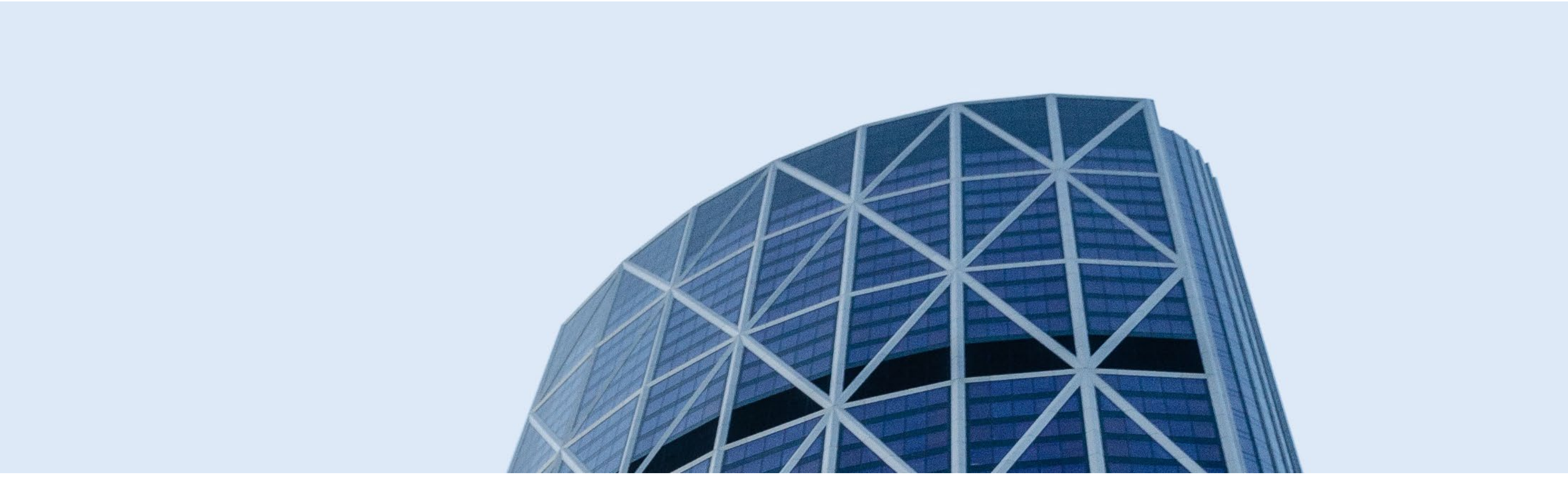
CIBC ASSET MANAGEMENT

Canadian election quick take: Let’s get fiscal

April 29, 2025

By Eric Morin, Director, Global Macro & Strategy



What happened?

- Carney’s Liberal Party won the Canadian elections but failed to secure a majority; they currently have four seats fewer than the 172 needed for a majority.
  - Votes are still being counted, and the results are not final.
  - The Conservatives gained 144 seats and received 41% of the popular vote, its highest percentage in 35 years.
  - Given the trade and political tensions with the US, Canadians rallied towards the main political parties: the Liberals and Conservatives received nearly 85% of votes.

Let’s get fiscal: Support for growth and development

- Carney’s Liberal party election platform indicates a willingness to use fiscal policy to support growth and economic development. The election outcome—in the context of political tensions and long-term uncertainty with the US—reinforces our view that Canada is entering a multi-year pro-growth fiscal policy regime, targeting:
  - Housing financing of about 1% of GDP for innovative prefabricated and low-cost homes.
  - Infrastructure, to boost chronically weak Canadian productivity.
  - Trade diversification to help Canadian businesses diversify their markets and reduce dependency upon the US.
- The program is compatible with annual fiscal deficits increasing by almost 1% of GDP over the next few years—and averaging about 2% of GDP per annum. Deficits will, however, remain far smaller than those expected in the US (6-7% of GDP), as will the stock of government debt as a % of GDP.

- Risks:
    - Domestic politics: Carney's platform does not include measures supporting the development of fossil fuels energy, which could create domestic political tensions with Alberta.
    - Low political leverage with the US: The absence of a majority government—coupled with the underperformance of the Liberals in commodity-producing provinces—could weaken Carney's political leverage in negotiations with the US, given Trump's known preference for political strength.
    - Federal Government under-delivery: The Federal Government may underdeliver due to red tape and a lack of expertise.

Investment implications

- With a new government, we expect trade negotiations with the US to accelerate.
- We maintain our call that a deal will be reached in the next 3-5 months, with a 2/3 probability. Economic and geopolitical self-interest on both sides motivates this view.
- Pro-growth fiscal policy reinforces our existing negative view on Canadian 10-year government bonds and a positive bias for Canadian equities, including versus US equities, and the Canadian dollar versus the US dollar.
- That said, the primary macro driver of the performance of Canadian assets will remain the trade relationship with the US—deal or no deal.