Navigating the impacts of U.S. tariffs on Canada

Periods of economic uncertainty can be concerning for investors, but history teaches the wisdom of maintaining a long-term perspective and the importance of diversified portfolios. Events like the global financial crisis of 2008, the COVID-19 pandemic, and the 2022 market downturn demonstrate that the most challenging times to invest often turn out to be the best opportunities. Predicting short-term market movement is nearly impossible and making emotional decisions can lead to missed opportunities, as evidenced by the significant market gains following each of the downturns just mentioned.

The uncertainty created by Trump's tariff threats against Canada is reflected in increased market volatility that may continue for some time. Investors will have questions and John Bai, SVP, Chief Investment Officer at Aviso, is sharing his insights.

Here are five key takeaways:

1. **Expect more volatility.**
    - The sheer pace of executive orders from the Trump administration, including tariffs, creates an environment of uncertainty. This results in more volatility for stocks but benefits high-quality bond holdings.

2. **The Canadian economy and market may be more resilient than most expect**.
    - While a full 25% across-the-board tariff on Canadian goods should be enough to push the Canadian economy into a shallow recession, there are mitigating factors.
    - This includes:
        - The Bank of Canada has room to cut interest rates further to stimulate economic activity
        - The Federal government has room to expand fiscal support
        - A weaker Canadian dollar supports exporters
        - The Canadian stock market has a lower share of highly exposed sectors such as auto and aluminum and higher exposure to companies with non-Canadian revenue sources
        - The relatively low valuations of Canadian equities limit downside potential

3. **Global opportunity for Canadian investors.**
    - We expect that Canadian dollar will weaken further if the Bank of Canada cuts rates more aggressively than the Federal Reserve in the U.S.
    - As the Loonie depreciates, non-Canadian assets will appreciate for Canadian investors – this creates opportunities for non-Canadian bonds and stocks.

4. **Broadening out of market leadership is great for active management.**
    - A handful of stocks contributed to the stock market performance over the past few years. These stocks, known as the Magnificent 7, are more expensive due to their expected higher earnings growth rates.
    - We expect this earnings growth gap to narrow and market leadership to shift to areas that have more reasonable valuations and good earnings profiles.
    - Broadening market leadership is good for active management.

5. **60/40 portfolio opportunity**.
    - With market leadership shifting, we believe that investors will benefit from more diversified sources of returns.

- More volatility generally benefits high-quality bonds, which mitigates equity downside – that is what provides the balanced risk-reward profile of the 60-40 portfolio
- Adopting a proactive yet measured approach can help investors avoid knee-jerk reactions while positioning their portfolios for long-term resilience and growth.

The fundamentals of successful long-term investing haven't changed despite political uncertainty and increased volatility. Keep in mind that thoughtfully designed investment plans are designed to accommodate the ups and downs of the markets. Rather than deviating from their plans entirely, investors should stick to their target allocations but consider shifting to a more defensive approach, with more exposure to industry sectors and regions with reasonable valuations, particularly in Europe, and use market declines as buying opportunities.

Our Investment Team, alongside our sub-advisors, will continue to evaluate this developing situation. We will keep you informed of any updates and provide timely insights to support you through these uncertain times.