



[00:00] [Andrew Johnson] [AJ] Hi, everyone. For over 30 years, Canadians could more or less take free trade with the U.S. for granted. And now that's no longer the case.

After Liberation Day in April 2025, tariffs went up on both sides of the border. And this summer, trade talks broke down at the 11th hour of renewing our wide-ranging trade agreement between our two nations. Clients have been asking us what this means for their portfolios, and that's the question we want to tackle today.

We'll also look at last month's Canada Investment Summit, and whether Ottawa's push for new investment changes the picture. I'm joined by two colleagues who come at this from different directions.

Crista Caughlin leads our Canadian fixed income team. She spends a lot of time thinking about the big picture, things like the economy, the Bank of Canada, and credit markets.

Vijay Viswanathan is the lead portfolio manager on our Canadian Large Cap Equity Strategy. While he certainly takes the macro picture into account, he also spends his days looking at individual companies from the bottom up.

So, with that, let's get into it.

[01:03] [Disclaimer] This podcast is for informational purposes only. Information relating to investment approaches or individual investments should not be construed as advice or endorsement. Any views expressed in this podcast are based upon the information available at the time and are subject to change.

[01:19] [AJ] Crista, Vijay, thanks for doing this. Let's jump right in. Crista, I'm going to start with you. Put the last year in context for us. What's the biggest difference between the trade fight of 2025 and where we are now?

[01:33] [Crista Caughlin] [CC] Thanks, Andrew. There are two differences, and they're working in opposite directions. One of the biggest differences is the starting point.

When we started 2025, growth was slowing, inflation was slowing, the central bank had been easing, and then the trade shock hit. The Bank of Canada was able to ease, just given where we were, because inflation was slowing, because growth was slowing, they could ease and cut off some of that downside tail that was happening from the trade conflict.

If I think about where we are today, we're going in the opposite direction, so inflation is actually moving higher, mainly due to oil, but it is grinding higher.



Growth has arguably bottomed and has been moving higher the last few months. It's harder for the Bank of Canada to cut rates today to help us weather any trade-related storm. In fact, not only is it going to be challenging for them to cut rates, they're likely to hike rates here, just given the direction of inflation. That's one major difference.

The other difference really is time. In 2025, we were hit with a trade shock, and it really was a shock. We talked about the direct impacts and the indirect impacts. Over the course of the year, it was really that indirect impact on growth, that uncertainty channel, that caused growth to slow. Business uncertainty caused them to slow down spending, and consumer uncertainty caused them to slow down spending.

That uncertainty still exists today, so I don't want to be dismissive of it, but I do think we've learned a lot over the year. We've learned that the 50% tariff headline number isn't exactly what we experienced, USMCA held up.

We've learned that our businesses can adapt and are adapting to this trade volatility world, and we're learning that our government's helping to support investment but also helping to open other channels. That uncertainty, I don't want to dismiss it because I do think it exists, but that level of uncertainty seems a little bit less today.

When I think about the differences, one is the Bank of Canada can't ease, and they might actually have to hike. And two, the uncertainty around the shock may have been, all else equal, slightly lower.

[03:37] [AJ] Vijay, same question from your seat. When you talk to management teams now, what are they telling you that's different from what you were hearing in 2025?

[03:45] [Vijay Viswanathan] [VV] When you go back to 2025, when this first came out, most people we would have conversations with, from a management standpoint, would have said, "Hey, this is a negotiating ploy. This will pass. These are just two longtime friends having a disagreement."

Essentially, what has fundamentally changed over those 12-months is the general thinking is that it's probably going to persist in some form, but we're not going to sit here and do nothing about it, and hopefully get a deal done. The base case for most management teams is cooler heads will prevail. There'll be some type of either trilateral or bilateral deal, but we're not going back to the way things used to be.

That has been a big change, and that's at the company level. I know we're going to get into this later in the pod, Andrew, on stuff that's happening at the policy level. What's changed in the last 12-months? Everything has changed. I'm excited to be back on the pod, by the way, and to talk about those.

[04:43] [AJ] That actually leads into something that I wanted to ask you specifically, Vijay. In previous episodes, you told us about how half the portfolio's revenue came from outside Canada, most of it from the U.S. So how exposed is a Canadian equity portfolio to these types of changes?

[04:59] [VV] One way of looking at it would be just currency, based on revenue. A little over 45% of the portfolio would be Canadian dollar denominated from a currency standpoint. A little over 30% would be U.S. dollar, and then the rest of the world. What's important is really thinking about the dollars of revenue that's trade exposed.



When we went through that fire drill — it wasn't even a fire drill, it was a fire alarm — back in 2025, and we've gone through it subsequently pretty much on a weekly basis.

The portfolio itself, Canadian equity, does not have a lot of exposure from a trade-exposed revenue standpoint, mainly because any of the stuff that might be exposed is still very much exempt, because it's hard to substitute the products. It's not a surprise that oil and potash and other large bulk commodities like that are exempt. It's not something that's material or something that we're worried about within the portfolio.

[05:52] [AJ] One of the frameworks for thinking that we've used in the past when we're faced with these seemingly complex adaptive environments, like cross-border and global trade, is to think through the first, second, and third order effects.

In this case, the first order would be the actual tariff, the direct cost on things. A second order could be the shifts in which companies might be more or less competitive. Then perhaps a third order might be just the impact on how consumers, businesses, and maybe governments behave going forward.

Vijay, I'm just going to stay with you again. How are you and the team thinking through all of those?

[06:30] [VV] That's a framework that our colleague Dominic brought up on a [pod a few weeks back](#). It's a great framework of looking at things first order, second order, and third order. I think you've nailed it. The first order is a tax on everything, or whatever would be considered tariff.

The second order impact is, it can change the competitive positioning of a company. In Canada, for example, if you were an exporter and you had manufacturing facilities in Southern Ontario or Southern Alberta, or wherever, and you're exporting all your stuff to the United States (that's your customer), that is going to be problematic in this type of environment, because it can be tough to compete with a U.S.-domiciled competitor. That's the second order.

Where I think it makes sense to spend more time is on the third order impact. And that's these big structural changes that happen. Capital reallocates, supply chains change.

Where we were in 2025, when Four Nations Cup (NHL) was going on, that was when we were going through the first order, maybe second order. We're already at third order and shifted from structural changes that are happening. And it's really about where are the opportunities and the threats with that. That's how we're thinking. And that third order piece really is about reindustrialization.

All of the announcements that we've seen over the course of the last two or three months, including one today, we're taping this on October 1. There was an announcement today that an oil pipeline out west, will be submitted to the Major Projects Office. That's where we're at. That's the reality of our situation at current state. And so that's where we're focused.

[08:07] [AJ] Crista, how does something like this work its way into the bond market? Where are you looking first?

[08:12] [CC] We have a similar way of thinking about it. We maybe use slightly different terminology. We're



thinking about the direct impacts to growth and inflation as well as the indirect impacts.

Clearly, the direct impact is higher prices. That's going to have an impact on central banks. Then the question is, will the second order effects, or will those indirect impacts, have an opposite effect on inflation? Will there be demand destruction? Will demand slow enough that it'll be deflationary?

What we learned over the last year is that there will be a slowdown in demand, if the last year repeats itself, but the price effect—those direct impacts—seem to be more prominent right now.

We're thinking about it in terms of what will the central bank do next and what will inflation do next?

[08:59] [AJ] I'll put you on the spot. What are they going to do next?

[09:02] [CC] Inflation is moving higher, and those direct impacts seem to be having a greater effect. Now, inflation is moving higher due to oil as well, but if you do get some immediate impact to inflation through tariffs, it's just going to be compounding the impact to oil.

And that's going to cause central banks to continue hiking.

[09:21] [AJ] One place where your two worlds meet is with the banks here in Canada. Vijay, your team has noted recently that loan losses tend to follow job losses. Crista, obviously, bank debt is a big part of the Canadian bond market.

Currently, unemployment seems stable. It's okay. I think it's below the long-term average. But if we do see that rise through a period that we're going through like now, how does that play out for each of you?

Crista, I'll start with you.

[09:50] [CC] Sure. If you are getting unemployment rising, you're getting loan losses increasing. First off, spreads are going to be widening. That's true for bank bonds, but it's likely true for the credit market more broadly. I will say, and Vijay will probably talk to this a little bit more in depth, but banks are going into this from a position of strength. They've been building reserves, and provisioning has been steady.

On our side, in our strategy, we do own bank debt, as you mentioned, but it's the most senior part of the capital structure. The risk of default there is extremely low.

The second impact, and offsetting that, is rates are likely to fall. Again, job losses, unemployment increasing—and that's growth slowing, likely turning negative. In that environment, you're going to get a central bank that's cutting rates. And so you'll get wider spreads on the one hand, but you'll get lower yields, which will really help on prices.

Overall, the high-quality fixed income portfolio will likely hold up pretty well in a scenario where unemployment's rising.

[10:50] [AJ] Vijay?



[10:51] [VV] I've obviously been involved in Canadian equity for almost 20 years now, looking at banks for pretty much that whole time. I've been part of that whole 20-year journey. Every time we talk to bank management teams, they always ask what's the most important KPI we should be monitoring? And it's always unemployment. That's the biggie, so it could have a significant impact on the bank.

It's a cyclical impact. It's not structural to the overall long-term earning potential and compounding of a bank over a 30- or 40-year time period. But in a certain cycle, absolutely. That's the biggest thing to monitor, and that's a big risk to them.

What are some of the offsets for the banks? Diversified loan book. What else is mitigation for the banks? The banks have changed. Their overall business mix has changed since the last cyclical downturn. They're more diversified. They have large wealth management businesses. They would have large capital markets, franchises, and other segments as well. So they're more resilient. They're probably misnamed. They shouldn't be called banks. They should be called financial conglomerates.

But unemployment is the risk that we are monitoring and watching. It's definitely one we will be paying attention to, especially as it pertains to tariff-exposed industries. Southern Ontario is a large manufacturing hub, and there could be some risks there, although there'll probably be some government support as an offset.

The other one out there, which I know we're not talking about, but I think will be out there, is what happens with the unemployment rate as we see the proliferation of AI. And what that does potentially on job losses.

Obviously, we haven't seen any of that yet, but that is something that has been top of mind for us. And for that matter, is something, when we've talked to bank CEOs, that's the risk that they would cite more than trade-related tariff risk as it pertains to unemployment.

[12:40] [AJ] It's a huge wildcard out there. Last fall, you talked about the risk of overreacting, but also said at the same time, standing still isn't a plan either. And you alluded to that in your earlier comments. How are you balancing those two right now?

[12:54] [VV] I don't think much has changed since the last time we talked about this. Ultimately, it's called Mawer Investment Management, not Mawer trading management. We're investors, we're not traders.

And when there's new news, when things happen, there's volatility in the market, there may be good reason for that and opportunities to act. But to react blindly on headlines and to trade on every headline these days is exhausting.

First of all, we're grounded in our philosophy and our process. And ultimately, if there's a piece of news or a change that puts the thesis in doubt, well, we should make a change. And if there's a change that reinforces the thesis, well, maybe we want to make a decision to change that way. But ultimately, it's the same as it ever was and it's always grounded in our philosophy and our process.

One other thing I'd add, Andrew, on the day-to-day volatility in the markets, at least from my perspective over my



20 years doing this, is there's significantly more volatility in equity markets than what I previously experienced. Some of that might just be the times and how ready information is, or real-time information, especially on X and other sources.

I think there might be something else structural, which we've talked about on previous pods, the proliferation of passive investing and algos. So there's just a lot more volatility, in my opinion, on a day-to-day basis, which is another reason to stay grounded in our philosophy and process, so we aren't getting in a situation where we're going all over the place with the portfolio, that we are sticking to our roots of being long-term investors.

[14:31] [AJ] So before any of these tariffs went into effect, Crista, you actually made a point on this on a previous episode that I keep coming back to, in that if it's easier and cheaper to build a new plant in the U.S., for example, then that's where companies are going to build it.

And last month, the federal government seemingly went after that problem head-on. It hosted the first [Canada Investment Summit](#) with some of the world's largest investors in the room and announced a range of policy changes aimed at making Canada a much more attractive place to invest. And the summit was pitched, it seemed, mostly at foreign capital, but I think a lot of these changes could unlock a lot of domestic capital as well.

I want to pivot to looking at what these announcements might mean for both Canadian bonds and equities. Let's just start with some very quick first reactions. What stood out from the summit? What did you think was missing?

Vijay, maybe I'll go to you first.

[15:28] [VV] When you asked the first question about what was different, and I said, "everything" ... the summit is a game changer. Flat out, it's a game changer. And we've talked about this internally: what do we need to create wealth within a country?

There's lots of different things. We need capital. There's always been lots of capital, even domestically. And I know this summit was pitched to attract foreign capital as well. There's lots of it out there, lots domestically. We've always talked about, when we've had the opportunity to get in front of policymakers, that we need to create the necessary conditions to attract that capital.

[16:03] [AJ] Crista, question to you.

[16:05] [CC] In terms of my reaction, the other thing that I thought was really positive was the focus on tax and regulation. It's not just about raising capital and spending. It's about creating the conditions to make it an attractive place to invest.

[16:18] [VV] We are the luckiest people in the world. Obviously, I'm a very proud Canadian. We've got some of the best dirt and land in the world. We have all the stuff that the world wants. We've got the projects. What was missing was the necessary conditions to attract that capital.

And I think the summit made all kinds of headway in selling that, pitching that, and then partly creating those



conditions to attract that capital, all of these projects that we have.

[16:45] [CC] I'll put a bit of a damper on it. We talked about, or we learned about, Vijay mentioned a pipeline, I think Pacific Link oil pipeline. It was deemed a project of national interest, suggesting it's going to go through the approval process a lot quicker.

My understanding is it's still not expected to get approved until the end of the year. So shovels in the ground probably early 2028. It's going to come online, I believe, in 2032.

And so this is a game changer from a long-term productivity perspective, a long-term growth perspective. But if we're thinking about some of the near-term impacts, particularly on the factors that I look at or think about, which is growth and inflation and central banks, it's probably going to have less of a near-term impact.

[17:29] [AJ] You can always count on our bond colleagues to put a damper on things, as you said.

[17:35] [CC] It's what I am here for!

[17:37] [VV] That's the power of teamwork right there, Andrew. We have to have yin and yang.

[17:42] [CC] It's a game changer, but.

[17:43] [VV] It's a game changer, but. I love it. And I totally agree with what Crista's talking about there. It's a game changer that we have this willingness to do. But to her point, this stuff is down the road. And there's lots of ebbs and flows between now and then.

[18:00] [AJ] Talking about the near-term and the long-term, one of the big announcements was a new tax deduction for business investment. Companies are now going to be able to write-off most new investment in the year that they make it rather than spreading it over many years. It's estimated that that brings the effective tax rate on new investment down well below that of the U.S.

Crista, that goes back to the point that you made in prior discussions about companies building their next plant wherever it's easiest and cheapest. This might be an obvious question, but does this change that calculation?

[18:32] [CC] It definitely changes the cheaper part. The easier part is maybe yet to be determined, but it's hopefully going to change the easier part. When I made those comments, it was in early 2025, and we were concerned that tax cuts and deregulation in the U.S. were going to pull investment down south.

On the tax side, that's clearly reversed. You've mentioned the new tax rate on investments is closer to 6% versus 16% in the U.S. Having said all that, I do think market access is going to be a concern for businesses still. I think Vijay alluded to this earlier in the podcast.

If you're debating opening a plant in Canada or the U.S. to service customers in both countries, the auto sector, for example, the lower tax rate doesn't really help if you're against meaningfully higher tariffs. And so there is a bit of market access that still could constrain some investment. However, for sectors that service domestic or non-



U.S. markets, data centers, pipelines, and ports, it's definitely going to be a more attractive place to invest.

[19:33] [VV] I think that's super important, Crista. I don't think we should delude ourselves into thinking there's going to be a whole bunch of capital that's going to come to Canada, set up facilities to then export to the U.S. That's not going to work. I don't think that would actually be prudent capital allocation.

At minimum, it's going to be good for Canada just if capital doesn't leave Canada and go down south. So ultimately it's almost like competing to keep our own capital here. The cherry on top is get some foreign capital to come set up stuff.

[20:01] [AJ] Good point. Crista, the government's target is a trillion dollars of investment, I believe, over five years. And much of it's going to be in long-life projects. You mentioned pipelines, LNG, power grids, airports, etc.

A lot of that's going to be financed with debt. So what does that all mean for the Canadian bond market?

[20:19] [CC] It's definitely going to be a lot of debt coming to the market. I think it's going to be financed through a number of different areas. It'll be government spending, increased deficits.

But as you know, we're looking for private investment as well. So that'll be the corporate bond market. Banks have already committed funding. There are large pension and infrastructure funds that have committed money. But I do think it's clearly a lot of debt, and again, it's going to be over time. It's not a trillion dollars tomorrow. It's probably over the next 10-years, if we are successful at implementing.

But I do think we still have to ask the question: can the market absorb all of this new debt, particularly when there's another sector that's also increasing their balance sheets materially, the hyperscalers and the AI spend?

And true to form, I'm going to say that the answer is the market can absorb it, but. So it's a yes, but!

There definitely could be a crowding out effect. And this is something that I think we need to watch. You could see people selling one asset to buy some of these deals.

If you see that, you're likely to see some volatility in spreads. In general, we have seen that a little bit through some of this AI issuance and hyperscaler issuance. As you see that volatility in spreads as the market digests all of the new issuance, the tail risk that exists is that volatility seeps out to the rest of the market.

It causes a full risk-off environment. And that clearly could have negative impact on growth through tighter financial conditions.

[21:45] [AJ] Vijay, you mentioned Dom on the podcast earlier this year, maybe a couple of months ago. So Dom, for everybody, is from our Canadian small cap team, he was on the podcast. He made the point that builders and suppliers tend to benefit during the construction period, but owners are going to benefit over the long run.

A lot of the summit was about who gets to own these assets. So where does that leave a public equity portfolio?



[22:06] [VV] There's going to be lots of different companies in a well-diversified portfolio like Canadian Equity. I think specifically if you tie it in to takeaways from the summit, we're going to have, and we do have, a mix of both.

As Dom talked about, builders or suppliers, those can be equipment companies like Finning and Toromont that are providing the shovels and the Caterpillar equipment essentially that we're going to be needing to build a lot of these projects that we're hoping to build and at least talked about.

Then on the owner's side, we want someone like Brookfield that owns real assets. Both have their place in the portfolio. The valuation can be a great equalizer between the two, if I want to just generalize the two different buckets.

But there's a place for both. And I would say the portfolio is probably more tilted towards owners of these assets over the longer term versus the more cyclical builders, but we've got both.

[22:54] [AJ] We got a 'yes, but' from the bond team. We got a 'yes, and' from the equity team. That's how you build a diversified portfolio.

Maybe just to transition into the final question that I wanted to ask both of you, which is, 12-months from now, what would you want to see to say that the summit actually delivered on its potential?

I'll go with Crista first and then we'll go to Vijay.

[23:14] [CC] Sure. I'm going to keep this answer short and sweet, and it really is boots on the ground, effectively shovels in the ground. If it's really going to be successful, in a year from now some of these projects are going to have gotten through the regulation and started.

[23:27] [VV] Crista and I are in alignment. Honestly, what we need to see in 12-months, shovels in the ground is vital to all this. I'd say shovels in the ground, not sound bites on TV. And it's not lost on me that that is a sound bite, that I just said.

But let's wait and see. If we're not going to seize this moment, when are we going to seize it as a country? And my story in all this is, this is our moment. I hope that we do seize it. It seems like we are taking the steps in order to take advantage of the moment.

[23:59] [AJ] Doing all the right things. Now we've got to go play the game. I think that's a great place to wrap things up. Both of you have given all of us a better way to read the headlines as they come in over the next few months and likely years, and I really appreciate it.

So Crista and Vijay, my thanks to you both.

[24:15] [CC] Thanks, Andrew.

[24:15] [VV] Thanks for having me.



[24:16] [AJ] Hi, everyone, Andrew here again. To subscribe to The Art of Boring podcast, go to Mawer.com. That's M A W E R dot com forward slash podcast, or wherever you download your podcasts. If you enjoyed this episode, please leave a review on iTunes, which will help more people discover the Be Boring, Make Money philosophy. Thanks for listening.

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