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## Trump's New Initiative: Impacts on Canada

It's challenging to measure the full impact of Trump's statements on the Canadian stock market with any accuracy.

Protectionist policies will likely be front and center for the new U.S. administration, and as their largest trading partner, Canada will be a focus. The most challenging statement thus far is the threat to impose 25% broad tariffs on Canadian Imports to the U.S.

Sectors such as automotive, lumber and agriculture could be areas targeted by the new administration.

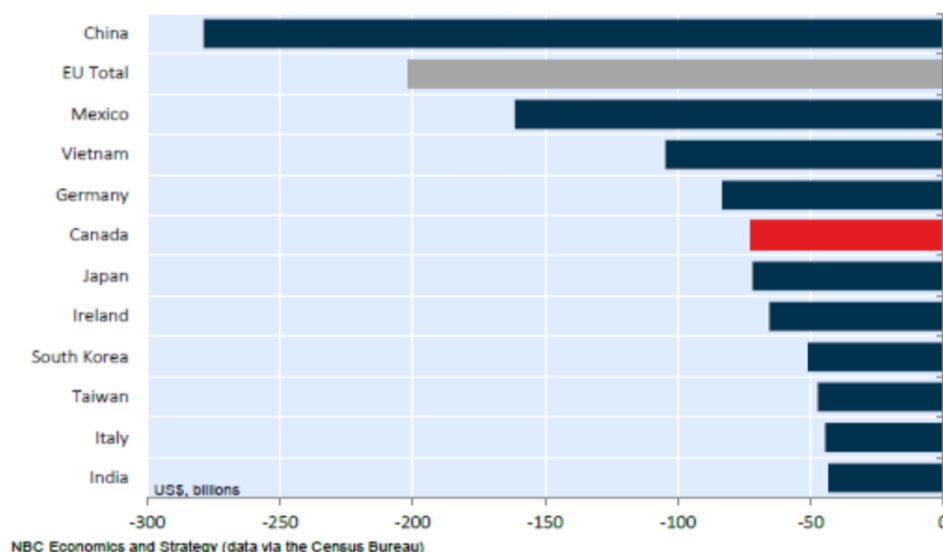
Autos appear to be a hot-button issue. The OEM's currently import about 15% of an average vehicle's value into their system, of which ~61% are sourced from Mexico and Canada – a 25% tariff to these imports could lead to significant cost increases for Canada's auto parts suppliers, but also for the U.S. OEM's and ultimately the U.S. consumer.

Retaliatory policies from Canada are also a possibility, which could pressure economic expansion, put additional pressure on the Canadian currency, and lead to increased levels of unemployment and inflation – how the Bank of Canada responds under such a scenario will be very important.

**That said, it's important to keep a few things in mind....**

- Compared to both China and Mexico, Canada's trade deficit is much less significant, suggesting a lower ultimate impact is more likely in Canada's case, and that deficit is entirely due to Canada's exporting of oil and gas to its southern neighbour, without which the trade balance flips to an almost equal sized surplus.

**World: The trade deficit likely to be the main contention point**  
Merchandise trade deficit with the United States in 2023, balance of payment basis



- The U.S. imported roughly US\$165B of crude oil in 2023, of which 56% came from Canada...a much-needed resource to fuel their large economy. Other important commodities for which Canada is the most important supplier to the U.S. include potash (~48% of U.S. requirements), uranium (~25% U.S. requirements), and nickel (~46% of U.S. requirements).
- The USMCA (free-trade agreement) implemented during the first Trump presidency led to Mexico becoming the fourth-largest exporter of vehicles, as global carmakers such as Jeep's parent, Stellantis, and BMW have been expanding in Mexico in compliance with the USMCA rules. This production may be a heightened focus for the U.S. as it could be perceived as a back-door way for foreign OEMs to sell vehicles in North America.
- If the U.S. pursues a path of increased onshoring with less reliance on countries such as China, demand for Canadian resources could increase, including oil and gas, within the context of a more energy independent America.

### **In conclusion**

- As we have seen so far, the broad index may continue to remain resilient to these threats.
- Trade-sensitive industries are the most likely to feel the pressure.
- Canadian companies with significant operations in the U.S. could be protected to some degree.
- Retaliatory measures could weaken the Canadian economy, impacting domestic sectors such as banking (potential increases to credit loss provisions) but fiscal and/or monetary stimulus programs would likely provide relief.
- Trump is known to make broad and challenging statements to anchor expectations in his favor when negotiating. It is likely that the worst-case scenario will be avoided, but some impacts will stick.
- On historical valuation measures, the Canadian stock market is extremely attractive today relative to an expensive U.S. market, it would be unprecedented for Canada to trade significantly lower from here on a relative basis.
- Trump's proposed tariffs and executive orders are widely expected to contribute to inflationary forces. Canada, with its significant resource exposure, has a proven ability to outperform the U.S. in inflationary environments, which can moderate some of the negative impacts of the proposed tariffs.
- Uncertainty will be with us for some time. Uncertainty leads to caution and sustained moderate expectations and valuations. However, the U.S. market valuation level is in the top decile of its history, and uncertainty could be more problematic for its future valuation.

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