Liberation Day: Keeping our Eyes on the Ball

President Trump's Liberation Day has arrived, and the scenario presented is by far the least pessimistic for Canada.

After several weeks of speculation, the United States announced its reciprocal tariff plan, promising to usher in a new golden age for the American people. President Donald Trump implemented a baseline tariff of 10%, which was lower than expected. That being said, the rates applied to several countries differed significantly: 34% for China, 32% for Taiwan, 26% for India, 25% for Korea, 24% for Japan, 20% for the European Union and 10% for the United Kingdom.

As a result of these actions, the average U.S. net effective tariff rate has shot up from 2.5% to more than 20% in the biggest tariff shock since the 1930s and a significant shift away from the post-World War II trend of globalization and international trade cooperation. Owing to a surprise exemption for USMCA-covered goods, Canada and Mexico were not included in the reciprocal tariff regime, however.

Canada and Mexico emerge relatively unscathed

Canada and Mexico have, thus far, avoided the worst of the reciprocal tariffs. The absence of new tariffs significantly reduces the need to implement inflationary retaliatory measures and paves the way for the Bank of Canada to come to the rescue in case of an economic slowdown with further cuts to its key policy rate. The previously announced tariffs on steel, aluminum, lumber and non-USMCA compliant automobiles and auto parts will remain in effect, however.

Canada and Mexico will be exempt from reciprocal tariffs as long as the existing fentanyl- and immigration-driven tariffs on non-USMCA compliant goods remain in place. If these tariffs were removed, Canada and Mexico would be subject to a 12% reciprocal tariff on non-USMCA compliant goods as opposed to 25% currently.

Global equity markets plunge overnight after the White House announcement

The market reaction to the tariff announcements has been highly negative. The Dow Jones and S&P 500 indexes fell by more than 3% after the market opened on April 3rd, while the VIX, a measure of equity price volatility, soared by 24% over the previous close. In foreign markets, the Euro Stoxx 50 Index is down close to 3% and Asian stocks have suffered heavy losses across the board. Large U.S. tech and manufacturing names, which have very large global trade exposure, have also been hit hard, given that their operations will be particularly affected by the hefty tariffs imposed on their global production hubs.

Bonds, however, are in rally mode with investors shunning stocks in favour of government bonds as global economic growth comes under threat and risk-off sentiment grows. As a result, 10-year bond yields are down significantly in all the G7 economies.

The currency market has also expressed its discontent, and the U.S. dollar has seen its steepest drop in two years. The DXY, early on April 3, is trading below 102, while the Swiss franc and the yen have rallied. The loonie also rallied by about four cents on the back of better tariff conditions for Canada.

In commodity land, crude oil is under significant pressure. On top of downward revisions of global demand, OPEC has announced further production hikes, taking oil prices below $67. Unsurprisingly, gold bullion, a haven asset in times of risk, hit a record high of $3,167 overnight before settling at about $3,115.

The asset mix positioning of our balanced portfolios is evolving

In our balanced mandates, although we are maintaining a generally overweight stance, we now favour international equities over North American, as we move away from U.S. exceptionalism as a dominant theme. Non-U.S. equities, particularly European ones, are benefitting from an improving manufacturing cycle, better fiscal support and cheaper valuations. Although European equities have long been cheaper than U.S. equities, recent fiscal policy shifts and growth improvements have provided the necessary catalyst for this valuation gap to narrow.

That being said, we acknowledge Europe's past disappointments and are managing the associated risks accordingly. Despite the large year-to-date performance spread between European and U.S. equities, we believe in diversifying equity exposure outside the United States.

Our tactical view on government bonds remains mixed. High yields offer a dependable return and a hedge against equity and growth risks. We expect central banks to cut rates in response to any unforeseen growth shocks, prioritizing support for economic activity. We remain ready to adjust our allocation if the growth outlook changes further.

In currencies, we are tactically overweight the Japanese yen, the euro and the Canadian dollar, against the U.S. dollar. These trades were initiated before the official tariff announcement, and, as a result, our thesis of the end of U.S. exceptionalism is performing well thus far in the wake of Liberation Day. We are also overweight the Norwegian krone and the Australian dollar, both sensitive to global growth dynamics and poised to benefit from improvements in European and Chinese growth.

Staying the course and trusting your financial strategy

In these challenging market conditions, it is more important than ever to have a well-structured and financially sound long-term plan. Staying invested and trusting your active managers to make the right decisions for you can provide the stability needed to navigate through uncertainty.

At iA Global Asset Management (iAGAM), we are committed to strong risk management, analytical rigour and a disciplined, process-driven approach to asset allocation and security selection. By staying focused on your financial objectives and relying on our expertise, you can move forward confidently, knowing that your investments are in capable hands.

About iA Global Asset Management (iAGAM)

A magnet for top investment talent, iAGAM is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigour and a disciplined, process-driven approach to asset allocation and security selection.

Rooted in history. Innovating for the future.