

# From the Desk of the Public Equities Team



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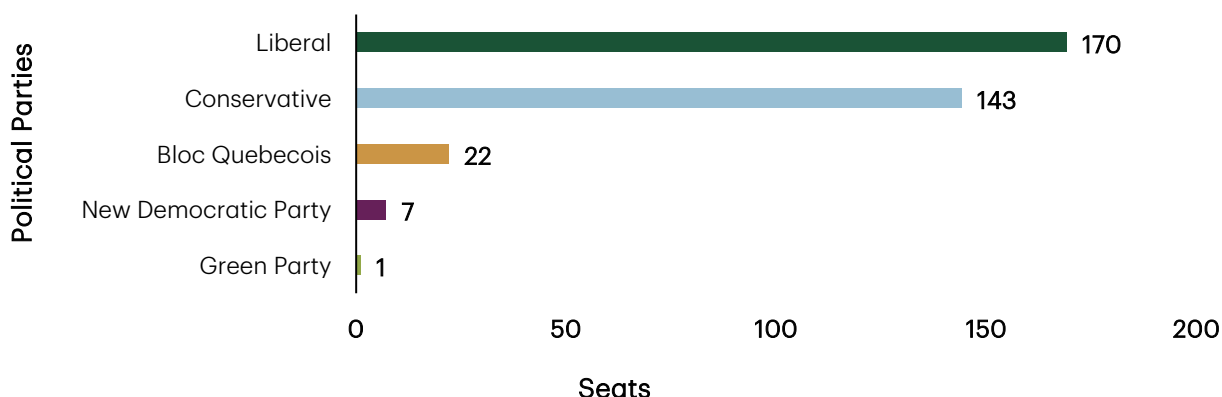
## From Polls to Policy: What the Results Mean for Canada's Economy

*On Monday, April 28, the 2025 Canadian Federal Election was held and the Liberal Party won and continued as a minority government, marking the fourth consecutive Liberal government. While Canada attempts to absorb the tariffs imposed by U.S. President Donald Trumps' administration, ultimately, the country's economic fate will rely on its government, led by Prime Minister Mark Carney, to steer it through the unpredictable environment.*

### Q1. Following the Liberal Party's victory, what does this outcome suggest about the current political climate in Canada?

The Liberal Party came very close to winning a majority government, just two seats short of gaining over half of the seats in Parliament. As seen in **Chart 1**, Mark Carney's Liberal party won 170 seats but required 172 seats for a majority government. The Conservatives remain in opposition as the second-largest party with 143 seats.

**Chart 1: Canadian Election Results, 2025**



Source: Bloomberg, Canadian Election Live Results 2025, as of May 13, 2025

Although a majority government for either party would have been the ideal outcome, in the portfolio advisor's (we, our) opinion, the election result was the second best outcome,

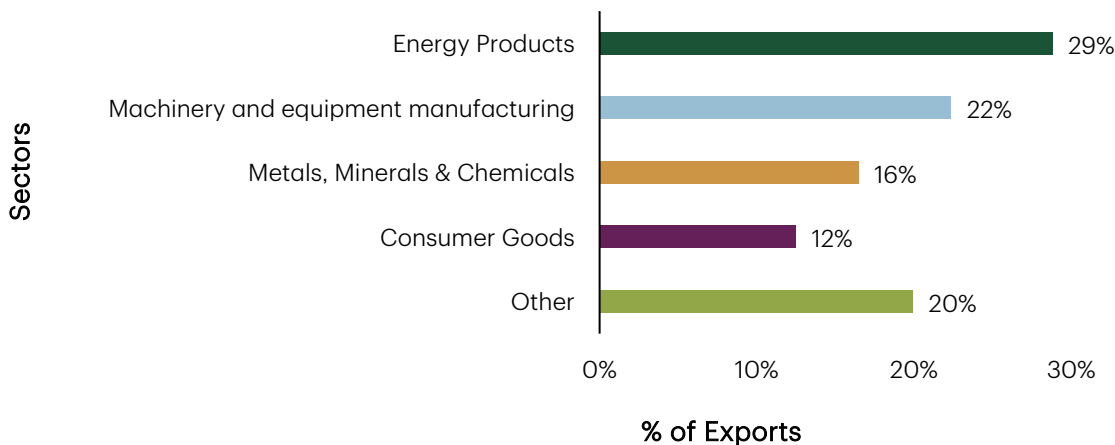
which is a very strong minority government. However, the Liberals will have to rely on support from other parties to pass legislation moving forward.

We believe that there is common ground among most Canadian politicians in response to Donald Trump's tariff threats; whether it is to lower taxes, increase military and infrastructure spending, eliminate the consumer carbon tax or to eliminate interprovincial trade barriers. The Liberal party can also focus on moving forward with a very strong mandate to diversify trade away from the U.S. and increase capital and investment in Canada, which is severely needed.

**Q2. In light of ongoing tariff pressures, to what extent is the Canadian economy at risk of entering a recession?**

As of 2024, over 75% of total Canadian exports were transported to the U.S. As seen in **Chart 2**, of that 75%, Energy accounts for almost 30% and Machinery and Equipment about 20%, Metals, Minerals and Chemicals account for approximately 16%, all highlighting the interdependence of our economies with Canada being one of the largest exporter and trading partners of the U.S.

**Chart 2: Canadian Exports to U.S. by Sector, 2024**



Source: Statistics Canada. Table 12-10-0179-01

Although President Donald Trump has announced a 90 day pause on reciprocal tariffs, there are tariffs in effect in Canada which include 25% on steel and aluminum, 25% on United States-Mexico-Canada Trade Agreement (USMCA) non-compliant goods, and also 10% on critical minerals and energy.

Therefore, tariffs imposed by the U.S., will put pressure on the government to make important policy decisions to combat the impact of tariffs on the Canadian economy. We believe that if tariffs remain in place on a broad range of goods longer term, it is certainly possible that Canada goes into a recession, however this is not our base case. While

Canada aims to diversify trade in the near future, the expectation is that U.S. will remain a strong trading partner for Canada due to its geographic proximity, the ease of transportation, and integrated supply chains. There is also cultural and regulatory alignment, with similar business practices, legal systems and languages between Canada and U.S.

Additionally, Canada has one of the lowest trade deficits compared with other U.S. trading partners. Canada is also one of the world's largest suppliers of primary materials like potash, steel, nickel and oil, making Canada a key strategic partner to the U.S. as it relies on our exports for economic stability. Canada has goodwill and a strong history with the U.S., and, as seen in recent weeks, President Donald Trump has softened his stance on trade policies and his more aggressive tactics.

### **Q3. How will the new Liberal government guide Canada through economic uncertainty due to existential tariff threats from U.S?**

One primary goal will be for the Liberal government to focus on diversifying trade relationships rather than depend on one primary partner. Their aim should be to broaden Canada's trade, through the development of key infrastructure like ports, railroads, airports and highways, which would enable trade expansion to new markets.

Prime Minister Mark Carney's platform has already committed to a number of fiscal supports. The Liberal party has mentioned a \$2 billion strategic response fund, as well as direct support to affected Canadian businesses to help offset some of the tariff impacts. Canada also has some room to increase the fiscal deficit. Currently, the baseline is a 2% deficit to Gross Domestic Product (GDP), however there is a possibility to increase it if additional stimulus is required. In contrast, the U.S. fiscal deficit is at 6.5% of GDP, leaving it in a position of more limited fiscal flexibility. Additionally, we also believe there is room in terms of monetary policy to lower interest rates in Canada. Our view is that some level of tariffs will remain in place over the long term, however we are optimistic that it will be less of a blanket tariff, and more of a targeted approach, following negotiations.

### **Q4. How is the Canadian government aiming to strengthen international ties and diversify trade to mitigate the tariff threat?**

Prime Minister Mark Carney is already working towards strengthening ties with Europe, as well with other trading partners, like Latin America (LATAM) and The Association of Southeast Asian Nations (ASEAN), which could alleviate some of the trade imbalances.

Canada requires a regime that's globally competitive. One of the strongest assets as a nation is Canada's natural resources which is why Canada needs robust infrastructure to be able to export these resources to a wider range of countries.

Supporting large-scale innovative projects will position Canada for a cleaner and stronger economy. Certain projects such as LNG Canada Development Inc. (LNG), an industrial joint venture established to construct a liquefied natural gas export terminal in Canada, and the Trans Mountain Expansion proposal (TMX) are tangible ways to diversify Canada's energy exports, allowing the economy to gain access to premium markets in Europe and Asia. However, to sustain this in the long term, Canada needs additional pipeline and transport capacity with coastal access. If new infrastructure is not built, Canada may be handcuffed in the future with limited access to supply its resources worldwide.

Recently, the Ministry of Energy and Natural Resources, announced a contribution of up to \$200 million towards a project with Cedar LNG Partners LP (Cedar LNG). This project will help create job opportunities in construction and trade. However, such projects require regulatory approvals to be expedited in an efficient manner.

Currently, the regulatory decisions for such proposals can take up to two years. The request of the private energy sector is to reduce that to six months with the broad goal of removing duplication in terms of regulation and approvals to streamline processes.

#### **Q5. How does TD Asset Management (TDAM) position itself, given the current economic certainty?**

At TDAM, our investment management teams are constantly reviewing and monitoring the economic landscape to find value and take advantage of opportunities within the market.

For instance, the Federal government aims to make Canada the world's leading energy superpower, with investments required in clean energy projects and improving our electrical grid. Therefore, we believe that engineering and construction companies are well placed to benefit. One of the names that TDAM owns in some of our investment funds for example, is WSP Global, a leading global engineering firm in an attractive industry that is seeing tailwinds due to investments in aging infrastructure, energy transition, re-shoring and data centers. The company is committed to margin expansion and has a strong track record of merger and acquisitions (M&A), and very strong organic growth.

We believe near-term trade tariff policies have created a lot of uncertainty. However, in the long term, we believe equities are well supported by sound fiscal and monetary policy in Canada. Healthy corporate balance sheets and continued earnings growth is a reminder that our focus is to invest in companies, not economies or politics. We hope to look back at this period as an exceptional opportunity to buy great companies at compelling levels.

## **For Further Information, Please Contact your TDAM Representative.**



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