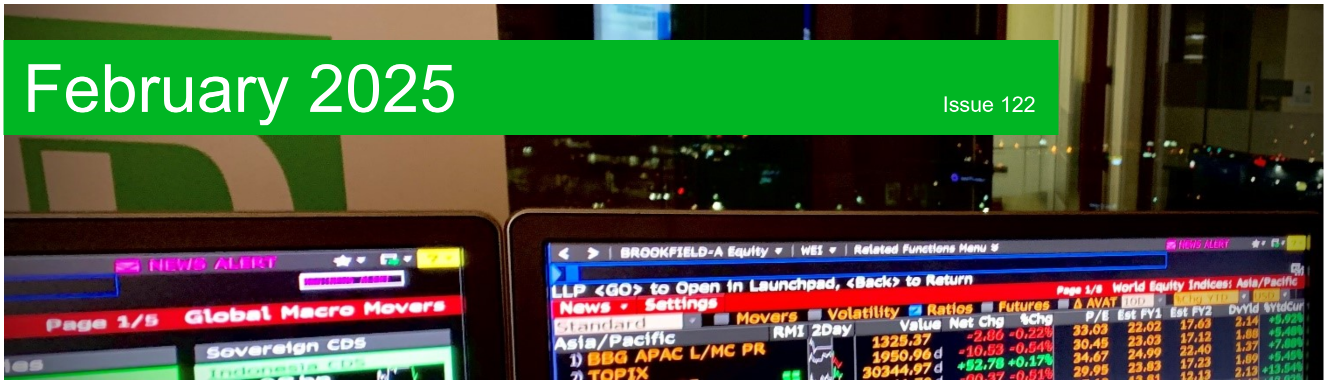
The Charter Group Monthly Letter

February 2025

Issue 122



Mark Jasayko, MBA, CFA
Senior Portfolio Manager & Senior Investment Advisor
TD Wealth Private Investment Advice
The Charter Group, Langley, BC

Economic & Market Update

Tariffs in a TikTok World

In late November last year, President Trump mused about imposing a 25% tariff on all goods imported into the U.S. from Canada.

The U.S. is considering a blanket 25% tariff on all Canadian products coming in.

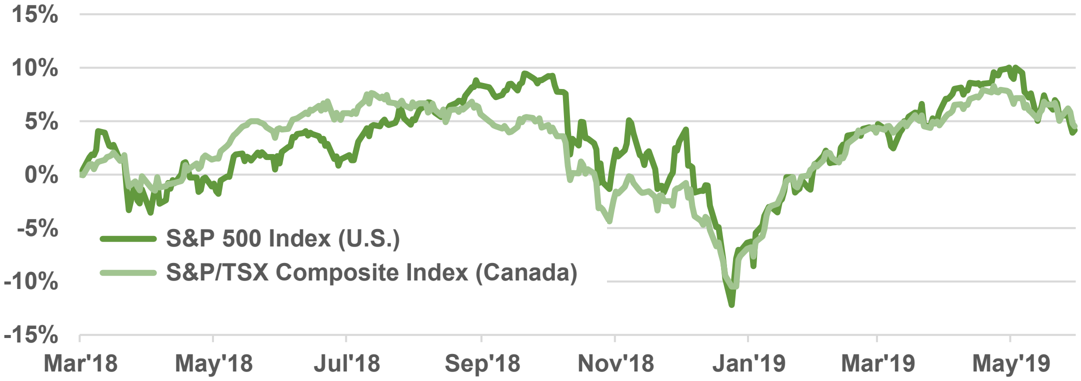
Will it happen?

Obviously, as a portfolio manager, that is something I am going to have to evaluate in terms of its impact on the Canadian economy as well as Canadian stocks. Thankfully, I have had some experience with this going back to the first Trump administration. In March 2018, President Trump signed a couple of proclamations imposing tariffs of 25% and 10% on steel and aluminum respectively. Canada implemented retaliatory countermeasures on a whole host of American goods entering Canada. Then, in May 2019, all these tariffs on both sides were lifted. Over the period, there was almost no difference in the performance of the two main stock market indices in Canada and the U.S. (**Chart 1**).

All of that for nothing?

It should be pointed out that until the first Trump administration, trade imbalances and trade violations were generally not addressed, at least going back to China's entry into the World Trade Organization in 2001. From the U.S. perspective, the consensus was that there was too much to be gained in the overall increase in global trade that was unleashed by the end of the Cold War to bother about some of the unfortunate details.[1]

Chart 1:
U.S. & Canadian Stocks During Tariffs on Canadian Steel & Aluminum



Source: Bloomberg Financial L.P. as of January 24, 2025.

However, following the Great Recession/Subprime Mortgage Crisis, the U.S. and other developed economies struggled to recover which allowed China to gain a more prominent economic position in the world. And, as growing economies sometimes like to do, China also started to flex its military muscle.

There are a few guideposts that may help to assess the probability of those tariffs.

As a result, even before the first Trump administration, there were growing concerns from both geopolitical analysts and citizens regarding China from a national security perspective. Some of the advisors in the first Trump administration argued for action in the form of tariffs. By January 2018, President Trump agreed and was able to elicit a response that appeared to validate the impact of actual and threatened tariffs. And, it wasn't long before Canada and other countries came into focus for similar treatment.[2]

The first Trump administration imposed tariffs on Canadian steel and aluminum which lasted a little over a year and did not have much discernable impact on the overall Canadian economy or investment markets.

As mentioned, the tariffs on Canadian steel and aluminum were lifted a little over a year later. Tariffs on Europe lasted through the Trump administration, but many were modified or eliminated by the Biden administration. However, the tariffs that were imposed on China remain in effect, an indication that they were endorsed by the Biden administration. Countering China militarily and economically has become one of the rare areas of bipartisan cooperation in the U.S. government.

Tariffs imposed on China have had much more staying power. But national security is a much bigger issue with China.

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[1] Some of the trade abuses included dumping exports, not reciprocating with respect to access, theft of intellectual property, bans on certain imports such as food products, use of forced labour, and permitting the trade in illicit goods.

[2] I think it would be hard to argue that Canada and many of those other countries posed a national security threat to the U.S. which was likely a big reason as to why such tariffs were lifted or modified.

Which brings us to the other topic in the title of this month's *Monthly Letter*: TikTok.

TikTok is a short video app currently used by 170 million Americans in addition to many Canadians and others throughout the world.

Towards the end of the first Trump administration in 2020, the U.S. government announced that it was considering a nationwide ban on the app primarily on the grounds that President Trump saw it as a national security threat because it was a China-owned entity and could be used for subversive activities. TikTok quickly filed a number of lawsuits arguing that a ban would violate things like due process and freedom of expression.

The American public in general does not appear to have much tolerance for relatively minor inconveniences resulting from policies related to trade or national security.

They generally want to keep their short-video apps and relatively low prices for gasoline!

Fast forward to today and the legal proceedings culminated in a U.S. Supreme Court ruling (with concurring opinions from politically divergent justices – there's that bipartisanship again) on January 17, 2025 that ByteDance, the parent company, had to divest itself of TikTok, or TikTok had to cease operations in the U.S.

Then, on the first day of his second term, President Trump signed an executive order delaying the ban for 75 days.

Wait. Wasn't he the one who effectively started all this?

He appears to place a premium on popular opinion and support. It was a theme during the recent campaign and could impact policymaking going forward. If enough Americans feel a certain way on a particular subject, it looks like that has the power to result in full policy reversals.[3]

What kind of insight might the TikTok dilemma and U.S. trade policy over the last eight years tell us about the proposed 25% tariff on all Canadian goods? It might be a conclusion that does not live up to the hyperbolic headlines in the Canadian media.

Geopolitical uncertainty involving China is a unifying issue for the U.S. It's real and has grown despite some efforts to manage it over the last number of years including keeping tariffs in place. Is Canada also a national security threat to the U.S.? I'll let you decide. 😊

[3] The divestiture requirement for ByteDance is now law that was established by a U.S. Supreme Court in a unanimous decision. So, even though a policy reversal on the issue looks like a possibility, it may in fact be a longshot. Also, there seems to be some chatter about joint-American ownership of TikTok, but the law apparently does not accommodate that. So, we'll have to wait and see what happens during the 75-day delay of the ban.

Is there popular support among American citizens for tariffs on Canada? According to some polling, there isn't.[4] Most Americans oppose the tariffs, and those who voice support change their tune when asked about the economic side-effects that might impact them.

At least 170 million Americans appear to be in favour of TikTok continuing on judging by their use of the app (that's more than half the population of the U.S.). Will President Trump's fervour for tariffs on Canada be sustained if popular support doesn't dramatically increase? This would seem to run counter to his tendencies in my opinion.

The American public, while still very animated by the issues that were prominent during the recent campaign, isn't much energized by the prospect of tariffs on Canada. Neither is the U.S. Congress or many in the administration. While it is easy to find U.S. policymakers who have concerns regarding TikTok or trade with China in particular, it is extremely difficult to find anyone else advocating tariffs on Canada.[5] Latching on to a relatively unpopular idea may not be the best way to maintain one's own popularity.

There are some indications that Americans are not that keen on Canadian tariffs, and less so if it means higher energy prices.

The U.S. has imposed tariffs in the name of national security and protecting the aspects of the international trade system. Not much of that relates to Canada.

There is a decent chance that any resulting U.S. trade actions won't much resemble the magnitude of the initial announcement.

Finally, regarding adverse impacts on the U.S. economy, a comprehensive tariff imposition would include Canadian energy exports. Remember, it appears that most Americans generally don't want to go through the minor inconvenience of migrating to a different short-video app! So how are they going to react to needing to pay more for gasoline or for other products and services that consume Canadian energy via transportation and manufacturing?[6] The polling mentioned above gives us a hint.

If there is a carve-out for Canadian energy, then the high-conviction and dramatic declaration of a "tariff on everything" gets downgraded to the casual contemplation of picking which industry or products to tariff and why. That could be time-consuming and bogged down by details, deflating much of President Trump's initial zeal. Maybe not the final outcome that the current headlines are suggesting.

[4] "Americans oppose Trump's tariff against Canada 2:1; support drops further when they consider the price of gas." Angus Reid Institute, January 16, 2025.
[5] I have been listening to almost everything incoming Secretary of State Marco Rubio has been saying in the last couple of weeks. There have been comments about the Middle East, Russia, Ukraine and Europe, and then some very stern statements regarding China (he was sanctioned by China in 2020). But nothing about Canada (which may not entirely be a good thing!). And, back in October at the Grant's Conference in New York, I sat through a one-hour presentation by incoming Secretary of the Treasury Scott Bessent on the importance of tariffs "to reshape the international economic system to more closely resemble an actual free-market system." He repeatedly mentioned China during the entire hour and not any other country (He didn't know then that he would be appointed Secretary of the Treasury).
[6] David Urberti, "How a Trump Trade War Puts Cheap Oil From Canada at Risk." *The Wall Street Journal*, January 22, 2025.

Model Portfolio Update[7]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	12.0	None
U.S. Equities	38.0	None
International Equities	8.0	None
Fixed Income:		
Canadian Bonds	22.0	None
U.S. Bonds	6.0	None
Alternative Investments:		
Gold	8.0	None
Silver	1.0	None
Commodities & Agriculture	3.0	None
Cash	2.0	None

No changes were made to the asset allocations since January 1st. And no more changes to the individual securities since removing Canadian Western Bank and adding exposure to the nuclear energy and defense sectors as was discussed in the previous issue of *The Monthly Letter*.

No changes to the asset allocations or the individual securities in the model portfolios since the start of the year.

The positively contributing asset classes to the model portfolio so far this month have been stocks (Canada, the U.S., and developed international countries) and gold.

So far, stocks and gold have been the stars of the month.

After a bit of a choppy start to the month, it appears that stocks are now giving the new administration the benefit of the doubt. However, that kind of patience won't last indefinitely, and investors may start demanding the desired results in the later Spring from policies that are being implemented post-inauguration.

Stocks may be giving the new administration the benefit of the doubt.

[7] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of January 24, 2025. The asset allocations of individual clients invested in this Portfolio may differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

The upswing in gold this month is a little more of a mystery on the surface. Normally a stronger U.S. dollar and higher U.S. interest rates (yes, government bond yields have risen across all maturities since January 1st) spell headwinds for gold. As a result, we need to look elsewhere for an explanation. That might lead us to increased demand for gold as an inflation hedge. It does look like bond investors are demanding higher yields to compensate for potential inflation over the life of a bond. So, this might be an exception where U.S. interest rates and gold move up in tandem.

Gold may have risen this month because of its reputation as an inflation hedge.

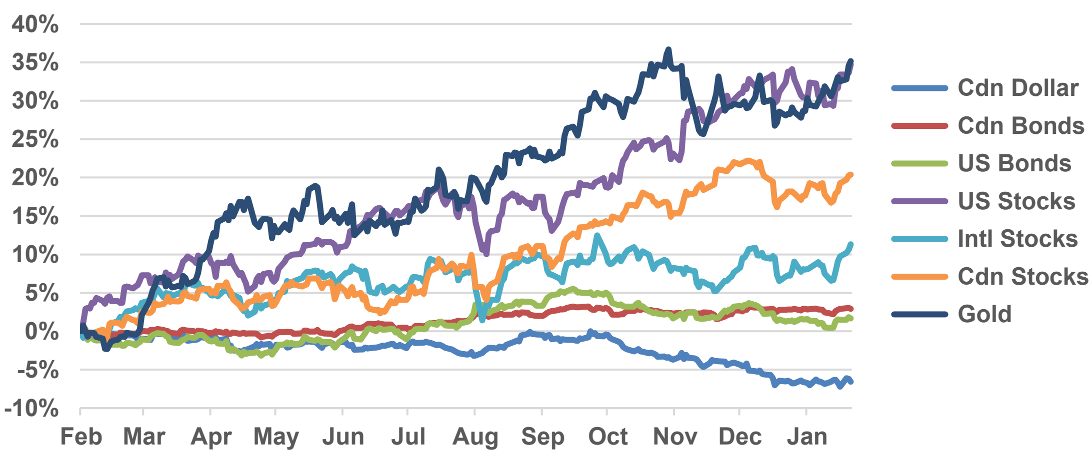
Finally, what might be the impact of tariffs (covered in the first section of this letter) on markets? As discussed above, the probability of a full tariff broadside may not be as high as the media and various leaders are thinking. If tariffs become more selectively applied, some Canadian manufacturing could be vulnerable. The U.S. has been re-industrializing over the last few years which can lead to protectionist policies. Even the Biden administration fell into this camp. However, Canadian energy would generally fall outside this remit and there is a reasonable chance that it won't be subject to tariffs. And the model portfolios have been invested accordingly.

Any impact of U.S. tariffs in Canada could be limited to manufacturing exporters to protect of the massive investment that the U.S. has made in re-industrialization (re-shoring old industries and on-shoring new industries).

Below is the 12-month performance of the asset classes that we have used in the construction of The Charter Group's model portfolios. (**Chart 2**).[8]

Chart 2:

12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. for the interval from February 1, 2024 to January 24, 2025

[8] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the current 3-year Government of Canada Bond; US bonds are represented by Barclays US Aggregate Bond Index; U.S. stocks are represented by the S&P 500 Index; International stocks are represented by the MSCI EAFE Index; Canadian stocks are represented by the S&P/TSX 60 Composite Index; Gold is represented by the Gold to US Dollar spot price.

Top Investment Issues[9]

Issue	Importance	Potential Impact
1. Global Geopolitics	Significant	Negative
2. Inflation (Portfolio Impact)	Moderate	Positive
3. China's Economic Growth	Moderate	Negative
4. Canadian Federal Economic Policy	Moderate	Negative
5. Canadian Dollar Decline	Moderate	Positive
6. Global Trade Wars	Moderate	Negative
7. Long-term U.S. Interest Rates	Moderate	Negative
8. Short-term U.S. Interest Rates	Medium	Negative
9. U.S. Fiscal Spending Stimulus	Medium	Positive
10. Canada's Economic Growth	Light	Positive

[9] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

The Charter Group

Mark Jasayko, MBA, CFA | Senior Portfolio Manager & Senior Investment Advisor
Laura O'Connell, CFP®, FMA | Associate Investment Advisor
Nadia Azam, BA | Associate Investment Advisor
Kelsey Sjoberg | Administrative Associate
Nakisha Mander | Administrative Associate
Esther Truong | Administrative Associate

604 513 6218
8661 201 Street, Suite 410
Langley, British Columbia V2Y 0G9

The Charter Group is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of January 24, 2025.

The information contained herein has been provided by Mark Jasayko, Senior Portfolio Manager and Senior Investment Advisor, TD Wealth Private Investment Advice, and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

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The Charter Group

8661 201 Street, Suite 410
Langley, BC V2Y 0G9
Tel: 604-513-6218
Toll free: 855-822-8921 | Fax: 604-513-6217
TD.thechartergroup@td.com
advisors.td.com/thechartergroup

The Charter Group

TD Wealth