

Wealth Management & Capital Markets Perspective



Wealth Management
Dominion Securities

For the clients of Grimes Handscomb Asset Management of RBC Dominion Securities | Spring 2026

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One year of tariff shocks in Canada: What we learned

by RBC Economics

Trade policy from the United States has been highly unpredictable, but the broader economic impact has been less negative than feared on “Liberation Day” in April 2025 when U.S. tariffs escalated dramatically.

Broader global trade flows continued to increase in 2025, and U.S. imports also rose, while the U.S. trade deficit widened slightly despite the measures.

Canada posted its first per-capita gross domestic product increase in three years in 2025, and the unemployment rate moved broadly sideways. Consumer confidence plunged in the spring, but household spending held up and net foreign direct investment was positive for the first time in more than a decade.

Still, under the surface, the impact has been significant. Specific sectors and regions targeted by tariffs have been hard hit.

Consumer spending has been resilient, but business investment softened. And, global trade flows have reoriented dramatically to avoid higher tariffed regions like China.

For all the announcements and noise, economies look remarkably similar overall, but with important distributional changes. The past year also broadly confirmed the world may be resilient to a U.S. trade shock, but Canada is still highly dependent.

We continue to rely on the same playbook we used as tariff threats escalated early last year to assess the fallout with a list of key lessons we’ve learned from a year of trade shocks.

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Global trade mostly carried on in 2025

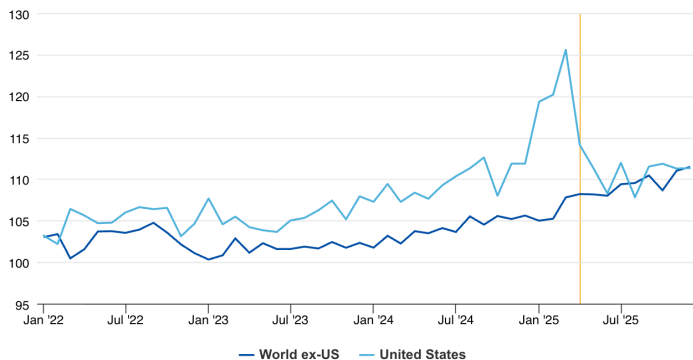
Tariffs imposed during the second Trump administration were not only higher, but also significantly wider in scope than the first time, covering more than 70% of total U.S. imports in 2024 at their peak.

Still, for much of the world outside North America, the U.S. represents a smaller share of exports, ranging from about 30% in Vietnam in 2024 to 15% for China, and 9% for the Euro area. Trade partners outside of Mexico and Canada were much less exposed to U.S. tariffs since they're less reliant on the U.S. consumer market, and more exposed to the 7.9 billion non-U.S. consumers globally.

U.S. imports also remained high, despite higher tariffs. However, the distribution of where those imports came from changed. The share of U.S. imports coming from China fell sharply.

World trade volumes (ex-U.S.) continued to expand in 2025

Trade volume indexes (average of import and export), 2021 weights, 2021 = 100



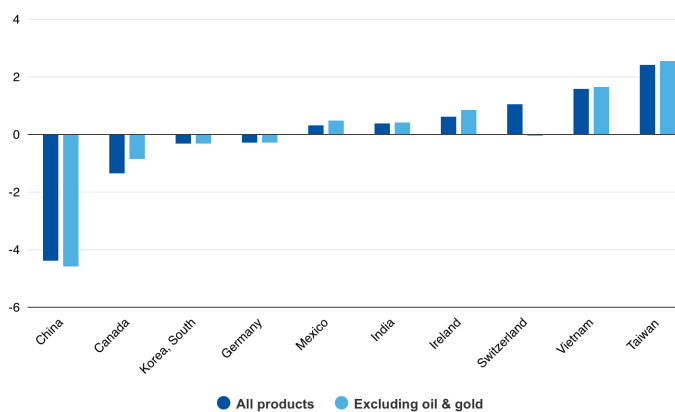
Source: CPB World Trade Monitor, RBC Economics

But fundamentally, a trade deficit represents net borrowing from abroad. With U.S. consumers, businesses and governments still spending more than less, reduced imports from China were replaced with increased imports from other economies—particularly from other parts of Asia including Vietnam, Taiwan, and Thailand. Overall, U.S. imports rose 2.7% (excluding price impacts) in 2025, and the trade deficit widened slightly from 2024 to -US\$926 billion.

This may explain why U.S. tariffs in 2025 have had little impact on global trade despite businesses frontrunning tariff implementation and creating significant volatility in U.S. trade flows. Data from CPB Netherlands Bureau for Economic Policy Analysis shows global trade, excluding the U.S., expanded 4.4% in 2025, nearly doubling from the 2.3% rate in 2024.

Change in U.S. 2025 import share by country

Percentage point change, 2025 U.S. annual imports



CUSMA critical for Canada with trade still heavily sensitive to sector tariffs

The year of trade shocks reinforced Canada's reliance on the U.S. economy as a trade partner.

Almost 90% of Canadian exports to the U.S. remained tariff free in 2025, largely thanks to an exemption for trade compliant with CUSMA. Yet, Canada's share of the U.S. import market edged lower, posting the second largest decline among major U.S. trade partners from 12.6% in 2024 to 11.2% in 2025 after China's drop from 13.4% to 9%.

The subset of Canadian products where tariffs were applied are very high, and have been disruptive. Exports of steel products, for example, fell by 30% in 2025.

But, a decline in Canada's share of the U.S. import market is not new—it's been edging gradually lower for years. And, Canada was able to find alternative markets for some exports. The share of merchandise exports going to the U.S. edged down to 71.6% in 2025 from 75.9% in 2024.

Still, trade between the U.S. and Canadian (and Mexican) industrial sectors are so tightly integrated that even smaller U.S. tariff hikes can add up to a larger cost when imposed on Canada compared to an offshore trade partner.

Tariffed intermediate products from Canada potentially cross the border multiple times in an integrated production chain in a way that doesn't happen to the same extent with offshore partners.

It underscores the importance of maintaining a low tariff rate across the Canada/U.S. border with negotiations to extend CUSMA beyond its current 2036 expiry set to intensify in coming months.

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But that, critically, is also important for U.S. importers. Canada was still the largest import source for 22 U.S. states in 2025, unchanged from 2024, and the second largest overall behind Mexico. As we've argued before, CUSMA offers powerful benefits to both Canada and the U.S.

Canada's muted retaliatory response lowered impact

The federal government's initial tariff retaliation in March only covered about a third of U.S. imports before being repealed by September, except those on steel, aluminum, and autos. This kept consumer prices down, and gave the Bank of Canada (BoC), flexibility to further lower its policy rate.

Estimates from HBS Pricing Lab in conjunction with BoC researchers showed about a quarter of Canada's retaliatory tariff costs were ultimately passed through to consumer prices, but with a relatively rapid run-down of those price increases after most retaliatory tariffs were removed.

Still, the country responded in more targeted and less official ways. Provincial governments have exercised product boycotts, notably around American-made liquor, while federal and provincial governments now have "Buy Canada" procurement policies. Canadians have also utilized their own various versions of Buy Canada, notably in tourism. Canadians returning from the U.S. shrunk 25% year-over-year in 2025 with increased travel within Canada as well as to non-U.S. destinations

Tariff impact is uneven across Canada

The U.S. administration opting to apply tariffs on a minority of Canadian exports—instead of using a blanket approach—has concentrated the impact on specific industries.

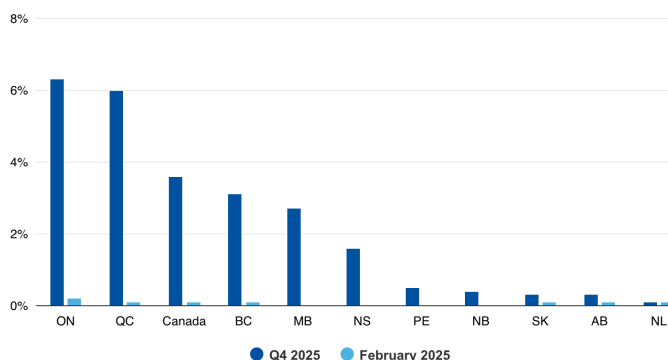
Manufacturers of steel, aluminum, copper and derivative products, motor vehicles and parts, softwood lumber, and a few other items (e.g. kitchen cabinets, vanities) have borne the brunt of trade actions.

Therefore, geographic impact is skewed towards regions where those industries are mainly located. Ontario and Quebec have experienced greater challenges as a result. They have the highest effective tariffs on exports to the U.S., both exceeding 6%.

Newfoundland and Labrador, New Brunswick, Alberta, Saskatchewan and Prince Edward Island—with much smaller bases of affected industries—are at the other end with less than 1% rates.

Average effective tariff rate on exports to the U.S. by province

Based on calculated duties at the HS6 level, scaled by provincial domestic exports to the U.S.



Source: U.S. Census Bureau, Statistics Canada, RBC Economics

Fiscal policy in play as Canada attempts to chart new path

Ongoing trade turmoil has also underscored other economic vulnerabilities in Canada, including lagging productivity growth that makes economic shocks difficult to handle.

There is some evidence businesses are adapting to tariffs via export diversion to other countries. Canada's merchandise exports to non-U.S. economies were up 17% year-over-year in the 12 months to January 2026, while falling 10% to the U.S.

However, Canada's trade relationship with the U.S. is more than a reliance—it's an orientation requiring new supply chains, and major new infrastructure to rebalance goods trade with other regions.

What has shifted in a more discernable way are the policies of governments. The recent federal budget has the goal of doubling non-U.S. exports by 2035, while supporting infrastructure and easing the way for major projects.

We will continue to monitor developments with the upcoming CUSMA negotiations and the potential impact on client portfolios.

Administrative corner

RBC Trusted Partner Portal

The RBC Trusted Partner Portal is a secure and efficient file-sharing tool designed to help accountants and other professionals access client tax documents and account statements, electronically, across RBC Wealth Management (RBC WM).

What are the main benefits of using this platform?

- **Time Savings:** No more downloading and e-mailing documents. RBC WM-generated documents are automatically available on the portal;
- **Security:** Built with RBC’s security and privacy standards, the RBC Trusted Partner Portal uses encryption and multi-factor authentication to protect client data from unauthorized access or misuse, and is much more secure than e-mail;
- **Convenience:** Documents are available on the portal 24/7 allowing Trusted Partners self-serve access at their convenience. The multi-document download feature allows for the download of 200+ documents in less than one minute.

If you would like to set your accountant up with access to the Trusted Partner Portal, please reach out to any member of our team and we will be happy to assist.

Celebrating Laurie's excellence



Laurie has been named the latest recipient of the RBC Quarterly Performance Award, recognizing her unwavering commitment to client service and genuine passion for strengthening our community. Laurie consistently supports those around her, going above and beyond in everything she does.

Laurie's impact extends far beyond her day-to-day responsibilities. She has become a driving force in our branch's volunteer initiatives and community outreach efforts, demonstrating that exceptional client service and meaningful community engagement go hand in hand. We would like to sincerely thank Laurie for her inspiring leadership and for reminding us all of the power of giving back.

Benchmarks

Equity market 12 month trailing return (for month ending March 31, 2026)	
S&P/TSX composite total return index	34.8%
S&P 500 total return (C\$)	14.2%
S&P 500 total return (U\$)	17.8%
DJIA total return (C\$)	8.8%
DJIA total return (U\$)	12.2%
Nasdaq composite price return (C\$)	21.8%
Nasdaq composite price return (U\$)	25.6%

RBC CM Canadian bond market indices 12-month trailing return (for month ending March 31, 2026)	
Short-term index	2.4%
Intermediate-term	1.7%
Three-month T-Bill (C\$)	2.5%
Three-month T-Bill (U\$)	4.1%



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