



Tariff Uncertainty and Confusion Pressure Canadian Equities

March 7, 2025

Key Takeaways

- ▶ It's challenging to be certain about anything regarding trade with the U.S. at present. Alternating tariff threats and delays by the Trump administration are sowing deep trade confusion and uncertainty in North America, with negative implications for Canadian equities.
- ▶ With the days of trusting trade deals in North America behind us, Canada should be prepared for additional tariff and trade-related actions with broad potential impacts to the Canadian economy and financial markets, including potentially pervasive second-order effects.
- ▶ Tariff headwinds could pave the way for the Canadian government to implement some form of economic stimulus through more favorable monetary or fiscal policy to help soften the blow to the domestic economy.

Alternating Threats and Delays

The Canadian equity market tumbled on February 3 with the original announcement of tariffs by U.S. President Donald Trump, threatening to snarl trade and abruptly hurl the already tepid Canadian economy into a recession. The levies were initially delayed by one month to allow for negotiation on shoring up border security by both Canada and Mexico, a ploy used by the Trump administration in its first term to gain the upper hand on specific geopolitical and trade issues. [As we explained last month](#), we believe the true concern for Trump remains the U.S.'s trade deficit with Canada.

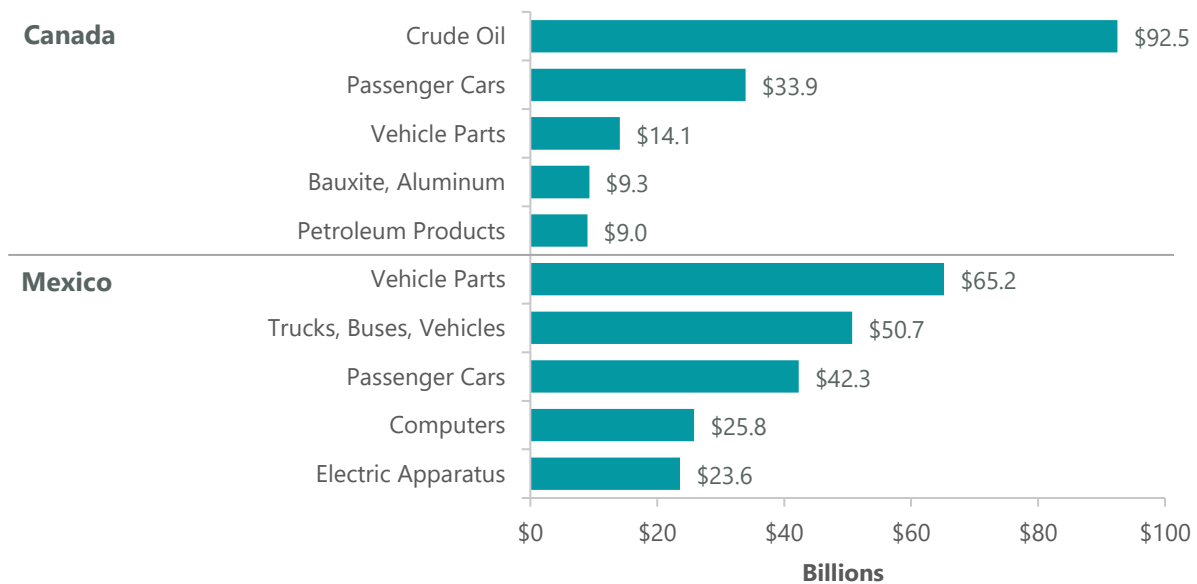
Following the implementation of tariffs on Canadian goods on March 3, Canadian equities saw renewed weakness as the reality sunk in. However, another Trump delay in implementation was announced on March 6 for those goods covered under the existing USMCA trade agreement, creating further confusion and uncertainty. Canadian leaders have responded with resolve, indicating retaliatory tariffs will remain in place and escalate until the original tariffs are fully removed – not delayed. Market participants should also recall the possibility of the Canadian government using tools to implement some form of economic stimulus through more favorable monetary or fiscal policy to help soften the blow to the economy.

While vague and inconsistent threats of tariffs had been bandied about since prior to the U.S. election in early November 2024, the targeted implementation of 25% tariffs on all goods and commodities from Canada except for Canadian energy resources (as well as potentially other "critical minerals" and fertilizer products), which would be subject to a 10% tariff, remain destabilizing threats for Canadian businesses and consumers.

With the days of trusting trade deals in North America behind us, current additional U.S. threats include sector-specific carveout targets with different timing for implementation, including steel and aluminum, lumber, agriculture, automotive, the potential for additional U.S. reciprocal tariffs and a slew of additional Trump administration trade reports due early April that could trigger further actions. Canadian manufacturing companies, particularly those in automotive parts and consumer discretionary industries that directly export to the U.S., would be most impacted by tariffs (barring any exemptions). Despite the fumbling U.S. implementation, the broad potential impacts to the Canadian economy and second-order effects could be much further reaching. In addition, uncertainty of this magnitude can be paralyzing for capital investment as companies deter investments and are less likely to proceed with the marginal ambitious project.

Regardless of the details and timing of the current trade war, uncertainty and disruption are their own taxes that do immediate damage.

Exhibit 1: Top Five U.S. Imports by Value from Canada and Mexico



Note: Data from 2023; for Canada imports. U.S. goods returned and reimports are excluded. Source: U.S. Census Bureau, Bloomberg.

About the Authors



Gary J. Aitken, CFA

Managing Director, Head of Canadian Equities

- 33 years of investment industry experience
- Joined firm in 1998
- MBA in Finance from the University of British Columbia
- Bachelor of Commerce in Finance from the University of Alberta



Timothy Caulfield, CFA

Managing Director, Director of Canadian Equities Research

- 24 years of investment industry experience
- Joined firm in 2007
- Bachelor of Commerce from the University of British Columbia

ClearBridge Investments

One Madison Avenue, New York, NY 10010 | 800 691 6960 | [ClearBridge.com](https://www.clearbridge.com)

Past performance is no guarantee of future results. Copyright © 2025 ClearBridge Investments. All opinions and data included in this document are as of the publication date and are subject to change. The opinions and views expressed herein are of the author(s) and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments, LLC nor its information providers are responsible for any damages or losses arising from any use of this information.

Performance source: Internal. Benchmark source: Standard & Poor's.