



EP-107- US-Canada Tariffs, Trade & Investor Impact

Keith Matthews: Welcome to the Empowered Investor. My name is Keith Matthews, and I'm joined by my co-host, Marcelo Taboada. Marcelo, how are you today?

Marcelo Taboada: Keith, I'm good. Interesting times.

Keith Matthews: Today we're doing a special episode on the new introduction of tariffs, lots of things changing. The intent here is to do our very best to provide some perspective to all of our listeners, clients and friends with regards to this topic. So, today's show, we're going to review the current situation. We're going to review the basics on how tariffs work, examples from history.

We'll talk about the fallout and the reaction in the United States right now, not just at the political level, but also at the grassroots and the business level. We'll talk about the possible effects to the Canadian economy. And then we'll discuss what options Canada has, how do you move forward? And then finally, what investors should do, investment takeaways and best practice ideas. So, Marcelo, let's start by just setting the stage. Where are we? Give us a bit of a debrief as to where we're at.

Marcelo Taboada: Well, everybody followed the election, right? There's been rumblings about tariffs and whether it's China, Mexico, Canada, Trump has been on it in the campaign and since he got elected. But everybody thought, you know what? Maybe it's just a negotiating tactic. It's not going to come to fruition. I think the closer we got to the deadline, which is February 1st, people started realizing, hey, wait a second, maybe this is going to be true.

So, Saturday came, February 1st, and they confirmed the tariffs. We are now Monday and the tariffs are going into effect.

Keith Matthews: And then Canada imposed their own tariffs.

Marcelo Taboada: Correct. So, we see retaliatory measures from Canada, especially, alcohol and a few things. And then we get in the news that Mexico has now gotten a 30-day extension because of his meeting with Claudia Shainbaum.

A few hours after we got the same headline for Canada, which Justin Trudeau announced 1.3 billion of border security spending with a few measures here and there, and we get a 30-day delay on the tariff. We are now in a situation where it may still happen

Keith Matthews: You mentioned that most people felt it was a negotiating tactic. And it's all over the press and the Wall Street Journal and Canadian newspapers that most individuals didn't think it would actually come to fruition and that said to be some sort of last-minute deal. And ironically, these tariffs were launched, and within a day there's this discussion of holding off for a little bit.



But I think Canadians are definitely feeling wounded. I'm definitely feeling hurt, definitely frustrated, and it's almost like this moment in time has happened and it's like we're not going back into the previous years and the way people thought. But we'll talk about that a little bit later in the show.

What was the justification for the tariffs?

Marcelo Taboada: I agree, I think people feel wounded in this country. You think about Europe or Asia, there are some hostilities between some countries with close geographic location, but Canada and the US have been friends since the 1812s,

We had that small conflict and it's been a fruitful relationship. So, people are puzzled, right? Now what the US is saying is it's border security. They're saying that there's a lot of fentanyl and illegal immigration happening at the border, which there's some disputing.

I've seen some of the official numbers and it doesn't seem like it's a big problem. Then there's national defense spending, I think everybody's heard. Trump's comments on NATO and the level of spending of GDP. Canada is not even close to 2%. He's demanding anywhere between 3 to 5%.

Keith Matthews: The issue is still to get to 2%.

Marcelo Taboada: Which is a big deal for Canada, right? And you can't just increase it because it's a percentage of GDP. So, if GDP goes up, you have to increase your numbers. Then based on the neighborhood relationship, he feels that some industries are abusing the subsidies in Canada, and that puts U.S. producers at an unfair advantage, so to speak. So those are the three main issues that we're having in this conversation.

Keith Matthews: And those are the issues that Trump is using to justify why he's doing this. He's always said he loves tariffs. He's putting tariffs on probably the number one ally to the U.S. and using all these different reasons as to why he's justified to do so. Again, we have this 30 day break, if you will, but let's think out in the future one of the things that we want to discuss is well, what happens if they actually do go through? What are the implications for us as a country?

Marcelo Taboada: I think the U S and Canada, share one of the largest trade relationships valued over 1.2 trillion annually. So that's a lot of trade going on.

They have impact on economic growth, businesses, jobs, stock markets, and ultimately inflation, which affects consumers. They can lead to significant disruption on both sides especially if they persist, they can be used as a threat for a period of time for things to adjust.

But if this becomes a trade war, the longer it goes, the more everyone gets affected.

Keith Matthews: And so often economists will point to a term called stagflation as something that comes from increased tariffs of any sort. And if you have multiple trading partners, everybody increases



their tariffs, inflation goes up and your economy slows down. Stagflation. And that, in all sorts of the economic scenarios, is one of the most difficult scenarios for any country to try to navigate. And that's what people's concerns are. Do we end up in that kind of a world? How do tariffs

Marcelo Taboada: So, the definition of a tariff is essentially it's a tax or a duty imposed on imported goods to either protect domestic industries, generate government revenue, or retaliate against unfair trade practices. So, you're essentially making foreign goods more expensive in the hope of boosting your domestic economy.

Keith Matthews: Yeah, and then the economic theory behind it unfortunately breaks down because economic theory would suggest that capital has to go towards the most productive industries regardless of where they're at. So, if you force capital to stay within certain borders, you're forcing inefficiencies.

And that means higher prices, lower growth, which back to this concept of stagflation. Let's talk a little bit about some of the historical, because this isn't the first time this has happened. There are a few times in the Canada U.S. history where we have had tariffs. In fact, we've got still some lumber tariffs on the go right now, but let's go back in time.

Marcelo Taboada: Yeah, we've had a few. In 2018 we had the U.S. steel and aluminum tariffs. That resulted in higher consumer prices but failed to revive U.S. steel production. It created winners and losers, but it didn't end up helping the United States and that industry specifically. It was a futile exercise.

Then we had the big one in the 1930s called the Smoot Hawley tariffs. The U.S. raised tariffs on 20,000 goods. Global trade fell by 65%. Canada retaliated, trade with the U.S. essentially collapsed, and the economic impact was huge during the Great Depression.

U.S. GDP shrank by 7.3 percent. Unemployment went almost to 25 percent, and the S&P dropped 44 percent.

Keith Matthews: These were brought in, at a time where they thought it would help. So, you're going through an economic shock and depression let's set these new tariffs in place. It'll help sustain our local economy. But it did the opposite.

Marcelo Taboada: No. And then Canada's GDP obviously shrank as well. But some people say that this practice exacerbated the depression. Then we had the softwood lumber disputes that's been going on since 1982, so it's been a 40-year-old battle between lumber exports.

U.S. repeatedly has imposed tariffs claiming Canada's industry is subsidized. So that puts them at a disadvantage with the producers in their own. Market forestry stocks have suffered and housing costs in the United States have gone up because of lumber shortages. That's been the result.



So, you're paying more for stuff and the U S consumer is paying for it. So again, has it been effective?
No. So you can see where a lot of this is going is it's political, right?

Keith Matthews: It's political, and then we're going to slide into the next subject here. Even in the United States, most business leaders, manufacturing association groups are against tariffs, because they know the outcome.

They know the outcome is complete disruption. So yesterday, Monday morning, I remember opening up the Wall Street Journal. And lo and behold, on the front page of the Wall Street Journal, they have, *This Is The Dumbest Trade War In History*.

And it was so aggravating for Trump, that Trump had to defend himself against the Wall Street Journal's assessment. He had to do a tweet downplaying the fact and positioning himself as an individual who understands what's going on. But the point here is that this is the first thing in the morning, Wall Street Journal.

During the same day you have Jay Timmons, CEO of the National Association of Manufacturers, come out and say it's completely contrary to what American manufacturers need right now.

So, these tariffs are supposed to prop up manufacturing in the States and you've got the top person in manufacturing saying, Au contraire, this is going to disrupt supply chains. It's going to be very harmful for American and Canadian businesses, but he's speaking as an American.

We're in Canada. We see all of the Canadians react and we tend not to take note of what the American reaction is, but there's a lot of Americans in here saying that this is ridiculous too.

Marcelo Taboada: People understand basic economics. If you remember your Economics 101, David Ricardo, right? The whole point of trade is that a country will focus on what they're good at and then export that.

So, you can focus on what you're good at producing, and that will end up helping both countries. The reality is that the decimation of manufacturing in the United States has been a question of technology and globalization, it has nothing to do with politics. Capital will flow where it's most efficient and you're not solving it by imposing tariffs.

People are not going to suddenly turn around and say, let's produce stuff in the United States. When you look at lumber, for example, even if they wanted to produce everything in the United States, they can't because they don't have enough supply. That's why they have to buy in Canada.

Keith Matthews: Yep. And the interesting thing from the stock market perspective, as we were leading up to Monday, we basically had a 3 percent appreciation in January. It was a very strong month of January in the stock market, global stock, KS stocks, US stocks, international, everything did quite well.



And a variety of things were going on, but one could say they were pricing in the fact that this was negotiations. And that we wouldn't actually get into a trade war. And we wouldn't actually come through with these higher tariffs. And they wouldn't stick.

Early yesterday morning, before any of the extension of 30 days for either Mexico or Canada, the markets were off about two and a half percent. It's not a collapse, but by the time Mexico got their extension, the market kind of lost.

And by the time the end of the day, Canada got their extension, then today the markets are up, so we're flat again. Essentially the markets were pricing in that this was simply going to be a negotiation. Now it's almost like you pick up a deck of cards, you throw it up in the air, because nobody really knows where this is going to end.

I think the markets are still suggesting that this is a negotiation tactic. And that calmer heads will prevail.

Marcelo Taboada: no, I think something's been tainted

Keith Matthews: We're looking at this from a perspective of, what if the tariffs are imposed again? We don't like doing that, but because we were, so close to having it I think it's practical to talk about what economists were suggesting would happen if these tariffs were to come through. So, we've read the reports from RBC, National Bank, CIBC, Bank of Montreal, all the major economists. What were people talking about?

Unemployment, Inflation currency and growth, what were the main themes that people were suggesting?

Marcelo Taboada: So, the BOC predicted that if we do have 25% increase in tariffs, we could see Canadian GDP fall by 3.4 to 4.2%. BMO said that. We can essentially go to zero. So actually, enter no growth or negative territory.

That's across the board. If you read any report, it's around that. Unemployment can get anywhere between 8 and 9%. It's currently at 6.8. The Canadian dollar could see a decrease to \$65 to \$67 and inflation could go up by 0.5 to 1%

Keith Matthews: Inflation would go up by 0.5 or 1%. So, if Canada is at 1.8, we could have had a high too.

Marcelo Taboada: And like you said, we can have a situation where the Bank of Canada is in a very tough situation because we're seeing inflation go up and we're seeing lower growth, high unemployment, and now they have to cut rates because they're dealing with inflation.

So, there's going to be industries that are going to be affected more than others, like oil, automotive, agriculture. Stocks could decline based on the industry and I think that's generally the consensus,



Keith Matthews: My interpretation of if these tariffs were actually to be in place for a year or so is this would be Canada's credit crisis. I remember during the credit crisis, that it was really the U.S. market, U.S. consumers, U.S. citizens that really took it hard. Their home prices were devastated, their stock market was devastated, nobody had confidence in them, their financial system was collapsing. They were a significant cause of this.

Whereas in Canada, home prices weren't extended, borrowing wasn't elevated. And people got through it. Yes, unemployment spiked, but it wasn't severe. We are starting off at a very deteriorated base right now. Before this, you could argue that we had some pretty major economic challenges going on.

This is a major issue that this country would have to deal with.

Marcelo Taboada: And we already have low productivity numbers.

Keith Matthews: We're being asked to play a power move, which is really go against the headwinds from a position of weakness. Now, when I look at the number of recessions we've had in Canada, like really tough ones, it's been a long time, Marcel. I think the last real tough recession that Canadians went through was 1991, 30 years ago. That's a long time.

Marcelo Taboada: That's a whole generation that hasn't experienced that.

Keith Matthews: One before that was 1981, like a tough one. if you can get unemployment up around 9%, you're going to start hitting tough zones with not an easy way out.

Marcelo Taboada: Do you remember what the unemployment rate got to in 91?

Keith Matthews: I graduated in tough recessions. I think it was 11%.

Marcelo Taboada: Wow. That's high.

Keith Matthews: So that said, I look at where we're at right now, and it's if that was to hold true, a lot of this is if, we don't ever like to predict, and this is not a prediction, but we are trying to help our listeners understand the issues?

Would we be able to get through it? Absolutely. People are talking about a mild or medium recession, but they're not talking about a severe recession. I think all bets are off if we get into a global issue, but I believe that calmer heads will prevail. At the end of the day, nobody wants this whole free trade and open trade to be hindered and collapse and make difficulties for everyone.

Individuals that live in Europe, in the United States, in Canada, Asia, everywhere. Nobody wants that. Talk about the U. S. economy for a second. What were people suggesting would happen there if Canada was to retaliate? What were the expected effects to come through?



Marcelo Taboada: I think big picture, you're right. We probably think about the U.S. every day. They don't think about us every day, right? Because it's just different magnitude. But I think it is a consensus from what we read in the research we did; they will see some slowdown in the economy.

So, inflation will go up and that's a problem for them because they're trying to tame inflation already. The Fed has said, because inflation has been stickier than expected and the unemployment rate has stayed very low, they've kept rates higher. So that could be a problem for the Fed. And the longer the trade war stays, the more risks you have in the economy as a whole. Of course, not even close to what Mexico and Canada would feel, but they would feel some pain.

Keith Matthews: Yeah, and I guess the biggest takeaway there would be that the Federal Reserve would not have a chance to decrease rates.

They're saying essentially that's off the table now, whereas if individuals, investors, business executives, owners would have been looking into the future saying, okay, we can see one or two interest rate cuts, that will not occur if these tariffs were to hold.

The biggest concern yesterday morning, and even today with China now coming out with them increasing their tariffs on the US, holding back critical minerals, is that everybody might get edged into a global trade war. And if that happens, that would be the worst-case scenario in all of this.

You want to elaborate on anything there?

Marcelo Taboada: When you think about the relationship with the US and China, they've been at this for the last 10 years, going back and forth with trade wars and tariffs and restricting AI chips. But when it comes to Canada, it's just, out of the blue.

I just don't get the logic. My gut feeling says that it's just politics and cooler heads will prevail, but we'll see where we end up. Anything's possible with Trump,

Keith Matthews: Yeah. That's the part that's chilling it is very hard to manage.

You're an international business. You have a billion dollars in some plant. You want to access the U.S. market. You knew in the past you could put your plant in Canada and benefit from having an operation in Canada, but now you might feel that you need to go to the United States to circumvent and not get caught up in the tariffs.

Where do you think that company is going to locate now?

Marcelo Taboada: And we've seen in the news, that a lot of European companies are planning to expand their operations in the United States because of that risk.



Keith Matthews: It puts more pressure on Canada. Is this trade strategy going to work to increase U.S. production? No.

Marcelo Taboada: Evidence says no. We saw it in 2018 with the steel and aluminum tariffs. That didn't bring U. S. manufacturing. In fact, companies moved production to Vietnam, India, and Mexico instead. Labor costs in the U. S. are still high. Tariffs don't fix supply chain problems.

Keith Matthews: Which would lead the average individual, a rational person, to say that if they're really going to push on this, it's not because they actually believe it, and there's enough smart people and business feedback saying to the Trump administration that you can't put these on long term. The only reason why these have to be in place would be to negotiate.

So, what are the possible silver linings here, Marcello? There is a lot of discussion, we've talked kind of heavy language here about the downside to all this. Again, we're Tuesday, we're going to release this episode on Thursday, we don't know what's going to change between now and Thursday or Friday morning.

We have a month break, but we don't know what's going to happen after that. And I think the good news is a lot of Canadians are starting to think about things now. And there's a lot more discussion of national unity, getting in the same rowboat, rowing together, moving forward together.

Keith Matthews: Marcelo, what are the possible silver linings in this scenario? Let's think optimistically here. What are the discussions that we're seeing right now about how we can prepare ourselves for the future?

Marcelo Taboada: In all this turbulence, I think there is a glimmer of hope. There are positives for this.

I think you're hearing a lot more the country uniting. Even journalists, I've heard a lot in the news and Rob Carrick was one this weekend, Nicolas Berube in La Presse. They were writing about, come together, support Canadian businesses. Let's tackle this together.

I think that's something that's entered the side guides that wasn't there before.

To me it's exciting because I can tell you for a fact, like I've been here for 15, 16 years. I have never been in a situation where people are uniting around an issue in Canada, even the pandemic where we thought we were going to get this, we got division, conflict. But now I feel like we have this issue that we can unite together. And I think that's a positive thing coming out of this. Obviously the second one, that's a big one, it's like an elephant in the room, so to speak. And it's something that we've had for years. It's eliminating the interprovincial trade barriers that absolutely make no sense when you think about having a country in a union, in a family.



It's just insane that we have all these restrictions across provinces and an electrician can't go and work in Ontario, the fact that a nurse can pack up her bags and go to work in Ontario or in Alberta, like it's crazy.

Keith Matthews: That's one of the things that a lot of commentaries are saying they say it's the low hanging fruit, but again, when you get to regional differences and protecting your local environment, it is perhaps harder to do. But that said, I 100% agree. This is a time now where, what's the alternative?

The alternative is to have a dysfunctional relationship with a bully. And so, I really think that's a big opportunity for provincial leaders and federal leaders.

Marcelo Taboada: We need to expand trade across the world, sign trade agreements with South America, Europe, Asian countries.

Keith Matthews: The problem is though, Marcelo, we have signed a lot of international trade agreements, but we still have a hard time getting product and actually making an effort to get away from the big U.S. partner relationship. As soon as you say that, you'll get into this conversation in Canada about interprovincial pipelines. Pipelines going across the country for natural gas, for oil. And I think what we'll see is that conversation will come up again.

And I hope there's more of an openness to evaluate how we can jointly bring our northern strength of resources to the marketplace. Trade with Asia and trade with Europe is something that's been talked about for a long time and maybe this is what's needed to actually push us off the ledge to go do it.

Marcelo Taboada: Yeah, and the US too, right? Like we're uncovering a bit of a hypocrisy there where they're saying we care about democracy and spreading democracy in the world, but if they don't buy Canadian oil, they're going to go buy it from Venezuela.

Keith Matthews: I'm seeing your Latin American blood coming out now, Marcelo.

Marcelo Taboada: The other one too is national identity. I think as Canadians, we have a choice at every purchase we make to buy Canadian products. That takes a little bit more effort, but effective immediately. I told my wife we should cancel every single service that comes from the United States, including buying at Costco.

She wasn't too happy.

Keith Matthews: Last night? She canceled Netflix. Imagine that. And she started going through a bunch of things.

Marcelo Taboada: Yeah. I think we're going to see more of that in a lot of industries. And the last one, which is a big one a weaker Canadian dollar for all of its negatives also has a silver lining that it makes our goods cheaper for other countries.



So, we become more competitive in the world. So, if Europeans or Asian countries want to buy our stuff, now that costs less money.

Keith Matthews: So those are some of the big takeaways we're hearing a lot of economists talking about. I think one of the other underlying takeaways is that it's been a long time since we have put energy and focus on the economy.

Now the government is saying to entrepreneurs, go out and take risks and expand your business in these other areas. But in the last many years, this isn't exactly a business-friendly country. We penalize risk taking. We tax it higher than other countries. the bureaucracy. We don't encourage it. We overregulate it.

Marcelo Taboada: Business is not as easy as in the United States.

Keith Matthews: By all sorts of statements saying that they're not doing their fair share to help the economy. And I think this is going to change, and I think we need to make a change. This country has to become more productive.

And I think the word productivity is a word that leadership from all different parties has to start figuring out how to improve it. What are some of the investor takeaways? Let's switch gears a little bit and shed some light on what we feel people should do with investment portfolios.

Marcelo Taboada: I'll leave you with four points. One, is you can expect volatility because markets will be choppy just because there's something markets hate, and that's uncertainty. And right now, we have a lot of uncertainty in the market. We don't know what he's going to say next or what he's going to decide next.

You have the rational view of things and then there's the way he views the world. So, I think we are going to see some volatility, you need to be ready for that. If you've been our client, that this is a normal part of the markets. And it's the reason why you get paid as an investor, not us as advisors,

So, some industries will adapt and benefit. This is a natural way of things. One of the most innovative periods in the history of the world was right after the great depression. The reason for that is because people, when there's need and there's struggle, they find ways.

Keith Matthews: It's interesting you say that because there was also another period recently, and that's after the 2008 credit crisis. That is a period where there's a tremendous amount of spiking entrepreneurship, especially in the United States, because they went through a very difficult period.

Marcelo Taboada: Yeah. They bring out the best in people. It's what I told you off mic. Sometimes you have to break the egg to make the omelet. So, I think we will come out of this. It'll take some time. to adjust. Then as an investor, you stay diversified. We were having a lot of conversations, during the annual review.



Should I put everything in the United States? I think this is the time, I cannot think of a better time, of why having an international and global portfolio makes sense. This will weather the storm in stocks because you'll be protected in some areas while others still have volatility.

Keith Matthews: Yes. If there's a bit more of a protracted global issue, a lot of different countries will be affected.

But that said, we believe you must maintain globally diversified portfolios.

Marcelo Taboada: Correct. It's just stay clear of predictions. I think we've talked about the subject like 60 times in this podcast, but we know predictions don't work.

Keith Matthews: The second slide I have is last year's predictions for 2024.

We have a list of 20 brokerage firms scattered across the United States and Canada. And the S&P 500 generated a, call it a 24% local U.S. currency return. And boy, half of the forecast were negative returns up to negative 10 or 15, and the other half were positive up to 5 or 10. Bottom line is that they were all over the map, and it's easy to get suckered into a prediction.

Because it feels right. It touches your emotion but now is not the time to be moving portfolio parts around based on a prediction because it's moving way too quickly and there's no way people can predict. I liked your story about grittiness. The story I looked up about where I thought Canada might possibly be in is the George St. Pierre story. You know the wrestler?

Marcelo Taboada: Yeah.

Keith Matthews: It's a great story, and you hear this all the time about certain kids, He was picked on, he was beaten up. He was bullied, and he changed the way he went to school.

He started training, he started doing mixed martial arts, he started doing push-ups and chin ups. fast forward a decade he's like the world champion, unbeatable. He's one of the greatest of all time. And I think Canada is in a bit of a similar situation. We're being bullied right now.

And Canadians are strong people and resourceful individuals. I think that we've got an opportunity to redirect the rudder and put us in a new direction. I am hopeful that some of the leadership elections coming up will put us in a spot where we actually have leadership now in the country and are able to move forward.

Marcelo Taboada: You know what's funny about the George St. Pierre story too? He was a tough individual, but he was also one of the nicest people you meet. I met him twice in person. So nice, you cannot believe. And he's super humble. Yeah, very Canadian.



Keith Matthews: All right, Marcelo, and to our listeners, thank you so much for tuning in. Thank you so much.

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