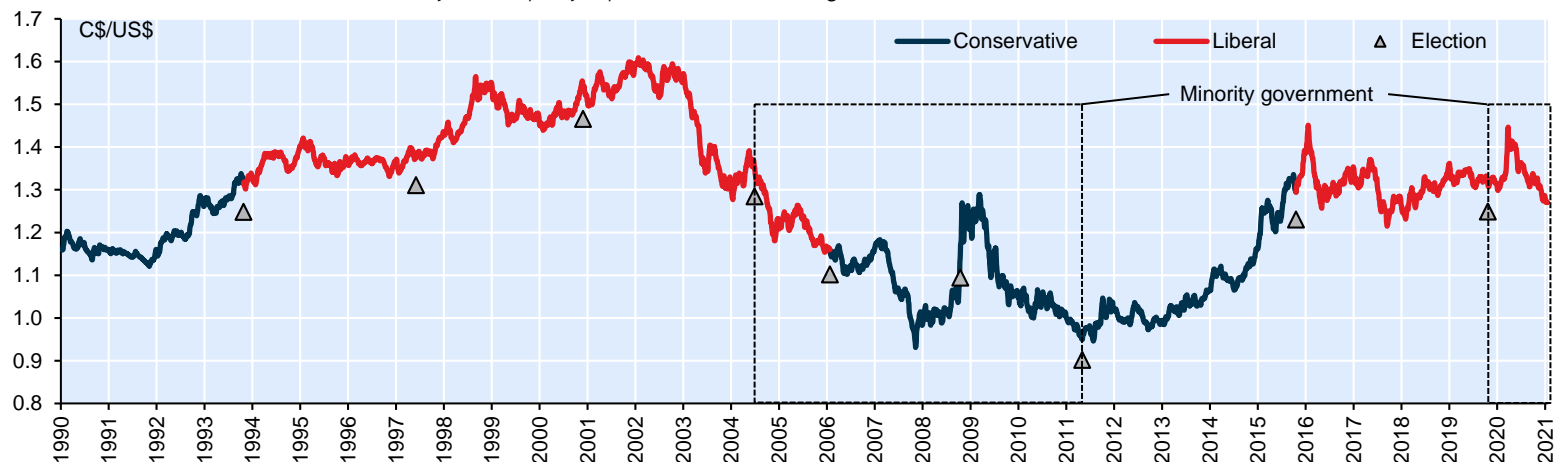
Average path of Canada-U.S. 10-year yield spread before/after federal elections



Source: NBF, Bloomberg | Note: Based on last 8 federal elections (spanning 1997 to 2019); x-axis refer to trading days relative to election day (i.e., t=0)

Chart 8: C\$ results have been somewhat mixed... in some cases, post-vote weakness looked to be an oil story

Canadian dollar vs. U.S. dollar, delineated by federal party in power & election timing



Source: NBF, Bloomberg | Note: Based on 5-day moving average; arrows denote election day



Table: Canada's history with minority governments... a look back over past half-century

Canadian federal-provincial minority governments (last ~50 years)

	Jurisdiction: Federal/provincial	Party in power during minority	Prime Minister/ Premier	Election that produced minority	Date of next election	Time between elections (years)	Minority party re-elected?	To majority?
Federal (5+1)	29th Parliament	Liberal	P.E.Trudeau	30-Oct-1972	08-Jul-1974	1.7	Y	Y
	31st Parliament	PC	Clark	22-May-1979	18-Feb-1980	0.7	N	-
	38th Parliament	Liberal	Martin	28-Jun-2004	23-Jan-2006	1.6	N	-
	39th Parliament	Conservative	Harper	23-Jan-2006	14-Oct-2008	2.7	Y	N
	40th Parliament	Conservative	Harper	14-Oct-2008	02-May-2011	2.5	Y	Y
	43rd Parliament	Liberal	J.Trudeau	21-Oct-2019	?	1.2 & counting	TBD	TBD
Average length of past Canadian minority parliaments, based on time between elections						1.9 Yrs	3 of 5	2 of 5
Provincial (16+2)	Manitoba	NDP	Schreyer	25-Jun-1969	28-Jun-1973	4.0	Y	Y
	Nova Scotia	Liberal	Regan	13-Oct-1970	02-Apr-1974	3.5	Y	Y
	Newfoundland & Lab.	PC	Moores	02-Oct-1971	24-Mar-1972	0.5	Y	Y
	Ontario	PC	Davis	18-Sep-1975	09-Jun-1977	1.7	Y	N
	Ontario	PC	Davis	09-Jun-1977	19-Mar-1981	3.8	Y	Y
	Ontario	Liberal	Peterson	02-May-1985	10-Sep-1987	2.4	Y	Y
	Manitoba	PC	Filmon	26-Apr-1988	11-Sep-1990	2.4	Y	Y
	Nova Scotia	Liberal	MacLellan	24-Mar-1998	27-Jul-1999	1.3	N	-
	Saskatchewan	NDP	Romanow/Calvert	16-Sep-1999	05-Nov-2003	4.1	Y	Y
	Nova Scotia	PC	Hamm/MacDonald	05-Aug-2003	13-Jun-2006	2.9	Y	N
	Nova Scotia	PC	MacDonald	13-Jun-2006	09-Jun-2009	3.0	N	-
	Québec	Liberal	Charest	26-Mar-2007	08-Dec-2008	1.7	Y	Y
	Ontario	Liberal	McGuinty/Wynne	06-Oct-2011	12-Jun-2014	2.7	Y	Y
	Québec	PQ	Marois	04-Sep-2012	07-Apr-2014	1.6	N	-
	British Columbia	NDP	Horgan	09-May-2017	24-Oct-2020	3.5	Y	Y
	New Brunswick	PC	Higgs	24-Sep-2018	14-Sep-2020	2.0	Y	Y
	Prince Edward Is.	PC	King	23-Apr-2019	See note	1.7 & counting	TBD	TBD
	Newfoundland & Lab.	Liberal	Ball/Furey	16-May-2019	13-Feb-2021	1.7	TBD	TBD
Average length of past provincial minority legislatures, based on time between elections						2.6 Yrs	13 of 16	11 of 16
Combined average: Federal & provincial minority government experience (21 historical instances)						2.4 Yrs	16 of 21	13 of 21

Note: First set of dates refers to federal-provincial election that resulted in a minority government, as opposed to swearing-in date;

current minority governments (federal & provincial) excluded from average length calculations;

PEI's 2019 election produced a minority, but a PC victory in a Nov-2020 byelection gave party a slim majority in legislature, making this is a special case;

Source: NBF, Parliament of Canada, provincial legislative assemblies

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