

QV UPDATE

Weekly Commentary | April 26, 2019
Clement Chiang, CFA



Turning Blue

Last week's provincial election in Alberta brought a political sea change, with the United Conservative Party (UCP) winning by majority vote. The UCP won 63 legislative seats while the incumbent-now-turned-opposition New Democratic Party (NDP) took the remaining 24. These election results return Alberta (AB) to a conservative-led government after four years of NDP rule.

The energy downturn in 2014 affected many businesses and households in Alberta. It also adversely affected the provincial budget. Large revenue shortfalls forced the treasury department to backfill swollen budget deficits with debt. With annual operating deficits of around 3% of provincial gross domestic product (GDP) in each of the last three years, AB's debt burden (net debt/GDP) quickly rose from a net cash position to an estimated 8% as of the most recent fiscal year. Over this period, AB increased its debt burden (as a percentage of GDP) at the fastest pace of all provincial governments. But because this debt accumulation started from such a low base, AB still boasts the lowest net debt/GDP in Canada (i.e. B.C. 15%, Sask 15%, Ont 41%, Que 39%). While the overall level of borrowings remains manageable, the election results suggest Albertans have grown frustrated with political gridlock from neighboring regions that has hindered growth. Ongoing delays with pipeline permitting and transformative carbon taxes were key issues in the UCP's

campaign that promised change. And while the UCP believes it can balance the budget only one year earlier than the NDP's plan for 2023/24, Albertan's still favoured a conservative platform.

The coloured table shows which political parties are currently governing each province compared to the parties that were in power four years ago. The desire for change is clear. After the general election in Prince Edward Island this week, there are six provinces that have switched over to conservative-minded governments: Alberta, Manitoba, Ontario, Québec, New Brunswick and P.E.I. Saskatchewan is the sole province to have kept its blue shirt in the last four years.

Altogether, blue provinces account for over 80% of Canada's GDP and total population. Even if we exclude Quebec's Coalition Avenir Québec (CAQ) and both minority PC governments in New Brunswick and P.E.I., conservative majorities still account for over 60% of GDP and over 55% of the population. With such a widespread shift to blue at the regional level, it appears most Canadians want their leaders to put their differences aside and effectively work together for the national good. Admittedly, collaboration is something we as a nation can improve on.

The role of provincial bonds is vitally important in our fixed income strategies as they are highly liquid and pay a higher yield (higher potential returns) than federal bonds. Their full taxing authority and economic strength are positive enhancements that we believe support their strong credit profiles. With more conservatives in power, we may see a stronger adherence to fiscal prudence. We continue to prefer British Columbia, Saskatchewan, and Québec as provinces that have demonstrated fiscal stability. And while Alberta and Ontario still have a lot of work ahead of them, we like their increased willingness to reach fiscal balance. QV's fixed income and balanced strategies hold bonds from these provincial issuers.

For businesses and governments alike, strong leadership is critical to sustainable prosperity. And so, this will always remain a key factor in our investment considerations.

	Fall 2015	Current
B.C.	LIB	NDP*
Alberta	NDP	UCP
Saskatchewan	SKP	SKP
Manitoba	NDP	PC
Ontario	LIB	PC
Quebec	LIB	CAQ
New Brunswick	LIB	PC*
Nova Scotia	LIB	LIB
P.E.I.	LIB	PC*
N.L.	LIB	TBD**

*Minority Government

**Provincial General Election on May 16, 2019

Source: BMO CM, QV Investors Inc.