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REVIEW AND COMMENTARY
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Since Trump's election to the White House his protectionist rhetoric, particularly when it comes to free trade, have overwhelmed the airwaves and the Canadian capital markets. Over the past year Canadian equities has been pressured downward as uncertainty prevailed. During that time, it was rumoured that some US hedged funds were shorting our currency and equities indexes. Profitability in Canada, for the most part, has improved to date but concerns about the future of the NAFTA agreement has cast a shadow over the prospects of the Canadian economy and , in turn, Canadian equities.

Just hours before the deadline, the USMCA (United States Mexico Canada Agreement) deal was announced subject to approval by all parties, replacing NAFTA. Understandably, the Canadian currency rallied given the prospects of no deal being reached prevailed, however, the reaction of the Canadian equity markets has been less sanguine. President Trump's negotiating style, if nothing else, is effective. He uses leverage to his advantage and is unrelenting despite his misinterpretations of facts. While it is easy to criticize the new agreement, it takes special resolve to stare down an opponent 10 times your size. While the new deal is difficult to quantify, it would be widely agreed that the Canadian economy would have a far more difficult time absorbing the impact of an impasse. An impasse would have been punitive to the US economy, it really comes down to who has the most to lose. Many consider it would have been Canada.

The capital market reaction in Canada to the new agreement has been marginal. With the exception of the move in our currency, interest rates and equity prices remain little changed. Given that many of the more influentially weighted companies listed on the TSX SP Composite are also listed on major US exchanges, the more muted reaction may be explained, at least partially, by a relatively weaker, but more influential, US dollar. When we look at the USMCA, it would appear that Canada has given up more than gained. Energy and Autos remained largely untouched. Both industries are important to our economy and while Ottawa considers this a positive, there is little gained. Car content allowance will increase to 75% from 67% and the number of vehicles exported to the US can increase by another 800,000 before any additional tariffs are incurred. Neither of these concessions are significant. Canada's share of the auto making peaked almost 3 decades ago and there has not been a new assembly plant built in Canada for well over a decade. Even with the increased export levels it is doubtful that any manufacturer will consider the increase significant enough to build another assembly plant given. Steel and aluminum tariffs remain as is so there was no change to these industries.

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Canada has given up some (3.6%) access to our dairy markets which may not seem to be a lot but this could amount to about 500 million dollars and the impact to Canadians may be that some tax dollars will be sent to farmers to subsidize their losses. Another issue, possibly the most significant, is Clause 32. Clause 32 requires each partner to inform the other three months in advance if they intend to enter trade negotiations with what the US has determined or defined as a 'non- market country" (basically defined as any economy that the *US* does not consider a free trader). The most significant 'non- market' country presently is China. Thus, this concession is being interpreted that Trump has basically gained a veto on Canadian and Mexico's potential future trade negotiations with, among others, the second largest economy in the world. Certainly this is not a constructive outcome compared to what had existed with NAFTA.

There is a third party resolution process, protection of our 'cultural industry' (though there is some concern about digital content), an extension of certain patents from 50 to 70 years and the sunset clause from 5 to 16 years. Drugs will take a little longer for their patents to expire which means drugs might be more expensive, in the short run, for Canadians. One positive, on- line shopping will be marginally more affordable though the amount is a marginal increase and this may be more of a benefit to US commerce than Canadian consumers. While there are many other considerations, it would appear that the new agreement favours the US more than Canada and Mexico. Not exactly a surprise, however, going forward it is probably better to move forward with the amendments that suffer the potential ramifications if no agreement was reached.

Another issue facing investors in the upcoming quarter will be the midterm elections in the US in November. Aside from the theater regarding the most recent Supreme Court nominee, the US President continues to be deluged with ongoing accusations regarding his personal life and political influences. It is difficult to gauge his popularity and those of his fellow Republicans but there has been a considerable amount of new coverage that may mobilize the electorate more than during his election. The U.S. Supreme court nomination dominates the news and continues to polarize the U.S. citizenry. If the outcome of the U.S. election is not favourable to the Trump government, turmoil could follow. The possibility of impeachment has been bandied about and the most recent disclosures regarding his personal finances dating back to the 1990's may lead to more disruption. One thing the equity markets have embraced is his lower tax, pro- business and pro- growth agenda. If anything were to conflict with those policies the market may pause.

The US equity markets have been on quite a tear. Whether there is any realignment in the power structure in Washington the US market has had a strong run and valuations are being stretched. Whether a pause happens or not in US equity markets, Canadian markets remain and are increasingly attractive in our opinion.

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