Franklin ClearBridge Canadian Equity Strategy Update

April 3, 2025

On April 2nd, dubbed “Liberation Day,” U.S. President Donald Trump announced a 10% minimum baseline global tariff with higher individual reciprocal tariffs on various countries. Threatening to snarl trade and abruptly impact global growth, the magnitude of global tariffs caught equity markets by surprise, with the S&P 500 declining 4.9% ($USD) and the S&P/TSX Composite declining 3.8% on April 3rd.

At the same time, OPEC+ announced an increase in oil production, surpassing their previous May quota, which contributed to a sharp decline in oil prices.

In Canada, communication services (+2.0%), consumer staples (+0.7%), and utilities (-0.6%) were the strongest performing sectors on the day and information technology (-12.7%), energy (-4.6%), and financials (-3.1%) were the worst performing. Stocks with noteworthy percentage declines on the day were Aritzia (-20.4%), Shopify (-19.6%), and Celestica (-17.5%).

The tariff impacts for Canada and Mexico were “better than feared”, as no retaliatory tariffs were announced. United States–Mexico–Canada Agreement (USMCA) compliant goods remain exempt, while non-compliance is subject to a 25% tariff on all goods and commodities from Canada, except for energy and certain resources where non-compliance is subject to a 10% tariff. De minimis exemptions were also eliminated, affecting consumer discretionary industries that directly export to the United States. Canada has responded with reciprocal counter tariffs of 25% on US-made automobiles not compliant with USMCA.

The tariffs are a undoubtably a headwind to global growth. The potential for tariff-induced recessions has extended beyond just North America and will have impacts on global GDP growth, unemployment, inflation and interest rates. The first-order effects of tariffs will include decreased competitive standing for companies importing into the US, likely leading to inflation in necessary goods and a decrease in discretionary spending. However, uncertainty remains high and is still unfolding, as the U.S. will likely face retaliatory tariffs from trade partners globally. One of President Trump's stated goals is to boost U.S. manufacturing investment ("onshoring"). However, the success (both in terms of magnitude and timing) of capital formation remains uncertain, as companies may hesitate to allocate resources to the U.S. due to the longer-term nature of capital projects and the comparatively shorter duration of Trump's presidency.

Continued…

Franklin ClearBridge Canadian Equity Strategy Update

In managing the ClearBridge Canadian Equity strategy, we consistently work with imperfect information and assess uncertain outcomes. When risks are heightened, probabilistic thinking becomes even more valuable in evaluating the range and likelihood of various future scenarios, directly impacting risk/reward assessments. Typical concurrent volatility in these circumstances can present exceptional opportunities. Recently, including on April 3rd, we have been increasing our investments in equities that have faced significant pressure due to tariff concerns, particularly in sectors such as energy, materials, industrials, and information technology. Conversely, we have been selling stocks in sectors that have shown resilience, such as consumer staples and utilities. Our performance objectives guide our decision-making, ensuring resilience in volatile markets. While we prioritize predictability and downside protection, we remain opportunistic, leveraging market inefficiencies. Tariff uncertainty is another factor that can cause these inefficiencies, and we will continue to monitor the situation closely, and take advantage of opportunities that arise.

Franklin Templeton Canada
200 King Street, West, Suite 1400
Toronto, Ontario, M5H 3T4

(800) 387-0830
www.franklintempleton.ca