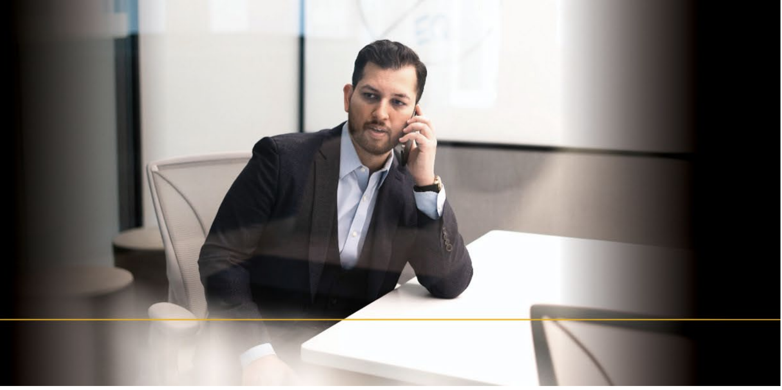
TD Wealth

From the desk of
Adnan Moeed



Chaos Control

April 2025

The other week, almost everyone in the world was impacted by the chaos coming from the White House's 'Liberation Day.' Even the Penguins in Australia couldn't escape President Trump tariff's wrath. Has President Trump not seen Happy Feet? As you can tell, this opinion piece will have a bit of sarcasm but will not be devoid of facts and consideration for the seriousness of the impact of this Global Trade War on economies, businesses, and everyday lives. Furthermore, the intent of this article is not to be political or an endorsement by any means. There's a lot more there that a two-page article cannot begin to cover. Instead, we'll focus on how we got here, what is happening now, and how we are managing portfolios during this turbulent time.

Trumpism

Before we can begin to analyze US economic policy, we have to look at the past and dissect what then President Trump did between 2016-2020. His policies surely weren't seen through, partly due to the largest global pandemic since 1918. But his 'America First' stance impacted Canada, Mexico, and more significantly China. This all revolves around how President Trump came to win his first Presidency in 2016 on his platform of Trumpism. Trumpism is primarily rooted in the 'America First' mentality and Economic Protectionism which constitute the reasons of this trade war. Most, if not all, countries favour their own interest over global cooperation. But globalization helped transform us into a global citizen rather than a Mexican, Canadian, etc. But when America takes a step back from the global citizen stance, it has a greater impact around the world.

Let's not forget who Trumpism's main target was back in 2016 – China.

The China Shop

The main target today remains China, not Canada or Mexico (even though the 51st state comments are extremely poor form for an ally). According to President Trump, China was stealing intellectual property, manipulating currency for exports, and leading the manufacturing industry to the detriment of American workers. To combat this, the US Administration imposed tariffs on Chinese goods, everything from steel to electronics. This led to a trade deal in early 2020. The hope was to reduce a trade deficit for the US (exports minus imports). The reality: COVID happened and an even larger US trade deficit with China developed. You now had people ordering 'stuff online' from their basement on Amazon. Guilty.

Figure 1: Performance Market (Year-to-date)

↓	S&P/TSX Index	23,588	-4.61%
↓	S&P 500 Index	5,363	-8.81%
↓	Nasdaq Composite	16,724	-13.39%
↓	USD/CAD	1.39	-3.43%
↑	GOLD	3,230.50	23.82%
↓	10-YR US Treasury Yield	4.47%	-10bps
↓	OIL	$61.50	-12.27%

Source: Factset. As of April 11th, 2025.

The China Shop today is bigger for the American consumer. So, how do you make this shop smaller for America? All roads point to a new trade deal, and tariffs as the tool to bring the Chinese to the table. The question for President Trump's economic team is how much of a tariff should be applied?

President Trump Math

If shock and rationality ever met at the same time, it would be when President Trump takes the podium. It was on full display when the US President unveiled his 'Global Tariff' chart. Let's discuss this in three parts: 1) What is a tariff; 2) How President Trump calculated the tariffs; and 3) Why every country was given a tariff?

First; Tariffs are a government tax on foreign products, or import tax. It is paid by the domestic business importing the product once it reaches the border. What impacts these tariffs are debatable, but Economics 101 point to a rise in price levels for consumers.

Secondly, let's discuss the math used by President Trump's team to determine how much of a tariff (import tax) to levy on each country. This is where it gets interesting. They took each country's trade deficit (exports minus imports) and divided it by how much they export to the US. In other words, the US economic tariff policy is saying – 'Country Y, you send us X percentage of extra goods, so we're going to tariff you by that same amount'. This in many circles is what they teach you in elementary school math – how to solve for X. In university economic class, you are taught to solve for X considering multivariable factors like interest rates, currency and inflation. In university advanced level economics, you solve for X considering

Adnan Moeed, CIM®, B. Econ. (Hons)
Associate Portfolio Manager
TD Wealth Private Investment Counsel

multivariable factors on top of multivariable factors like price elasticity, game theory, fiscal policy. If you unpick President Trump's team formula, they used elementary school math.

Lastly, why did he hit the Penguins and every other country in the world? He's targeting China here saying you can't bypass your country's tariff by opening a plant in Vietnam and exporting your products to the US. This is what took place in the previous Trump presidency years where China would create plants in Southeast Asia and transport products to the US from there. In that instance, China would reap benefits of low-labour costs, no to low tariffs, and ease of transportation to the EU and US. Chinese companies even opened auto part plants in Northern Mexico to benefit from the USMCA trade deal.

There's your shock and rationality nexus.

Frenemies

Unfortunately for Canada, we were not sparred but there is a lot of work to do in mending our recent toe-to-toe rivalry. It would have made a good story or even TV show if it was fiction (see Canadian Bacon), but never have we seen our close ally threaten our sovereignty both politically and economically. The main impact to Canada will be on Federal election as trade policy will be front and centre. It is hard to gauge how the Canadian economy will deal with these tariffs until we know which government comes to lead the nation. More to come on that front but early days say we are taking a 'Team Canada' approach and uniting – Canada has launched over $155 billion in counter-tariffs. Regardless, most can agree that the current and potential future Federal government is much better equipped to deal with a trade war and a Trump Administration than the previous one.

A Gamble

We know President Trump is businessman and businessmen take calculated risks all the time. But they can gamble. And this tariff gamble by President Trump's team is not against the 'house', it's against globalization. In other words, they have taxed the hell out of global trade. The outcome of the trade wars can be one of two starting with a worst-case scenario:

Global Recession: Businesses and countries around the world suffer from elevated inflation, potential rate hikes, increased unemployment leading to strained international relationships. The markets continue to be volatile, and the American consumer is worse off because that Apple iPhone is now made in Buffalo (not Beijing) and costs $2,000.

Optimistic Protectionist: The US uses tariffs as leverage for new trade deals with China leading to trillions in import tax revenue. This allows President Trump to focus on a pro-growth, lower taxes, and deregulation agenda. The result is a booming American economy while markets move to all-time highs before the mid-term elections in November 2026. Good for investors and the wealthy, but potentially devastating for the low to middle-class in countries around the world. Someone will need to pay the import tax.

New Order, New Opportunities

What our team won't do is gamble in our portfolios. We prepare for the worse but have faith in the markets for the long-run. By staying disciplined and seeing opportunities ahead, we've positioned our portfolios to take advantage during this critical time:

- **Equities:** We are still underweight equities in our portfolios but have been adding to global equities on the backdrop of the global trade war. Valuations have adjusted and are more favourble. Canadian equities are expected to have tailwinds from future rate cuts and an expected trade deal with the US.
- **Fixed Income:** With several rate cuts on the horizon, we added to our existing Private Debt and Mortgages holdings to capture additional yield. This also provides diversification with interest rate volatility due to the trade war.
- **Cash:** We have been holding a higher level of cash over the last few months in anticipation of a market correction. We will be putting this to work in our client's portfolios as these global equity valuations become more favourabale and the backdrop changes.
- **Real Assets and Commodities:** Rising risk of the trade war triggered our team to add to Real Estate, Infrastructure, and Commodities over the last few months. This increased the diversification and durability of the portfolio.

Big Picture

As I said, there's a lot we can dissect, and no two-page paper can cover it all. So why am I writing this piece now instead of before the tariff announcement you ask? It is due to the unpredictability of the Trump Administration and their policies. Until we have facts and figures, it's difficult to make a prediction – most of the time it's obsolete before it prints. What history does tell us is that we've been here before and the markets adjust to the new normal. Our job is to worry about the finer details, investment process and risk management for you.

It will be a bumpy and volatile time but trust us to manage the chaos for you.

Top Interesting Pieces

1. Where the word "tariff" came from? – LinkedIn Post
2. The importance of an investment process when markets turn volatile - MoneyTalk
4. 2024 taxes: What you should know before filing this year - MoneyTalk
3. Bruce Springsteen to release seven 'lost' albums in June – The Guardian

We make the uncomfortable feel comfortable.
-Adnan Moeed

Adnan Moeed

Associate Portfolio Manager

TD Wealth Private Investment Counsel

Tel. 416.994.3980

e-mail: adnan.moeed@td.com

We make the uncomfortable feel comfortable.

-Adnan Moeed