New government brings opportunity for infrastructure sector

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The change of government in Ottawa from blue to red brings with it new opportunities for investors, especially in the infrastructure construction sector, investment experts say.

The Liberals campaigned on a promise to run deficits to help fund billions in infrastructure spending and that could mean good news for the companies that build those projects.

"A lot of the guys who were working in the oil business will now be digging roads and helping subways and laying tracks and whatever we need," said Darren Sissons, managing director and portfolio manager at investment firm Portfolio Management Corp.

Sissons says investors may want to look at the major engineering companies capable of executing big projects.

"You're talking SNC, which is a global best-of-breed company; you're probably talking Aecon to some degree," he said.

Other Canadian companies in the sector include Stantec Inc. and WSP Global Inc.

But Andrew Pyle, a portfolio manager at ScotiaMcLeod, cautioned that some of the companies in the sector have already been moving higher in anticipation of the increased spending by Ottawa.

"So we're not starting from cheap levels in those stocks," he said.

Pyle noted the TSX has generally fared well in the first 12 months after the election of a new majority government in Canada, regardless of the winning party.

"If you get a majority victory, you tend to see a pretty decent average upward shift in the TSX over the course of the next 12 months," said Pyle, who reviewed data going back to the end of the Second World War.

"There's a general positive tone that we can apply to the TSX, independent of everything else."

The Liberals campaigned on a promise of tougher rules to protect the environment and fight climate change, but Pyle says the price of oil and other commodities have a much mightier impact on those companies than potential regulations put in place by Ottawa.

He noted that despite their support for the energy sector, there was little the Tories could do to help the industry when the price of oil plunged last year and took energy stocks with it.

“Having a Liberal majority now to me is neither positive nor negative for the sector; I think the direction will come from oil prices,” Pyle said.

Deficits could also push up bond yields as the government borrows to build, and Pyle says that could hurt interest-sensitive investments like real estate trusts while increasing borrowing costs for homebuyers.

“If we saw a significant move higher in Canadian bond yields, that could actually depress valuations for REITs,” he said.

The flip side of that could be that higher bond yields would help life insurance companies.

Pyle pointed to consumer stocks as a potential beneficiary because of the Liberals’ plan for stimulus spending and lower income taxes for the middle class, but he cautioned high-end retail might suffer due to the increase in income tax on those earning more than $200,000 a year.

Sissons also pointed to the jump in marijuana stocks since the election, due to the Liberal campaign promise to legalize pot, as another possibility for investors.

“It’s not a category that we would invest in because it’s very new and there are no established players, but just as an investment for people looking for trading ideas — there’s one clearly right there,” he said.