ECKLER

April 7, 2025

Investment implications of recent tariff announcements

Highlights

- Tariff announcements and trade war concerns have driven increased market volatility in 2025. Global equities fell nearly 10% over April 3rd & 4th, the largest stock sell-off in over 5 years.
- The future path of tariffs – and subsequent capital market impacts – are highly uncertain. Diversification and being prepared for multiple outcomes remains key.
- In the near-term, investors should monitor their portfolios for asset mix drift caused by market movements, and rebalance if necessary.
- Consider issuing member / beneficiary communications and facilitating education on market volatility for key stakeholders and decision-makers.
- For capital accumulation plans, review member trading patterns to identify behaviours that may be detrimental to their long-term goals. Communications can be tailored to encourage members to stay the course through uncertain markets.
- Defined benefit pension plans should continue to monitor the economic environment and may considering filing an off-cycle valuation as of December 31, 2024 if market volatility persists.

Recent tariff announcements

On April 2nd, President Trump announced a 10% 'baseline' tariff on all U.S. imports effective April 5th, in addition to higher 'reciprocal' tariffs on roughly 60 trading partners effective April 9th.

Countries targeted by the higher 'reciprocal' tariff rates included the European Union (20%), China (34%), Japan (24%) and Vietnam (46%).

Notably, the 34% tariff on Chinese imports is in addition to prior tariffs totalling 20%. If implemented, this would bring the base tariff rate on all Chinese imports to 54%. In response, China announced 34% tariffs on U.S. imported goods, beginning April 10th.

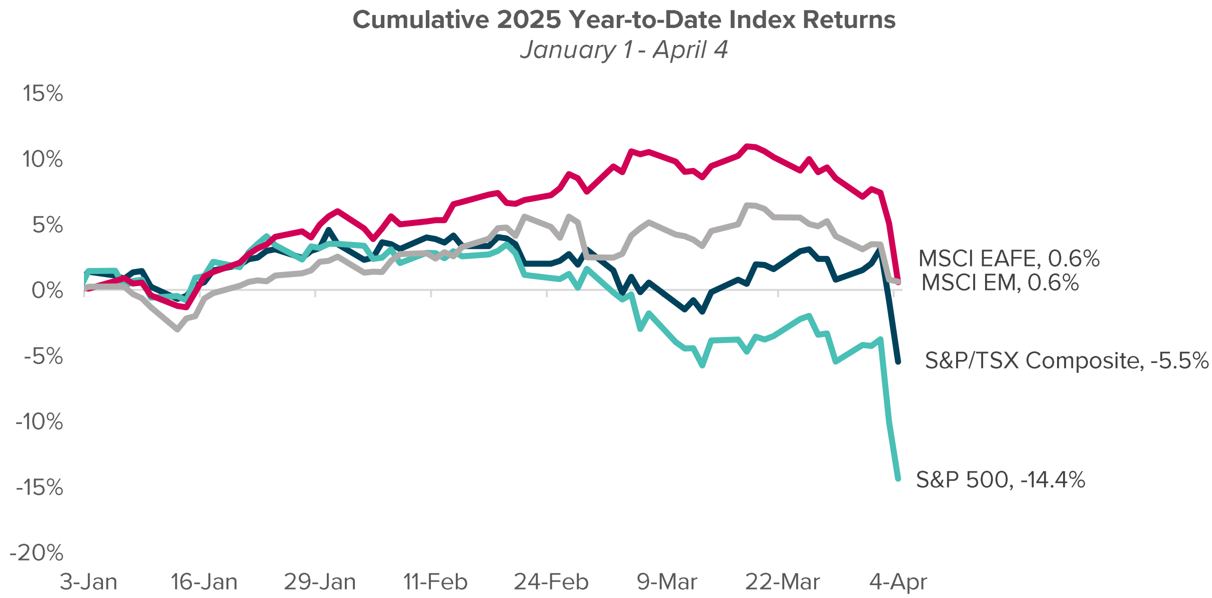
Canada was not included in the list of 'reciprocal' tariff countries. However, previously announced tariffs of 25% on Canadian automobile imports came into effect on April 3rd.

Market reaction

Markets were surprised by the breadth and magnitude of tariffs announced on April 2nd. The VIX Index, commonly used as a barometer of market uncertainty, rose to its highest level since March 2020.

Equities

The S&P 500 Index fell 6.6% in Canadian dollar terms (4.8% in USD terms) on April 3rd, the largest one-day decline since March 2020. Markets continued to decline on Friday, with the S&P 500 falling a further 4.3%. While the sell-off was most acute in the U.S. equity market, non-U.S. equities also experienced a sharp draw-down.



Fixed income

Government of Canada bond yields declined across all maturities, with relatively larger movements on the short end of the curve. The FTSE Canada Universe Bond Index has experienced modest gains over April-to-date (+0.3%) and year-to-date (+2.3%).

Government of Canada Bond Yields (basis points)

Date	2 Year	5 Year	10 Year	20 Year	30 Year
31-Dec-24	294	297	324	331	334
31-Mar-25	247	262	297	319	323
4-Apr-25	236	251	288	314	319
Jan 1 to Mar 31	-47	-35	-27	-12	-11
Apr 1 to Apr 4	-11	-11	-9	-4	-4

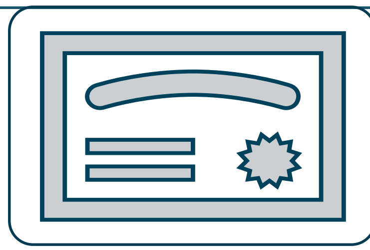
ECKLER

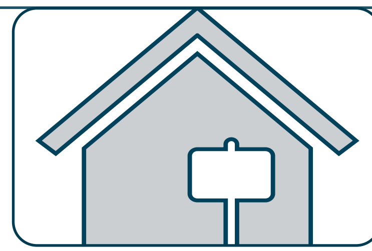
How tariffs impact the economy and capital markets

Tariffs increase consumer prices and dampen overall economic growth. While the directional impact of tariffs on inflation and economic growth is widely agreed upon, the magnitude of this impact will depend on several factors. These factors include the scope and duration of tariffs, the extent of retaliatory measures, fiscal and central bank response, and the psychological impact of tariffs on consumer spending and business investment.

In addition to broad economic impacts, tariffs can influence investment returns at an asset class level through various levers.

Tariff Impact Considerations by Asset Class





Equities

- Overall economic conditions broadly affect all equities via consumer spending and business investment
- Cyclical and discretionary sectors likely to be more impacted
- Cost increases and/or reduced sales at companies subject to tariffs
- Regional index performance may differ depending on extent of tariff exposure
- Foreign exchange fluctuations may play a significant role in foreign equity returns

Fixed income

- Overall direction of yield movements will depend on the balance of counter-acting forces
- Inflation concerns may place upwards pressure on yields
- Central bank response and reduced growth expectations may place downwards pressure on yields
- Credit spreads may widen due to risk-off environment

Alternatives

- Impact of tariffs will be reflected with a lag due to infrequent valuation and reporting
- Debt service costs may be impacted by interest rate changes
- Construction costs may rise
- Market activity may slow due to economic and policy uncertainty
- GDP-sensitive assets are likely to be more impacted

The impact of tariffs will also vary widely for each individual company or asset. Factors influencing company-level impact would include its supply chain (and reliance on imported inputs), location of its customer base, and its ability to pass through tariff-driven cost increases to end customers.

Key unknowns and areas to monitor

Future tariff announcements and actions	• Announcements of retaliatory tariff measures. • Whether tariffs are implemented as announced, or whether subsequent negotiations will avert or mitigate the scale of tariffs. • Markets have been highly sensitive to tariff announcements and could rebound sharply if a resolution is reached.
Fiscal and monetary response	• The Bank of Canada has cut rates at both of its interest rate policy meetings in 2025 thus far and meets again on April 16th. The future path of policy rates will depend on factors such as inflationary pressures, economic growth concerns, and deviation of Canadian policy rates with the U.S. and other developed nations. • The Canadian federal and provincial governments have already proposed several programs to support businesses and workers impacted by U.S. tariffs. Further policy announcements are likely in the lead-up to, and in the wake of, the April 28th federal election.
Inflation	• Imported U.S. goods account for 13% of the Canadian CPI basket, and modeling conducted by the Bank of Canada projects that 25% reciprocal tariffs would result in a one-time CPI increase of 1.6%. Recurring inflationary waves are possible if tariffs escalate, or if inflationary psychology takes hold of consumers, driving a price-wage spiral. • Canadian prices rose at a rate of 2.6% year-over-year in February, an increase from 1.9% in January. This month-over-month acceleration was primarily driven by the end of the GST/HST tax break in mid-February. Further tariff-driven price increases could bring the rate of inflation over the Bank of Canada's 3% upper range and would make it more difficult for the Bank to cut rates to offset economic weakness.
Interest rates	• Tariffs exert both upward and downward pressure on interest rates, through different mechanisms. The overall direction of rate movements will depend on the relative strength and interplay of these counter-acting forces. • Upward pressure on yields may be driven by the government's reaction to tariffs. Government support measures are likely to deepen fiscal deficits and may drive higher inflation. • Downward pressure on yields may be driven by market expectations of slower future economic growth, and potentially from higher demand for bonds if the equity market sell-off persists.

Investor implications and potential near-term actions

The ultimate scale, duration and economic impact of tariffs remains highly uncertain. For investors, diversification and being prepared for multiple outcomes remains key. As during all periods of market volatility, we encourage investors to take a long-term perspective and continue to follow their long-term investment plan.

In the near-term, investors may also wish to consider the following actions:

- **Monitor asset mix and rebalance if necessary**. Asset class returns are likely to diverge in volatile markets, causing asset mixes to draft away from target.

- **Communication & education**. Periods of market volatility can prompt questions or desires to deviate from the long-term financial plan. Education sessions for investment committees and communications to members can help investors stay the course through uncertain markets.

- **Off-cycle valuations**. If market volatility persists, defined benefit plans might consider filing a valuation as of December 31, 2024.