CIBC

CIBC GLOBAL ASSET MANAGEMENT

Canada-US tariffs: Not enough to derail the Canadian equity outlook

August 24, 2026

Eric Morin, Global Head of Research

1. Context: what happened

The collapse of Canada-US trade talks is disappointing. Negotiations appeared close before breaking down at the last minute, with both sides accusing the other of reopening issues or adding unacceptable demands. Sticking points reportedly included medium and heavy-duty trucks and Canada's ability to negotiate independent trade agreements.

The new US tariffs are significant for affected sectors but narrow at the macro level: 50% tariffs on roughly US$20 billion of Canadian goods, or about 5% of exports to the US. The average effective US tariff rate on Canada should rise by 2.5 percentage points to 8.4%.

2. Economic impact and outlook

The direct economic hit should be manageable. Fiscal and lending support from Ottawa, and possibly provinces, should cushion part of the blow. We expect a net GDP growth headwind of about 0.2 percentage points. The shock could hurt exposed firms and regions, but estimates still point to a micro shock, not a significant macro shock.

For the Bank of Canada, the dispute creates a difficult mix of weaker growth and higher goods prices if Canada retaliates. That should make policymakers more cautious about tightening. We expect only 25 basis points of hikes over the next 12 months, versus nearly 75 basis points priced by markets. The currency message is similar: the Canadian dollar's (CAD) early reaction has been negative but contained, and we still see appreciation over time, supported by Canada's growth recovery and a weaker US dollar backdrop. Near-term CAD volatility should remain high given trade talks and the US-Iran impasse (which is making oil prices volatile).

Our base case is not a permanent rupture. We expect negotiations to resume. We expect a thinner trade deal, compared to USMCA, with certain tariffs remaining in place and more conditions attached. The timing remains uncertain. Canada's delayed retaliation until September leaves a narrow de-escalation window. We still expect both governments to seek a deal, but annual reviews (to the trade agreement) mean trade uncertainty is likely to persist, reinforcing the case for Canada seeking more trade diversification.

3. Why we remain constructive on the TSX

The stock market is not the economy. We maintain our recommendation to be tactically overweight Canadian stocks over the next 12 months.

The Toronto Stock Exchange (TSX) is concentrated in financials, energy, and materials, while tariff exposure is more focused in selected industrial and consumer sectors. Energy and materials are not the main targets, and Canada's commodity and critical-mineral exposure should support cash flows, hedge geopolitical and inflation risks, and diversify portfolios away from tech-heavy US markets.

More structurally, Canadian resource and infrastructure policy is shifting from strategy to execution, creating medium-term equity tailwinds. Allied demand for secure natural resources and domestic investment in infrastructure and defence should lift trend growth by 0.3 percentage points over the medium term and create spillovers for Canadian equities, especially energy, materials, and industrials.

The project pipeline is substantial. Major Projects Office (MPO) projects total nearly C$200 billion, while Natural Resources Canada identified nearly 350 additional planned or proposed natural-resource projects in 2024 worth almost C$250 billion, excluding MPO projects. Canada's plan to raise core defence spending from 2% to 3.5% of GDP, together with Ottawa's commitment to award 70% of defence procurement to Canadian firms, should generate roughly C$150 billion in cumulative support over the next decade for domestic manufacturing, engineering, technology services, and supply chains. Altogether, this pipeline amounts to more than 15% of current GDP.

To learn how CIBC Global Asset Management can help you power meaningful investment outcomes, please contact your advisor or CIBC representative. For more insights, connect with us on LinkedIn and YouTube.

Explore more at cibc.com/gam.