

2/5/2025

U.S. TARIFF ANALYSIS

While tariff-related rhetoric from the Trump administration intensified following his inauguration, it has remained a central theme of his re-election campaign. In response, we have strategically maintained a balanced portfolio to mitigate potential downside risks from aggressive tariff policies while also positioning portfolios to benefit should these risks diminish. Additionally, our focus on a quality-value stock selection process ensures that companies are well-equipped to navigate periods of uncertainty. The impact of the Trump administration's global trade policies on capital markets became evident last October, as markets began pricing in a potential Trump victory. Companies with significant exposure to global trade started to underperform, while those poised to benefit from a higher interest rate environment—driven by tariffs' inflationary effects—gained traction.

With respect to fixed income the key risk for bonds is the potential of tariff-induced inflation raising rates and lowering bond prices. Credit spreads could also widen with negative consequences on Provincial and Corporate bonds, though corporate risk is mitigated by holding maturities less than 7-years.

Looking to Canadian Equities, ~80% of the portfolio is insulated from tariff risk, with either a domestic-facing or services-oriented business or companies with U.S. based manufacturing. In terms of current holdings, Savaria derives ~30% of its revenue selling Canadian-manufactured accessibility equipment into the U.S. market. Potentially offsetting this, the company has a U.S. manufacturing footprint that can be expanded over the medium-term. Canadian energy producers would be impacted by the tariffs. However, two of the key energy holdings, Suncor (offsetting domestic refining) and Tourmaline (product mix), are among the least impacted of the

energy sector. Cross-border rail volume accounts for ~40% of Canadian Pacific's rail traffic, though we significantly reduced the holdings in the fall due to the tariff threat and are underweight the transportation sector. Element Fleet has indirect exposure due to ~15% of earnings from Mexico. However, the company has a significantly larger U.S. operation that could see some tailwinds should domestic growth accelerate.

Globally, the position in Constellation Brands, which manufactures in Mexico and imports into the U.S., faced headwinds due to tariff threats. Similarly, industrial holdings such as Metso (a global mining equipment provider) and Union Pacific (a US freight rail operator) experienced some underperformance for tariff-related reasons. However, these challenges were largely offset by the benefits of rising interest rates, which contributed to the strong performance in financial holdings, including Wells Fargo. Overall, the portfolio impact from tariff concerns has been limited thus far, which has allowed for our quality-value holdings, such as Boston Scientific, to deliver meaningful contributions to performance driven by company-specific strengths.

Although our primary view remains that cooler heads will prevail regarding tariff wars, we recognize that uncertainties—whether political, economic, or market-driven—will always be present. Rather than attempting to predict short-term developments, we remain committed to a disciplined, long-term investment approach focused on high-quality companies with strong fundamentals. By maintaining a balanced portfolio and adapting to evolving market conditions, we seek to navigate periods of volatility while positioning clients for sustained growth to optimize risk-adjusted returns over time.