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U.S. TARIFF ANALYSIS

In early April, the reciprocal tariffs announced by the Trump administration were surprising in many ways. Broadly speaking, the levies were higher than feared and seem calculated on bilateral trade imbalances rather than reciprocal costs of trading partners. With few exceptions, a universal tariff of 10% will apply to goods entering the U.S. effective April 5th. Also, countries with an existing goods trade surplus will have an additional 'reciprocal' tariff applied effective April 9th. Canada and Mexico were exempted from this tariff rollout for goods compliant with USMCA.

The tariff rates for certain large U.S. trading partners are difficult to comprehend and would be very damaging if enacted for any meaningful time period. Communications from the White House imply that the baseline 10% tariff is set in stone, and that the reciprocal tariffs are up for negotiation should the right deal be proposed. Ostensibly, the tariffs are being enacted to level unfair trading practices and to send a lasting message to invest in local U.S. manufacturing. Putting aside the merits of such motivations, the exceedingly aggressive manner in which the Trump administration's tariff agenda has been rolled out could have a number of unintended consequences and presents a source of risk for both the U.S. and the world. We will soon find out if the U.S. government is open to pragmatic compromise, and at the time of writing the markets have judged the tariffs a policy error.

The tariffs as currently outlined would further weigh on global growth and sentiment if enacted for any meaningful time and markets have seen a significant drawdown month-to-date. Given the current uncertainty, we continue to focus on industry leading companies run by excellent management teams, while also taking stock of any investments that may be more exposed to the current trade noise.

A growing list of influential voices are calling for a more measured path forward for trade resolution and we shall soon see if the powerbrokers opt for restraint or further escalate tensions.

With growing uncertainty around the future of U.S. support for the continent, European nations have begun to prioritize strengthening their own defense capabilities and infrastructure. This renewed focus on strategic investment could serve as a powerful economic tailwind for the region, setting the stage for stronger, more resilient growth over the next decade.

As the medium-term growth outlook for Europe becomes increasingly compelling, we have identified a growing number of companies that align with our quality-value investment framework. This has allowed us to increase our exposure to the region. Historically, European equities have traded at more attractive valuations relative to their U.S. counterparts, though with generally lower cash flow growth. However, as structural shifts take hold, we believe this dynamic may begin to shift, potentially narrowing the gap in growth while maintaining a valuation advantage.

Canada emerged from 'liberation day' as a relative winner as it dodged both the baseline and reciprocal tariffs (though certain industry specific and non-USMCA compliant items remain subject to duties). Canada is of course still impacted by recent developments given potential impacts to global growth, yet events could have played out worse. Another consequence of recent developments has been a realization that Canada must become more productive and open to new trade opportunities due to an overreliance on U.S. exports. Two issues for which both leading parties seem to share at least some alignment include ambitions to reduce interprovincial trade barriers, and a more constructive approach to resource and energy infrastructure development than in the past. Given well documented cost and time overruns for certain high-profile projects, companies will be looking for meaningful permitting and regulatory reform alongside other more industry friendly legislation before embarking on ambitious pipeline developments in the future. Time will tell if campaign talk will turn into action, though both the energy space and the economy at large could benefit from improved tidewater export optionality in the delivery of oil and gas.

In terms of Fixed Income, the tariff announcement upended fixed income markets with bond yields reacting to the dueling narratives of potential recession concerns (downward pressure on yields) and inflation (upwards pressure on yields). We would expect continued volatility until there is greater clarity on how the trade conflict will evolve. Our portfolio duration is neutral to the benchmark with slight overweight positioning in Provincial and Corporate credit. We plan to maintain a neutral stance on duration and a slight overweight in credit until more economic certainty develops in the market. We continue to place an emphasis on maintaining liquidity and will look to high grade corporate credit should opportunities present themselves.

While uncertainty remains elevated, our portfolios continue to be reasonably well balanced for the current environment. That said, we have made a few adjustments in light of the heightened risks. These include a modest increase in allocations to fixed income and cash, as well as a slight reduction in positions with outsized exposure to tariff-related risks.