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Global Asset Management

Our Vision

Canada-U.S. Tariffs

Trading risk shifts from direct trade costs to trust and capital allocation

The immediate price shock is significant, but remains concentrated. The most significant macroeconomic risk is a persistent rise in the North American risk premium: weakened business confidence, deferred investment, and less reliable supply chain planning. This results in a stagflationary impulse, but the effect on growth should ultimately dominate if the escalation persists.

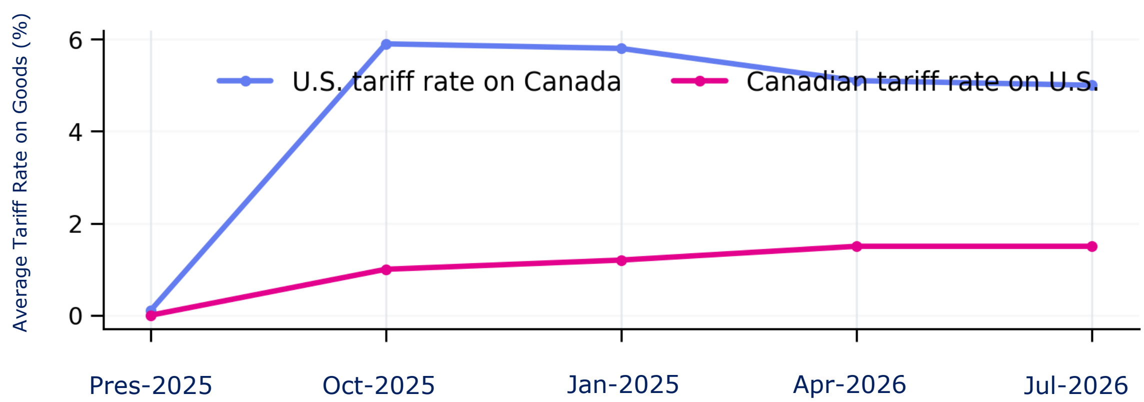
The key elements of the negotiation

1 **Scope and exemptions** The first question is whether relief can be restored for CUSMA-compliant goods or whether sector-specific measures become a broader precedent. Canada's leverage is strongest where supply chains are deeply integrated and substitution is costly.

2 **Strategic autonomy** Ottawa has presented the rejected terms as incompatible with Canada's economic interests and sovereignty. A lasting agreement must therefore reduce tariffs without restricting Canada's ability to diversify its trade and industrial relations.

3 **Credibility and duration** Markets can absorb a defined tariff. They find it more difficult to cope with an open-ended trading regime. The consequence on investment is a higher minimum rate of return for cross-border capital expenditures, even if the direct basis of the tariffs remains limited.

The tariff burden had already increased before the latest escalation



Macroeconomic transmission: a double-effect shock

TRADE CHANNEL	CONFIDENCE CHANNEL	POLICY CHANNEL
Export volumes ↓ Input costs ↑ Friction in supply chains ↑	Capital spending ↓ Hiring intentions ↓ Risk premium ↑	Headline inflation ↑ Domestic demand ↓ Less certain rate path

Economy and interest rates

The Canadian economy is more exposed than the U.S. economy to disruptions in bilateral trade. The final measures are concentrated, limiting the domestic first-round impact, but second-round effects could be larger if uncertainty dampens investment and hiring. Counter-tariffs add to prices in the short term, while weak exports and confidence reduce underlying demand.

For the Bank of Canada, this is not an obvious easing signal. The growth shock argues in favour of lower rates, while retaliatory tariffs and high input costs call for caution. The curve could therefore incorporate more monetary policy risks in both directions: weaker activity at the front of the curve, but inflation and term premium constraint further down the timeline. The appropriate portfolio response relies on scenario discipline rather than a single directional bet on rates.

Impact on actions

Exhibition	The most affected	Transmission	Investment angle
High	Automotive, industrials, metals, transportation	Tariffs, volume pressure, border friction	Pricing power; U.S. presence; contractual pass-through
Medium	Banks, consumer discretionary, real estate	Sensitivity to credit, employment, and trust	Balance sheet quality; regional distribution; financing resilience
Low	Utilities, telecommunications, national infrastructure	More indirect exposure to demand and rates	Regulated returns; financial leverage; duration sensitivity
Potential beneficiaries	Domestic substitutes, trade infrastructure	Import substitution and reshaping supply chains	Ability to execute; sustainable demand; valorization discipline

Scenario framework

Scenario	Negotiation outcome	Macroeconomic result	Impact on markets
De-escalation	Targeted exemptions and a credible path back to rules-based trade	Confidence stabilizes; capital spending recovers	Cyclicals and the Canadian dollar rebound; rate cuts less urgent
Conflict under control	Tariffs persist, but remain concentrated; negotiations resume periodically	Below-trend growth; moderate price pressure	High dispersion; quality and domestic defensive values preferred
Widespread escalation	Tariffs extend to strategic sectors and exemptions are reduced	Stagflationary shock; investment downturn	Weakening of the Canadian dollar and cyclicals; widening credit spreads; increasing political uncertainty

Conclusion

The key question for investors is no longer simply "how big are the tariffs?" but rather "for how long will companies apply a higher risk premium to capital allocation in North America?"

A negotiated compromise remains economically sound, but the breakdown of talks means that portfolios should not be banking on rapid normalization. The preferred approach is resilience rather than a purely defensive posture: quality balance sheets, pricing power, diversified supply chains, active duration management, and sufficient liquidity to take advantage of a broadening of dispersion.

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