Market Update

What the US-Canada trade breakdown means

This past weekend, trade talks between the United States and Canada broke down. Both countries have now put new tariffs on each other's goods, and there's real uncertainty about what happens next. Here's a plain-language summary of what happened, why it matters, and what we're watching.

What happened

On Friday night, US and Canadian negotiators failed to reach a new trade agreement before a deadline. Prime Minister Mark Carney said the US made last-minute demands that were "unfair" and asked for too much.

As a result:

- The US put a 50% tariff (an extra tax on imported goods) on about $20 billion worth of Canadian products, including things like dairy, cement, and hockey equipment.
- Canada announced it will respond with matching tariffs of its own on US goods — including steel, dairy, appliances, farm equipment, paper products, and electronics — starting September 8.

Why this is bigger than a normal tariff dispute

Trade disagreements between the two countries aren't new. What made this one different is that the US also asked Canada to give up some control over its own decision-making, not just adjust tariff rates. Three examples:

- Control over natural resources: The US wanted first rights to buy Canada's critical minerals (materials used in defense and technology), which would have limited Canada's ability to sell to other countries.
- Aligning foreign policy with the US: The US wanted Canada to match US trade restrictions against other countries, which would tie Canadian trade decisions to US foreign policy rather than Canada's own interests.
- Canadian content rules: The US wanted Canada to loosen rules that require streaming services like Netflix to promote Canadian shows and movies.

Canada rejected all three, viewing them as concessions on national sovereignty rather than normal trade terms. That's an important distinction: tariff rates can usually be negotiated down over time, but a country giving up control over its own resources, foreign policy, or cultural rules is a much harder line to cross — which is why this dispute may take longer to resolve than past ones.

Could this be resolved before the US midterm elections in November?

It's possible, but not something to count on. Here's the tension:

- Pressure to make a deal: Tariffs create real, visible pain for American farmers, auto workers, and energy businesses — especially in politically important US states. Roughly 1.4 million American jobs are tied to trade with Canada, and history shows this kind of localized economic pain can push politicians back to the negotiating table.
- Reasons it could drag on: The US has walked away from talks before and returned, and sovereignty-related issues are much harder for either side to compromise on than tariff percentages. Our base case is a longer period of on-and-off tension, rather than a quick resolution.

What this could mean for the Canadian economy

The tariffs themselves cover a small slice of Canada's total economy (roughly half a percent of GDP). The bigger risk isn't the tariffs directly — it's the ripple effects:

- Businesses may delay hiring or investment decisions until there's more clarity, which can slow growth.
- If economic growth weakens further, the Bank of Canada may cut interest rates to support the economy — which can also make the Canadian dollar weaker.
- Retaliatory tariffs can raise costs on some imported goods, adding a bit of inflation pressure at the same time growth is softening.

What this could mean for the Canadian dollar

Before this weekend, the Canadian dollar had actually been strengthening for about a month, helped by strong job numbers and cooling inflation. This trade breakdown is a reversal of that trend, not a continuation of prior weakness.

Most bank forecasts published before the collapse expected the Canadian dollar to hold steady or strengthen modestly through the end of the year. That view isn't necessarily wrong, but it's now competing with a real, live risk: if talks stay frozen through September 8 and beyond, the Canadian dollar could weaken further before it recovers.

Why the US has an incentive to fix this too

This isn't a one-sided story. The US relies on Canada for things that are hard to replace quickly:

- About 90% of the potash the US uses (a key ingredient in fertilizer) comes from Canada.
- Canadian oil, auto parts, and assembled vehicles are deeply woven into US supply chains — meaning US manufacturers absorb costs too, not just Canadian exporters.
- If Canada's retaliation hits politically sensitive US industries like dairy, farming, and steel ahead of the November elections, that pressure could push Washington back to the table faster than expected.

The bottom line

This is a fast-moving, headline-driven situation rather than a settled outcome. We're watching September 8 (when Canada's new tariffs take effect) and any signs that talks might restart as the next key dates. If you have Canadian-dollar exposure, or hold investments tied to cross-border industries like autos, steel, or agriculture, this is worth keeping on your radar — and we're happy to discuss how it might apply to your specific portfolio.
