



Market Commentary
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English Version

Distilling the Implications of US Tariffs

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Distilling the Implications of US Tariffs

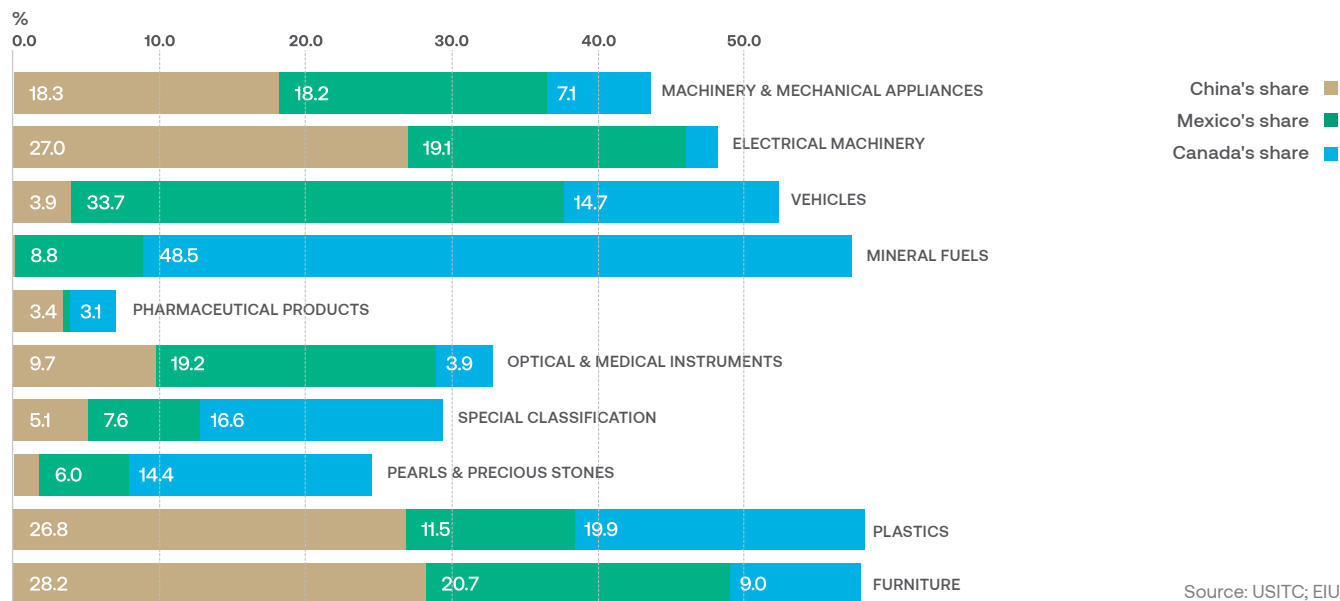
- The Trump administration's recent tariff announcements on Canada, Mexico, and China signal rising trade tensions, increasing uncertainty and reducing business and consumer confidence despite limited initial market reactions.
- Tariffs on Mexican and Canadian goods could significantly affect industries like automotive and energy, with potential GDP contractions in both countries. Mexico's deep economic ties with the U.S. make it particularly vulnerable, while Canada's oil exports face challenges due to U.S. refinery dependencies.
- The administration aims to curb China's trade practices, particularly its use of countries like Mexico to bypass tariffs. While the initial tariff increases on Chinese goods seem more symbolic, retaliatory measures could escalate and disrupt global trade.

- The back-and-forth tariffs between the U.S., China, Mexico, and Canada create a precarious economic environment. While manageable for now, further escalation without de-escalation efforts could lead to a broader economic downturn and reduced global trade confidence.

Over the past month, the world has been shaken by a dizzying number of policy announcements from the new Trump administration. One of the main sources of uncertainty centers around the use of tariffs. Whether they are a negotiating tool to achieve particular policy objectives, or a revived way to permanently fund the Federal government is beyond the scope of this report. Here, we are only striving to analyze the impact of such measures on the economy and markets.

In early February, President Trump imposed 25% tariffs on non-energy Canadian goods, 10% tariffs on Canadian oil, and 25% tariffs on all Mexican goods in a move that was partially anticipated by markets, yet

1. Across imports, the US is heavily reliant on the three economies it imposed tariffs on



also communicated that no trading partner was completely safe. Even if the tariffs were postponed until early March after Mexico and Canada agreed to specific concessions related to border security, these developments portend an escalation in trade tensions throughout the world and have increased uncertainty and reduced business and consumer confidence despite the market’s relatively muted reaction thus far.

In the case of Mexico, as we highlighted in [our latest quarterly call](#), we still believe both countries are too intertwined to exit a trade war unscathed. Mexico is the US’s largest trading partner, and the US is Mexico’s main source of foreign direct investment. According to data from the US International Trade Commission compiled by the Economist Intelligence Unit in 2023, Mexico’s share of US car imports stood at 33.7% (see graph 1). Therefore, the potential implementation of 25% blanket tariffs could increase both new and used vehicle prices due to pass-through

costs and components needed to produce vehicles locally. Moreover, according to data from S&P Global Mobility, virtually all automakers and suppliers would be impacted by tariffs since of the 5.3mn light vehicles built in Canada and Mexico, approximately 70% of that production is destined for sale in the US. Moreover, data from S&P Global Mobility show that General Motors and Stellantis, two of the leading US automotive manufacturing companies, have nearly 40% of their production sourced from Mexico and Canada. On this matter, GM’s CEO, Mary Barra, recently stated that the company could offset up to 50% of the tariff impact without deploying capital. Conversely, Ford’s CEO, Jim Farley, characterized the tariffs as very disruptive to the automotive industry.

Aside from generating a negative sectorial impact, tariffs are also expected to generate broader negative economic consequences for Mexico. It is practically a consensus call that Mexico is very susceptible to any protectionist measures since exports to

the US represented 27.7% of its GDP in 2024, according to data from Fitch. The agency estimates that the potential tariff implementation would equate to a potential reduction in Mexico's real GDP, ranging from 0.8pp to 3.0pp by 2026, depending on the final scale of the levy.

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Canada's trading relationship with the US is largely centered around natural resources. Canada mainly exports mineral fuels to the US (see Graph 1), with oil totaling 3mm barrels a day, close to 63% of total production. That makes the US heavily reliant on Canadian oil supply. If tariffs on Canadian oil imports were implemented, US refineries would struggle to replace that supply, considering that the US refining system is built to function with heavier crude, like the one from Canada.

In addition, according to estimates from Fitch, if full tariff implementation occurs, Canadian real GDP could fall 1.4pp over two years, likely triggering a recession that would worsen if retaliatory moves are factored in. Contrary to Mexico, Canada has exhibited a tougher stance regarding retaliation, but this approach is subject to change due to Prime Minister Trudeau leaving office and his replacement being

announced on March 9.

Another factor that should be considered is that the US-Mexico-Canada Agreement, better known as USMCA, is up for review in July 2026. Due to the uncertainty caused by the tariff threats, it will be important to monitor that review process since the US and Canada may be more politically aligned after Trudeau's replacement takes office. Pierre Poilievre's, the leader of Canada's Conservative Party and of the Official Opposition, chances of becoming the next Prime Minister are increasing according to recent polls, and his potential election would leave Mexico with limited negotiating power versus two right-leaning counterparties.

China was not spared the initial salvos of the trade war. At the end of last year, many Chinese exports headed to the United States were seeing tariffs in the 25% range, while a smaller number of goods saw tariffs as low as 7.5%. However, on February 4th, President Trump announced an additional 10% tariff on China, one that already went into effect. Though this initial incremental tariff was less than the 60% mentioned by then candidate Trump during his campaign, this first shot across the bow served as a warning to China that, much like in 2018, the United States means business.

Why were the tariffs on China needed in the first place? The answer is multifaceted, but two main points merit consideration. First, the Trump administration is attempting to reduce the flow of Fentanyl into the United States. Historically, China has been the largest producer of Fentanyl in the world, and increased tariffs are arguably a way to pressure the Chinese government to curb production of the illicit product. Second, tariffs are being used as a means to level the playing field, in terms of trade between both countries. The Trump administration has stated that it believes that China does not play fairly when it comes to trade, in essence using other countries to circumvent trade agreements and restrictions. It be-

believes that this may be the case with countries such as Mexico. In 2023, Mexico surpassed China as the main trading partner with the US, joining Colombia as the only two countries in Latin America which list the United States as its main trading partner. However, Chinese exports to Mexico have significantly increased over this period. In a recent article, The Economist magazine stated: “In 2002 less than 5% by value of the components in Mexican exports to the United States were Chinese; by 2020 that was 21%” (The Economist, January 2025). So, although the value of goods traded between the United States and Mexico has increased, the proportion of Chinese components in Mexican goods entering the US has more than quadrupled over the past nearly 20 years.

It is this evasion of trade agreements and tariffs by China, by exporting intermediate or component goods to the US through other countries, that the administration intends to curb through this new round of tariff increases.

We believe that this first round of incremental tariffs on China is intended as a warning shot to that country, more than one to inflict damage, as the implications at this level are still manageable for both players. The tariff increase will impact approximately 60% of exports from China to the United States. Most of the goods affected by the tariffs involve electronic and auto components, which could in effect impact the production and pricing of electronic and automobile goods in the US. According to Bloomberg, China’s exports to the US comprise barely over 2% of its GDP. At the same time US exports to China comprise approximately 0.5% of the former’s GDP. At this point, the actual impacts to both countries’ econo-

mies are not meaningful. As could be expected, China responded by imposing its own retaliatory tariffs and actions on the United States. China’s response includes a 15% tariff on coal and LNG imports, 10% tariff on oil and farm equipment, restricting the exports of critical minerals, and the opening of an anti-monopoly probe against Google. Again, at this point, the tariffs and retaliatory measures imposed by both countries on each other appear to be geared more to make a statement than to inflict damage.

Although we believe this to be true, we are also of the opinion that incremental escalation of retaliatory measures could quickly devolve out of control, if left unchecked. We saw the recent implementation of tariffs from the Trump administration on all steel and aluminum imports from across the globe. China should not feel a meaningful impact from the tariffs on steel, as according to Reuters, the country exports less than 1% of its production of finished steel to the United States. However, aluminum could be a different story, as China exports approximately between 15% and 20% of its production of the metal to the US.

The delicate tariff dance between the United States, Mexico, Canada, and China will likely continue to escalate. As long as escalation is met with a reasonable attempt of de-escalation, commerce between all parties should not be meaningfully impacted. However, if escalation leads to more escalation, the situation could quickly spiral out of control. In the end, unbridled tariffs (or even sustained tariff threats) erode confidence, lead to economic deceleration, and present a prisoner’s dilemma that is usually more detrimental than beneficial for the parties involved. Hopefully cooler heads will prevail in this delicate dance. ■

House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
Global Asset Allocation		
Equities	NEUTRAL	OVERWEIGHT
Fixed Income	NEUTRAL	OVERWEIGHT
Cash	NEUTRAL	NEUTRAL
Regional Breakdown		
US Equities ¹	OVERWEIGHT	OVERWEIGHT
European Equities	NEUTRAL	NEUTRAL
Japanese Equities	OVERWEIGHT	OVERWEIGHT
Emerging Market Equities	UNDERWEIGHT	UNDERWEIGHT
Chinese Equities	OVERWEIGHT	NEUTRAL
US Treasuries ²	NEUTRAL	OVERWEIGHT
Investment Grade Fixed Income	NEUTRAL	NEUTRAL
High Yield Fixed Income	NEUTRAL	NEUTRAL
Emerging Market Sovereign	NEUTRAL	NEUTRAL
US Dollar	OVERWEIGHT	NEUTRAL
Energy ³	UNDERWEIGHT	UNDERWEIGHT
Precious Metals	OVERWEIGHT	OVERWEIGHT

¹Relative to global equities in USD

²Relative to aggregate fixed income markets in USD

³Relative to an overall commodity allocation

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