

The Bridge

From the Office of the CIO

Weekly Market Tides

Weekly Market Tides: Trends to Watch

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CUSMA — what happens now, markets remain resilient, and signs of life in Canada's economy

1. CUSMA: what happens now?

A notable development for Canada last week came on July 1, when the Trump administration declined to extend the Canada–U.S.–Mexico Agreement at its first mandatory six-year review. CUSMA remains in force until 2036. The U.S. decision means the three countries will now review the agreement annually rather than lock in a fresh 16-year extension, and negotiations to update certain provisions are expected to begin in the coming months. Nearly 90% of Canadian exports continue to move under CUSMA rules and remain shielded from broad U.S. tariffs. The sectoral tariffs on Canadian steel, aluminum, autos, and softwood lumber that have been in place since early 2025 remain unchanged, and are expected to be a focus of the upcoming discussions. Canada's stated priority is relief on those tariffs; the U.S. has signalled interest in greater American content in autos and improved access to Canada's dairy market. Canada's former chief trade negotiator has said a deal is unlikely before the U.S. midterm elections this fall. For Canadian businesses, the day-to-day trading environment is largely unchanged from where it stood a month ago.

2. Markets have taken the news in stride

Market reaction to the CUSMA news has been calm. The S&P/TSX Composite closed Friday at a record high above 35,200, with gains led by gold miners after weaker-than-expected U.S. jobs data eased near-term concerns about further Federal Reserve tightening. The Canadian dollar traded softer against the U.S. dollar, which has continued to strengthen following the Fed's more hawkish stance at its meeting last month. U.S. markets were similarly steady, with the S&P 500 and Dow finishing the week near record levels. Two factors have supported the calm reaction. First, the CUSMA outcome was widely anticipated, and markets had priced in the likelihood that the U.S. would decline to extend. Second, oil prices have returned to pre-conflict levels as U.S.–Iran diplomatic progress reduces the near-term risk of a fresh supply shock, easing pressure on both inflation and rate expectations. For Canadian portfolios, the combined result has been supportive: gains in resource-heavy sectors, a Canadian equity market at record highs, and improved returns on U.S. assets when translated back to a weakening loonie. The multi-year nature of the CUSMA negotiations does suggest that trade headlines will continue to periodically move markets in the months ahead.

3. Canada's economy shows signs of life

Alongside the trade news, Canada also received a more encouraging set of economic data. Statistics Canada reported that real GDP grew 0.5% in April, the fastest monthly pace in nearly a year, and a preliminary estimate points to a further modest gain in May. Fourteen of twenty industries expanded during the month, with oil and gas extraction leading the way and construction posting its first increase in five months. The rebound has effectively closed the debate about whether Canada had entered a recession earlier this year. Two consecutive quarterly contractions late in 2025 and the first quarter of 2026 had prompted some to invoke the “technical recession” label, but most economists argued the depth and breadth of the decline were too limited to qualify. The second quarter is currently on track for annualized growth above 2%, ahead of the Bank of Canada's 1.5% expectation. That said, the broader picture is mixed. Business investment has declined for five consecutive quarters, largely reflecting tariff uncertainty. Household debt levels remain the highest in the G7, and inflation is running at 3.2%, above the Bank of Canada's 2% target. The central bank has held its policy rate at 2.25% at five consecutive meetings and next meets on July 15. Markets are pricing in a modest probability of a rate hike by December, though most economists expect the Bank to remain on hold through year-end.

Bottom line for investors

For Canadian investors, the past two weeks have delivered a set of mixed signals. The CUSMA outcome was less disruptive than some had feared, markets have absorbed the news calmly, and the domestic economy is showing early signs of a rebound after a soft winter. However, sectoral tariffs remain in place, business investment continues to lag, and negotiations with Washington are expected to extend into 2027.

The message for portfolios remains consistent. Diversification across sectors, regions, and asset classes helps to maintain portfolio resiliency when the dominant themes shift, whether due to trade developments, currency moves, or changes in the outlook for interest rates. Periods when several major storylines are unfolding at once are usually a good moment to revisit whether exposures remain aligned with long-term goals.

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