

# THE ELEPHANTS EAR

## In this issue:

- Trade War?
- Key Dates
- Capital Gains Tax

## Economic Trade War?

With the threat of 25% US tariffs still looming, it is difficult to see through the noise and volatility. Tariffs drive increased prices for both countries, it is basic economics. Trump is trying to drive additional capital investment into the US by forcing businesses to manufacture products in the US.

The lesson from history shows that trade wars, if allowed to persist, can be deeply disruptive to national economies and global trade stability.

As I often say, and will continue to say during these times, I have to take my personal hat off and put on my objective financial hat. The current US administration is very business friendly and very friendly to growth and tech. They cut regulation and taxes and drive business. According to the World Bank and IMF forecasts, the GDP growth rate for the U.S. in 2025 is expected to be around 1.5% to 2.0%.; the contrast in Canada is that tariffs could plunge us into a recession and a decline in GDP.

This means the gap between the Canadian and US markets will be greater than ever and continue to grow. For investments the focus has to be on the US while keeping a eye on South east Asia. It is expected the US Federal Bank will cut rates once or maybe twice this year as the economy is expected to grow. On the other hand the Bank of Canada may be forced to cut much more to try to cushion the blow from tariffs. The interest rate spread has implications for our exchange rate as the Canadian dollar will continue to decline against the US dollar.

As a result my asset allocation this year is more than ever focused on US equity and bonds. I am not expecting as good a year as last year but as it stands the US is no track for a “typical” on trend year. With the exception of financial services I am steering away from Canadian equity and playing it safe.

Canada is highly dependent on exports to the U.S. In 2023, roughly 75% of Canada's exports went to the US. A trade war would make Canadian goods more expensive and less competitive on the U.S. market, leading to a potential decline in exports. This would be particularly damaging for industries like agriculture, automotive, energy, and forestry. Tariffs tend to increase the cost of goods, both for consumers and businesses. Trump backed off on the first round I think partially due to the market decline on the Monday. If Canada faces higher tariffs on U.S. imports, it could lead to higher prices for U.S.-made products that are critical to Canadian businesses. For example, machinery, electronics, and other manufactured goods could become more expensive, raising operating costs for Canadian companies.

Canadian consumers would also feel the pinch as prices for everyday goods, including electronics, clothing, and groceries, could rise as the cost of imported goods increases. This inflationary pressure would reduce purchasing power and could dampen consumer spending.

As we have seen you never know what Trump is going to do so it is best to stay invested but play it a little safer and keep an eye out for deals. US small to medium cap funds are showing some promise this year as the big 7 tech companies stumble.

As the old saying goes, plan for the worst expect the best.

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# Key Dates

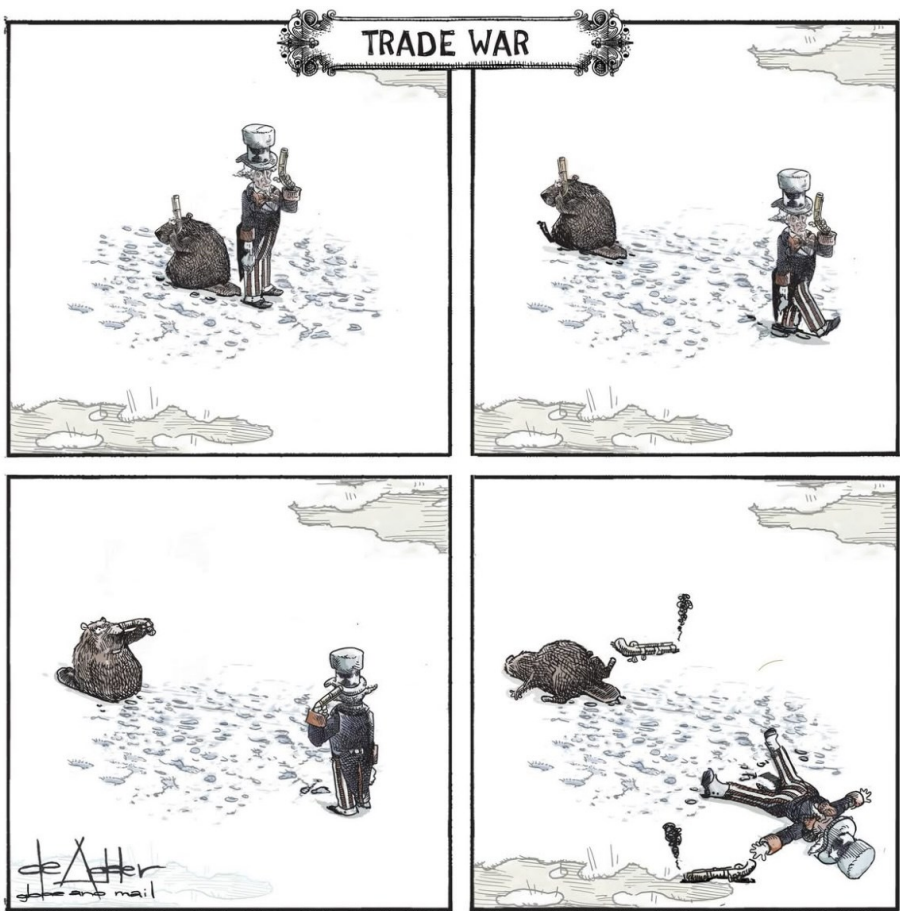
Just a reminder to my clients the RRSP deadline for the 2024 tax year this year is March 3rd. In order for us to get it in and invested by the deadline we ask if you plan to contribute to have the funds to us by **February 27th.**

The deadline for filing your personal 2024 taxes is April 30th. In order to get your taxes filed on time please have all your slips/receipts into our office by **April 18th 2025.**

## Capital Gains Tax Changes?

As some of my clients might already be aware the proposed capital gains tax changes that were initially part of the spring 2024 budget but were broken out are not moving forward. They have been pushed off to 2026; and if I had to guess will not be re introduced.

That means that the capital gains inclusion rate stays at 1/2 for both personal and corporations. Good news, as we all know we don't need to pay any more taxes.



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