

RJL PCS: MARKET PERSPECTIVES

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Market Perspectives: Trump turns up the heat on Canada, raising tariff threat to 35%

In a surprise move late Thursday, President Trump issued a formal letter to Prime Minister Carney, announcing a 35% tariff on all Canadian goods entering the United States, effective August 1. This comes despite ongoing negotiations toward a broader trade and security agreement, which had been expected to culminate in a July 21 announcement. The new tariff rate represents a 10% increase from the existing 25% baseline and is separate from sector-specific levies already in place, such as those on steel and aluminum. According to a White House official, although a final decision has not yet been made, the 35% tariff is expected to only apply to goods not covered under the USMCA, which still remain exempt, while non-compliant energy-related products, will likely continue to face a reduced 10% tariff.

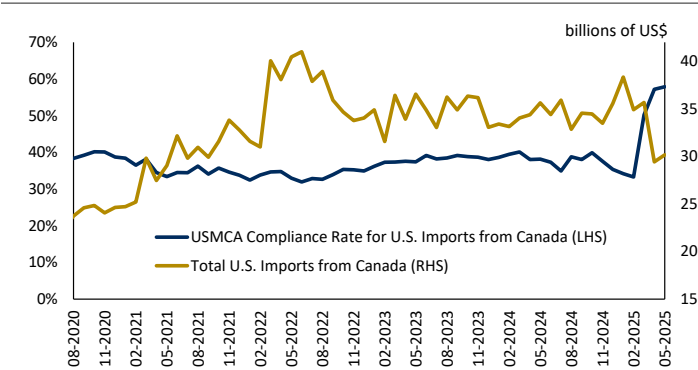
The letter primarily highlighted three key concerns of President Trump: the fentanyl crisis, the restrictions and barriers on certain American dairy exports, and the U.S. trade deficit with Canada. It further indicated that the tariff rate could be reduced if Canada demonstrates greater cooperation in combating the flow of fentanyl and if both nations are able to negotiate improved trade terms. In response, Prime Minister Carney took to social media late Thursday to reaffirm Canada’s commitment to reaching a new bilateral agreement, now targeting the August 1 deadline, as opposed to the July 21 deadline which had been set during the G7 Leaders’ Summit in June.

The market has responded calmly so far to the proposed 35% tariff on Canadian goods, with the S&P/TSX Composite, Canada’s main equity index, down just ~0.3% in the first half of the first trading session following the announcement. That’s a much milder reaction compared to earlier this year, when similar tariff threats caused sharper market swings, suggesting investors may be getting used to the shifting trade landscape. The index’s performance may also have been supported by Canada’s stronger-than-expected June labour force survey, which reported 83,100 new jobs on Friday morning, reducing Canada’s unemployment rate from 7.0% to 6.9%, helping to ease concerns over the tariff hike.

Canada’s economy has shown signs of softness, but hasn’t weakened significantly in the face of tariffs and additional tariff threats. The likelihood of entering the more severe trade war scenario, laid out in the BoC April Monetary Report (four consecutive quarters of GDP contraction starting in 2Q25) has eased somewhat since April. Still, it may take more time for the full effects of the tariffs to ripple through the broader economy. (For a detailed analysis, see our latest [Insights & Strategy report](#).)

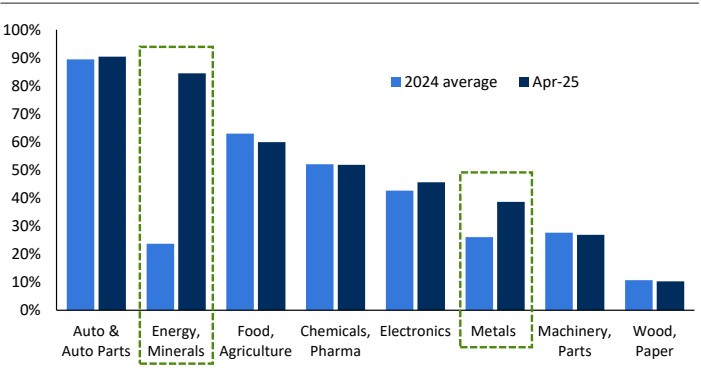
In addition, one key factor we’re closely monitoring is the USMCA compliance rate of Canada’s exports, as this will ultimately determine the effective tariff rate, especially with higher tariffs applied to non-compliant goods. The base case assumes the compliance rate will rise from 38% last year to 80%. While recent progress has been encouraging, with the rate climbing to 60% currently (Chart 1), much of that improvement has been driven by increased compliance rates of energy-related products (Chart 2), and a decline in non-compliant goods exports.

Chart 1 - USMCA Compliance Rate for Canada’s Goods Rises, but Exports to the U.S. Shrink



Source: U.S. Census Bureau, Raymond James Ltd.; Data as of May 31, 2025.

Chart 2 - USMCA Compliance Rates of Canadian Exports to the U.S. by category



Source: U.S. Census Bureau, Capital Economics, Raymond James Ltd.; Data as of April 30, 2025

Please read domestic and foreign disclosure/risk information beginning on page 3

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**Table 1 - Recent Tariff Developments for the U.S.'s Top 15 Import Trading Partners, as of July 10, 2025**

Country	% of U.S. Imports (2024)	Negotiation Status	Latest Developments	Previous Tariff Rates (2024)	Apr 2 Reciprocal Tariff Rates	New Tariff Rates	Next Important Date
Mexico	15.5%	Negotiation ongoing	Mexico aims to reduce steel tariffs while facing U.S. pressure to scale back its ties with China	< 0.5%	-	-	-
China	13.4%	Geneva framework deal confirmed	China allows rare earth exports; U.S. loosens tech curbs	10.9%	104%	→ 34%	August 12
Canada	12.6%	Negotiation ongoing	Canada drops digital services tax to help restart trade talks with the U.S. The U.S. has threatened to increase tariffs on non-USMCA compliant goods from 25% to 35%, while energy products will remain subject to a 10% tariff	< 0.5%	-	-	August 1
Germany	4.9%	Nearing a framework trade deal	EU open to a 10% universal tariff, but seeks lower rates for key sectors* Key sectors: pharmaceuticals, auto, machinery	1.5%	10%	-	-
Japan	4.5%	Negotiation ongoing	Tariff talks stalled over autos and rice	1.5%	24%	→ 25%	August 1
Vietnam	4.2%	Agreed on a deal	Vietnam gives the U.S. tariff-free access to its markets while facing U.S. pressure to scale back its ties with China	3.8%	46%	→ 20% (40% on transshipments)	-
South Korea	4.0%	Negotiation ongoing	South Korea will review regulations flagged by the U.S. while pressing for an easing of sectoral tariffs	0.2%	25%	→ 25%	August 1
Taiwan	3.6%	Negotiation ongoing	Taiwan is open to easing tariff and non-tariff barriers on U.S. companies, while expanding bilateral investment.	0.9%	32%	-	August 1
Ireland	3.2%	Nearing a framework trade deal	*, Key sectors: pharmaceuticals, organic chemicals	1.5%	10%	-	-
India	2.7%	Negotiation ongoing	India is willing to lower tariffs on autos and energy products, but is reluctant to open its market to U.S. agricultural products	2.4%	26%	-	August 1
Italy	2.3%	Nearing a framework trade deal	*, Key sectors: pharmaceuticals, machinery, minerals	1.5%	10%	-	-
U.K	2.1%	Agreed on a deal	U.K agreed to allow greater market access for American agricultural imports, in return of lowering tariffs on U.K auto and aerospace sectors. Negotiation around steel tariffs continue	1%	10%	→ 10%	-
Thailand	1.9%	Negotiation ongoing	Thailand agreed to revise their initial proposal, reducing import duties on over 90% of U.S. imports.	1.6%	36%	→ 36%	August 1
Switzerland	1.9%	Nearing a framework trade deal	*, Key sectors: pharmaceuticals, medical instruments, watches and parts	0.6%	31%	-	-
France	1.8%	Nearing a framework trade deal	*, Key sectors: machinery, aircrafts, pharmaceuticals	1.5%	10%	-	-

Source: Bloomberg, U.S. Census Bureau, Raymond James Ltd.; \*EU open to a 10% universal tariff, but seeks lower rates for key sectors.

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