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Canadian Budget Targets Infrastructure, Competitiveness

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Key Takeaways

- Fiscal expansion from the federal budget and recent monetary easing offer stimulus, but durable economic and equity market results will depend on how effectively and immediately these policies translate into real investment and productivity gains.
- The Canadian economy and equity market are not synonymous, and while the budget targets broad economic stabilization and competitiveness, identifying direct beneficiaries in the public markets is more nuanced.
- Investment components of the budget should be supportive of companies in defense and cybersecurity, select industrial and rail companies that develop and benefit from improved infrastructure as well as those involved in advanced manufacturing.

Budget Deficit Expected to Hit $78 Billion

This year's federal budget arrives at a critical juncture for Canada, recognizing the need for capital investment in the face of trade tensions, ongoing U.S.–Canada trade renegotiations and a tepid economic outlook. The combination of fiscal expansion and recent monetary easing offers stimulus, but durable results depend on how effectively and immediately these policies translate into real investment and productivity gains. The Canadian economy and the Canadian equity market are not synonymous and, while the budget targets broad economic stabilization and competitiveness, identifying direct beneficiaries in the public markets is more nuanced with so many Canadian publicly listed companies having substantial business beyond Canadian borders.

The figure sure to dominate headlines will be the size of the deficit, projected to be $78.3 billion (CAD) in fiscal year 2025-26. Two fiscal anchors were announced: balance operating spending with revenues by 2028–29 and maintaining a declining deficit-to-GDP ratio. Importantly, with a minority Liberal government, the announced budget remains subject to parliamentary negotiation.

The bill commits $280 billion over five years toward what the Carney administration calls "transformative" investments. Below are some of the details of the investment component of the budget and a few examples of impacted holdings in the ClearBridge Canadian Equity Strategy.

- **Housing ($25 billion):** Investments include the new Build Canada Homes Agency, which aims to accelerate housing starts from 280,000 to up to 480,000 annually through public-private financing and Goods and Services Tax relief for homes under $1 million. This is constructive for the materials, industrials and real estate sectors, contingent on ongoing improvements in labor availability and permitting bottlenecks. Banks would be direct beneficiaries of a robust mortgage market.

- **Defense ($30 billion):** Achieving NATO's 2% GDP target ahead of schedule marks a notable pivot. Increased spending on military readiness, cybersecurity and sovereignty protection should benefit portfolio holdings such as CAE (military training, simulation and defense solutions) and CGI (system integration and cybersecurity), which are positioned to capture contract growth.
- **Infrastructure ($115 billion):** Investments to revitalize core public water systems, transportation, land development and health care infrastructure would serve as tailwinds for engineering and consulting companies such as fund holdings AtkinsRéalis, Stantec and Colliers. While details are sparse on a $5 billion Trade Diversification Corridors Fund and broader investment in ports, rail and trade routes, it signals a focus on economic resilience through increased access to overseas markets. Our holdings in Canada's rail operators stand to benefit directly from enhanced trade infrastructure, which should support volume growth and long-term network efficiency.
- **Productivity and Competitiveness ($110 billion):** The new Productivity Super-Deduction is designed to spur capital investment by allowing accelerated write-offs for manufacturing equipment, clean energy and automation technologies. Portfolio holding and automation expert ATS is well-positioned to capitalize on increased investment in advanced manufacturing.

Outside these measures, the reduction in immigration targets in coming years may ease housing affordability pressures but also slow growth in industries such as banking and telecommunications which have seen growth from strong population expansion in recent years.

On climate policy, Ottawa has stopped short of removing the emissions cap, instead emphasizing carbon pricing and credit market development to align with a 2050 net-zero target. The government also reiterated its support for carbon capture, utilization and storage initiatives as a means of balancing emissions goals with industrial competitiveness.

Overall, the 2025 budget presents a pro-growth framework backed by expansive fiscal support and a clear intent to reposition Canada for increased competitiveness. Although the budget offers few truly transformative surprises, its effectiveness will depend on strong execution. If implemented well, it could foster a more resilient economy and create greater opportunities for Canadian companies and investors. Without meaningful follow-through, however, these commitments risk remaining aspirational rather than translating into real earnings growth and sustained equity market gains.

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