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Quick Hit – A conservative uprising in Canada!?

Federally and provincially, conservative political parties are making inroads in Canada. It's the type of movement that, if sustained, could have material implications for capital markets... for rates and credit of course, but for the currency and equities too. Here's a deliberately brief look at what's going on, federally and across the provincial landscape:

Federal – Having secured a strong majority back in October 2015, Justin Trudeau's Liberals today hold 183 of 338 seats in the House of Commons. But public opinion polls have more generally signaled growing support for Andrew Scheer's Conservatives. This trend was punctuated by a recent by-election, where the Conservatives wrestled Chicoutimi-Le Fjord away from the Liberals with over 50% of the vote. The next federal election isn't scheduled for October 2019, and a lot can happen before then of course.

Ontario – Doug Ford's Progressive Conservatives secured 76 of 124 seats on ~40% support in a June 7th general election (Chart 1). So there's four years of conservative majority rule stretched out in front of Canada's largest province. Ford's was a fundamentally different platform relative to either his NDP or Liberal rivals, focused squarely on tax relief (for individuals and businesses). Ford, who will be sworn in with his new cabinet on June 29th, has likewise promised to restore transparency to financial reporting. There's no definitive timeline for deficit reduction and a fully costed fiscal plan is yet to come. Still, Ontarians arguably opted for the most bondholder friendly option at the ballot box.

Québec – Ahead of an election scheduled for October 1st, polls show strong support for the relatively conservative CAQ party (Chart 2). Far from writing the Liberals off, CAQ priorities include: a new nationalist project (i.e., a strong Québec inside a strong Canada), increased fiscal authority (via transfers or tax points), greater control over language/immigration, lower taxes, a focus on innovation and regional specialization. The CAQ, which has never governed, has proposed a taxpayer protection bill and favours a Parliamentary Budget Officer. To be clear, the incumbent Liberal government has been fairly kind to bondholders, as evidenced by balanced budgets, a declining debt burden, healthy job creation/GDP growth, an upgraded credit rating and relatively tighter spreads (vs provincial peers). Also noteworthy for investors, support for the separatist PQ party has languished of late.

British Columbia – An interesting case, BC's May 2017 election saw a long-standing Liberal government (armed with strong economic and fiscal credentials) replaced by an NDP minority (supported by a small handful of Green seats). While there are technically no Progressive Conservative MLAs in BC, the relatively fiscally conservative Liberals actually control one more riding than the NDP. Meanwhile, it should be noted that the NDP said they'd aim for a balanced budget on the campaign trail and offered up just that in their latest budget, so it's not as though fiscal policy has veered suddenly and sharply to the left here.

Alberta – Long considered 'ground zero' for the conservative movement, Albertans broke with tradition in 2015, snuffing out over four decades of PC rule in favour of the left-leaning NDP. The next election isn't exactly around the corner (on or before May 2019), but the conservative vote has been united—it says so right in the United Conservative Party's name. There may not be that many quick/easy avenues to erase the deficit, but support for Jason Kenney's UCP (~50%) may be reflecting Alberta's natural proclivity for social-economic-fiscal conservatism and/or a means of expressing growing alienation and

dissatisfaction with the status quo. (Equalization transfers and stalled pipeline development are but two obvious lightning rods in Alberta.)

Manitoba – Manitobans voted in a Progressive Conservative majority government in 2016. Notwithstanding ongoing sizeable capital/funding requirements for Manitoba Hydro, the government's finances have begun to improve and there's a commitment to balance the books by 2024. The Tories continue to enjoy solid support at ~45% vs ~30% for the NDP based on the latest polling data.

Saskatchewan – The fiscally conservative Saskatchewan Party, voted into office over a decade ago, remains quite popular under relatively new leader Scott Moe. No premier had a stronger approval rating in the Angus Reid Institute's March survey. The government succeeded in limiting fiscal fallout from earlier commodity price weakness and related economic pressure (certainly relative to other oil-levered provinces) and this low-debt province aims to be back to the black next fiscal year.

Nova Scotia – On the surface, our narrative might not appear to hold in Atlantic Canada. In Nova Scotia, for instance, a Liberal government was re-elected just last year. Note, however, that the Grits were reduced to a narrower majority (27 of 51 seats). The Progressive Conservatives seriously closed the gap in popular support and took six marginal seats away from the Liberals (vs the 2013 vote). As in Québec, give the current Liberal government its due when it comes to fiscal management, as balanced budgets and relative debt containment have placed the credit on an improving trajectory. (S&P assigned a "positive" outlook to Nova Scotia's A+ credit rating in September 2017.)

New Brunswick – A provincial election is now less than three months away (September 24th). Polls generally put the incumbent Liberals in front, but their lead has shrunk as support for the opposition Progressive Conservatives appears to have firmed. PC aims/principles include support for free enterprise, a fiscal plan that minimizes taxation and individual responsibility/self-reliance. Note that New Brunswick voters have been somewhat fickle, flipping from PC to Liberal and back again over the last few general elections.

Newfoundland & Labrador – Another province where polls have signaled mounting support for the PCs, who were ousted by the Liberals back in a 2015 election. The provincial Tories have railed against a job-killing carbon tax, while broader fiscal critiques make it clear they favour spending restraint and a reduced tax burden. Most recently, the provincial PCs decried a "conspiracy of silence on Equalization", related to the quiet (surprise?) renewal of the existing Equalization formula for another five years.

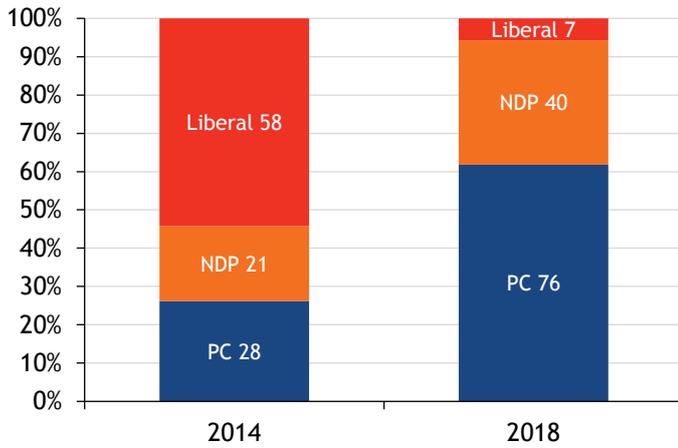
Prince Edward Island – PEI has been fairly safe Liberal territory for the past decade or so. Not all that long ago, Liberal polling numbers were in rarefied air (as strong as 65% at one point). But by all appearances, stronger support for the opposition PCs and the Greens has chipped away at the Liberal lead. As in Newfoundland and Labrador, the next election doesn't go until October 2019.

For now, seven of Canada's ten provinces are ruled by Liberal or NDP governments, while the federal Liberals boast a secure majority in Parliament. Polls being polls, they may not paint a true picture of how Canadians really intend to vote. Moreover, the affiliation of a given political party may not tell you how they'd govern, if given the chance. In Canada and elsewhere, you'll find examples of notionally leftist or centrist parties that have adopted a conservative fiscal posture. In the same vein, seemingly right-of-centre parties aren't necessarily superior fiscal stewards. The empirical record in Canada is mixed; whether on growth, budget metrics or ratings, results for conservative-stylized governments aren't always superior. We're not offering an endorsement here. However, the adoption of more overtly conservative policies coming from whichever political brand (i.e., lower taxes and a relatively smaller government footprint) may be what's needed to restore lost tax competitiveness, attract much-needed business investment and slow the growth in taxpayer-funded programs and debt that has eroded fiscal sustainability and pressured credit quality in some corners.

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Chart 1: PCs cruise to victory in Ontario

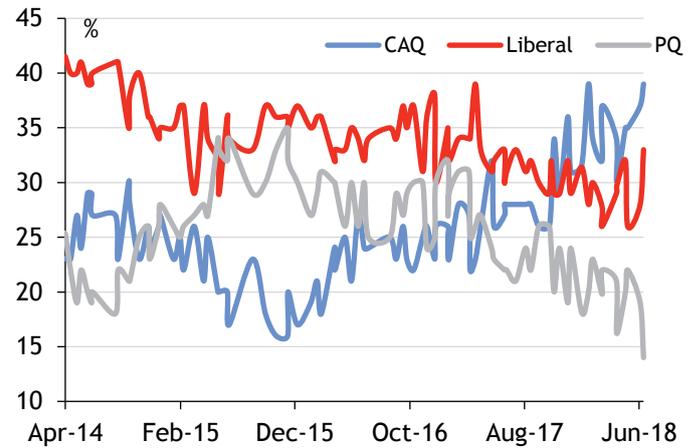
Seats won by political party in past two Ontario elections



Source: NBF, Elections Ontario

Chart 2: Evolution of public support in Québec

Public opinion polling in Québec since last election (Apr-2014)



Source: NBF, various polling firms

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