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Trump's Tariffs – What Now?

This week, global markets awoke to the disturbing news of tariffs imposed by the U.S. In this special issue market update, Scott Blair, CFA - NBFWM, unpacks the impact of these tariffs, how markets are responding, and what it means for your portfolio.

Watching

The questionable "will he/won't he?" phase of President Trump's trade rhetoric is now over. Today, we woke up to 25% tariffs on imports from Canada and Mexico (10% on energy and critical minerals), as well as additional tariffs on China. As expected, Canada and China have already retaliated with tariffs on U.S. imports into their countries with Mexico likely to follow later today. Not surprisingly, global stock markets are extra volatile due to the news. Canada (S&P/TSX Composite) and the U.S. (S&P 500) are both trading lower.

Thinking

The new U.S. administration is unpredictable—no one knows what's going to happen next. We could see tariffs lifted tomorrow, next month or in place for the next four years. We could see them adjusted upwards, downwards, or some exceptions as time goes on. And we could, of course, see the trade war broaden to include even more countries.

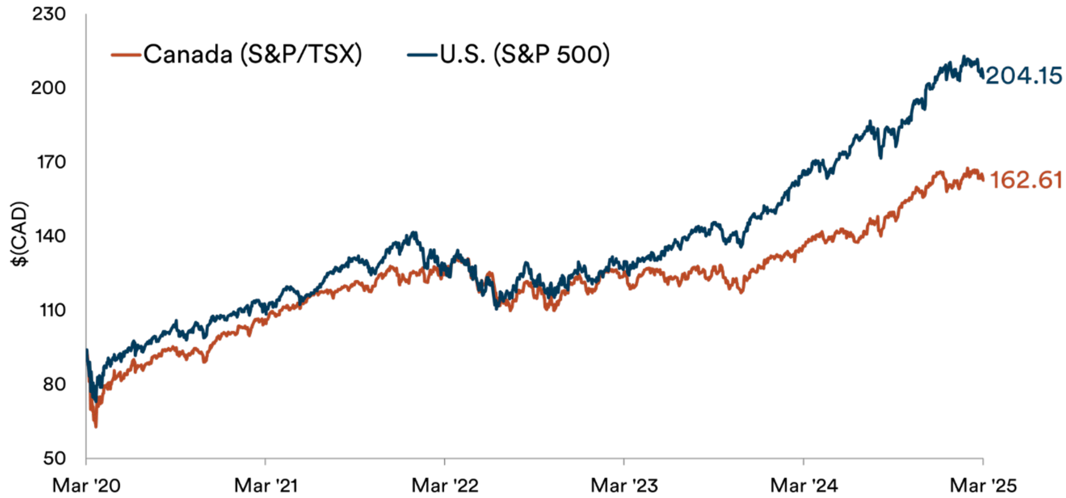
A prolonged trade war will negatively impact economic growth for all countries involved. The Bank of Canada has stated that Canadian GDP could fall by 3% over two years (our economy is currently growing at less than 2% per year). The U.S. would also see their economy take a hit, with the potential for a stagnating economy with slow growth, higher inflation and rising unemployment.

The U.S. government's main goals with these tariffs appear to be generating revenue and redomiciling industries back home. Although it's unclear how much revenue the tariffs will generate, one thing we do know is that businesses hate uncertainty. And bypassing well-established trade agreements, like the USMCA (United States-Mexico-Canada Agreement), is about as uncertain as it gets.

To achieve the goal of redomiciling industries, corporate leaders would need confidence that the tariffs are permanent. Otherwise, why invest millions (or billions) to bring factories back only to have the rules change again? It could be that tariffs actually cause less investment in the U.S. than otherwise would have happened. Additionally, consumer confidence could be hurt causing less spending and weakening growth. Can Trump stand the potential economic pain, volatility, and inflation that comes with these tariffs to commit to the long game? Only time will tell.

As far as the markets go, perhaps history can be a guide here. It's been almost exactly five years since the world shutdown due to COVID-19. It's difficult to think of a period that had more uncertainty since World War II. Global stock markets fell dramatically in record time. The outlook for corporate profits were dire, unemployment rose, and the word "depression" was being thrown around. It's hard to remember now because the rebound was so swift, but the S&P/TSX Composite Index fell over 37% from February 20, 2020, to March 23, 2020! Few investors at the time would have believed that five years later we'd be talking about annualized returns of over 10% from both Canadian and U.S. stock markets.

Figure 1: Market Returns Since COVID-19 Shut Down



Source: FactSet, all figures in CAD

Although today's tariff situation isn't as dire as a global pandemic, it is very unnerving. As seen from his first term, the words "Trump" and "volatility" go hand in hand. This second term promises to be much more of the same. Currently, the outlook for global corporate earnings growth in 2025 and 2026, the lifeblood of the stock market, is very positive. As mentioned above, tariffs do indeed have the potential to derail earnings growth and could cause a stock market correction.

Doing

Hopefully, calmer heads in Washington will prevail soon. However, as investors, we've been here before—many times, in fact. Successful investing in the stock market means being committed to the long term, staying diversified, avoiding market timing and, above all, having a financial plan that fits your risk tolerance and goals.

In the end, markets are forward looking. They constantly adjust to new information by pricing in known risks. So, the market is already pricing in tariff risk to some extent. It's the unexpected shocks—like the pandemic—that tend to cause the biggest swings. The pandemic was a scary time for investors, but the market downturn only lasted about a month. The news changed with massive stimulus and the market sprung back. Investors that sold out locked in losses and many that bought back in likely did so at much higher prices.

History has shown that markets are resilient. Even in times of uncertainty, they recover—often faster than investors anticipate. Market corrections are not anomalies—they're a natural and necessary part of the investment cycle. It's been over two years since we've had a market correction. It wouldn't be abnormal to have another this year or next.

While headlines can be unsettling, our focus remains on what truly matters—your long-term financial success. Our team remains vigilant, ready to navigate volatility and capitalize on opportunities that align with our long-term investment discipline. Staying invested, patient and committed to your plan is what ultimately drives enduring wealth. Your Wealth Advisor is here to guide and counsel you before you make any in-the-moment decisions. We encourage you to reach out to them.

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