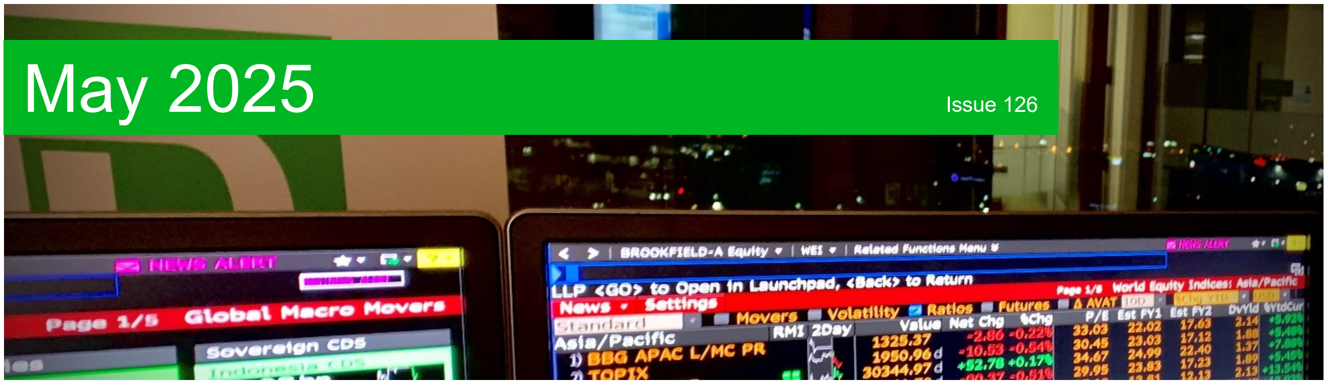
The Charter Group Monthly Letter



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Economic & Market Update

Tariff Tonic Rhetoric

On Mother's Day, I was driving to my parents' home which took me westbound on Georgia Street through downtown Vancouver. As one passes the intersection at Burrard Street, the two regular lanes get pinched into one as road cones block off a lane in front of the Royal Centre where construction is taking place. This had the effect of backing up the Sunday evening traffic through the intersection, causing a delay of a few minutes.

That may not sound like much of an inconvenience. But those road cones have now been there for over *four* years. The cumulative delays and frustration over that time are likely to have been considerable.

On one of my commuting routes is a freeway interchange that is now four years under construction and still, visually, looks like a long way to completion. I also pass by a bike lane/walking path project that will reach two years this August and, so far, only about two and a half miles have been built.

Ever-changing U.S. trade policy and casual comments about sovereignty have ignited rhetoric focusing on ways to make Canada more resilient or to provide alternatives.

But with most rhetoric, things are easier said than done.

Reality can quickly challenge well-intended aspirations.

If construction projects continue to take forever, how are we suddenly going to "build" our way to tariff resiliency?

Using some historic benchmarks for construction timelines can make the current "road cone" landscape seem surprising. It took 26 months to build the Titanic. During WWII, it took 20 months for the U.S. Navy to build each flagship Essex-class aircraft carrier. The Empire State building, still a formidable sight today, only took one year and 45 days. And, with wartime urgency, the Alaska Highway, from Dawson, B.C. to Fairbanks, was built at the rate of 13 miles per day! At that rate, the bike lane mentioned above would now be equivalent to the distance between Vancouver and Sydney, Australia.

It is in this context that I seriously question any proposal or strategy that involves large-scale construction to diversify the Canadian economy away from trade-dependence with the U.S. We could use things like more pipelines, new or wider highway corridors, and port expansions, all needed to get the country's exports to tidewater. Also useful would be upstream development such as mines and energy extraction sites. Or, spurring on capital spending in the private sector, perhaps with tax-related incentives.

However, all of that would likely be impeded by the inability to get things done as fast as they once could. Even before the long slog of construction begins, permitting would need to be reformed at all jurisdictional levels. Otherwise, many impactful projects may not see any shovels in the ground until the next decade.

As a portfolio manager, I have much experience dealing with the reality of these construction constraints when determining how they might impact some of the sectors in which I have been invested. Sectors such as materials and energy. Especially in the area of nuclear energy. And national defense procurement in the Western world has been plagued with such frustrations for decades. The "build, baby, build" response to the tariffs is a great slogan. But I just don't see how all of the tremendous inertia that plagues us is going to suddenly change.

I should also point out that this isn't only a "Canadian" thing. My travels have convinced me that it is a problem with all of the world's developed economies.

Can inter-provincial trade barriers be reformed enough or be repealed to help with domestic economic growth?

The other angle of attack to fight tariffs involves looking into inter-provincial trade barriers, hoping to increase domestic trade to offset a reduction in U.S. trade. I first encountered this topic 40 years ago in university. From a high level it is perplexing as the barriers create inefficiencies which limit the growth potential of the overall Canadian economy.

Back then there were debates discussing their removal. Yet, here we are four decades later and they are still here. My skepticism kicks into gear when I hear suggestions that they are going to be suddenly and significantly reduced.

There are reasons why inter-provincial trade barriers have been entrenched for decades.

Those reasons will be real obstacles to any progress.

One notable reason as to why they exist is to protect employment in various provinces. In many cases, the most economically efficient solution would be to just focus manufacturing or processing in Ontario and to ship outwards from there. However, it is not by accident that places like Newfoundland have multiple large breweries for example. Trying to get smaller provinces to give up on these types of initiatives might be "Mission-impossible."

And it's not just small provinces that want to protect their turf. Ontario, for example, currently has a 72% tariff on B.C. wine (just in case anyone thought that "big beautiful tariffs" were only an American idea 😊).[1] [2]

An irony is that Canadians have a history of tariffing each other.

Sweeping all that away would likely be massively disruptive (especially for "protected' jobs) and potentially politically chaotic.

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A third proposed strategy for fighting tariffs involves opening up or expanding trade with non-U.S. trading partners.

First off, this tends to underestimate just how much trade we do with the U.S. as our transportation infrastructure tends to be aimed in that direction (see the first section above with respect to trying to change that). Trading beyond North America adds significantly to transportation costs (New Zealanders actually have a related saying resulting from their islolated location: "The tyranny of distance").

A desire to diversify Canada's trade away from the U.S. has been discussed for years.

But the alternatives are difficult to establish and are generally less appealing.

Hence why it never really changes.

Then, there is the challenge of negotiating favourable terms with individual countries in lieu of regional trade agreements (which would simplify things but are harder to create). And, we run out of friendly allies fairly quickly, potentially forcing Canada to overlook some of the values that define Canadian society.

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[1] Rob Buffam, "Push to remove interprovincial trade barriers hits high gear." CTV News, February 5, 2025.
[2] Joanne Lee-Young, "B.C. wineries are pressing for removal of interprovincial trade barriers." The Vancouver Sun, February 17, 2025.

So, what will likely be the result of these efforts to fight the tariffs? And how will they impact the decision regarding investments in Canadian stocks?

I don't see many reasonable scenarios where Canada ends up better off than before the tariff escapades. I think most people would agree with that.

There is a real chance that Canada will just need to absorb the negative impact of tariffs.

The bright side is that the tariffs in aggregate could be less than initially proposed.

Reactions from the U.S. markets, U.S. consumers, and potential negative economic fallout appear to have a moderating effect on the extent of tariffs.

With respect to the efficacy of the strategies to fight the tariffs, my sense is that they will have little to no impact over the near- to mid-term. The negative consequences will just need to be endured. I think there will be some consumer behavior changes, such as Canadian minimizing or avoiding travel to the U.S., and substituting U.S. goods for Canadian-made goods (assuming that there are relatively close substitutes). But the potential for economic slowdown and a bump in consumer prices are likely unavoidable.

The good news (and what I wrote about in the February newsletter) is that it appears the tariff bark is worse than its bite. And that has been the case so far where adverse investment market reactions or the spectre of poor economic results have quickly resulted in modifications, pauses, or reductions.

The fork in the road to fortify Canada against the capricious U.S. trade policies probably lies about two decades in the past. The things that were necessary to do this weren't popular enough to gain support. So, we're just going to have to live with the fallout for now.

Since there is not much that can be done to blunt the impact of the tariffs on economic growth, it is unlikely that our managed portfolios will see many Canadian economically cyclical stocks or stocks of manufacturing exporters any time soon.

With respect to Canadian stocks, my sentiments have hardly changed through this episode. The overall allocation to Canada in the model portfolios was already trending towards the lower part of its historical range. Canadian companies that export vital resources like energy and materials will likely get exemptions and could look better on a relative basis to other companies in other industries. But it's probably not a great time to be a Canadian manufacturer where exports are a significant part of the business. So, probably not looking great for the economic prospects of Central Canada. However, I haven't invested in Canadian manufacturers located there for years. Now it looks like I won't for years to come.

Model Portfolio Update[3]

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 or the specific holdings in the model portfolios during April or into the first couple of weeks of May.

No changes to the asset allocations or the individual holdings in the model portfolios over the last month.

Since the U.S. 90-day pause on across-the-board tariffs for most countries, equity markets have been in a "melt-up." Generally, equity markets are up a little over where they were when all those tariffs were announced on April 2, but still down relative to earlier highs. The exception has been international stocks, and European ones in particular, which has been seen as a relative haven this year, especially with the prospect of European defense spending ramping up.

Equity markets have "melted up" since the pause on the Liberation/Obliteration Day tariffs.

There has been much commentary over the past week about the vulnerability of the recent rally and I think the general conclusion that it could hit a rough patch is mostly correct. We are getting back to valuation levels that are hard to justify given the levelling off in corporate earnings. Also, interest rates are remaining stubbornly high enough to be an

But the rally may be getting stretched and too much based on the hope that the pause will be extended.

[3] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of May 15, 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.

attractive investment option apart from equities. Finally, we are heading into a more difficult seasonal stretch of the year which has earned the moniker "sell in May and go away." It could be challenging to get deep into the summer without a volatile market event, or two.

Seasonally, the market is heading into a more challenging time of year.

And U.S. interest rates are remaining stubbornly high as the bond market doesn't seem to approve of the U.S. fiscal budget negotiations.

That, in addition to the possibility of tariff-related inflation, could challenge stock market valuations in the near-term.

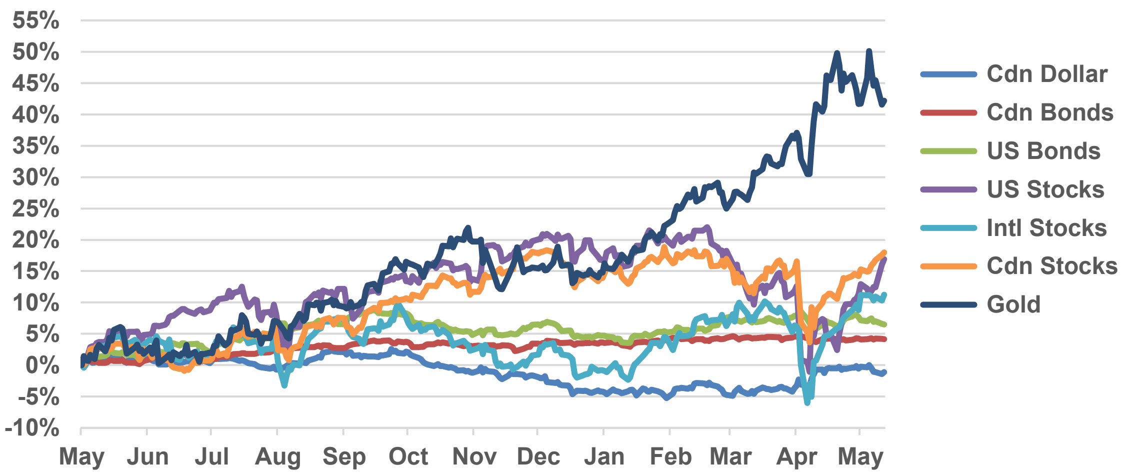
The other lingering concern continues to be the tariffs. The U.S. tariffs on a broad number of countries, and, separately, those applied to China, are only *paused*. The market might be forgetting that. This gets us to early July when the topic is likely to dominate the news again. The pauses could be extended. But who knows? This just adds to the uncertainty that investors will need to wrestle with.

Until then the model portfolios remain significantly in defensive positions in case we get an economic slowdown, and in hedged positions in case we get some tariff-induced inflation to add to the existing underlying inflation. These strategies could be helpful if we do get some market turbulence.

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 1**).[4]

Chart 1:

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



Source: Bloomberg Finance L.P. for the interval from May 1, 2024 to May 15, 2025

[4] 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[5]

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

[5] 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.

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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 May 15, 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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Index returns are shown for comparative purposes only. Indices are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index.

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Thank you from The Charter Group at TD Wealth

Thank you to our clients and community for voting The Charter Group, your favorite for Investment Management and Financial Planning in Langley for the fifth year in a row.

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