

RJL PCS: MARKET PERSPECTIVES

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Market Perspectives: Beyond July 1 - Understanding the Road Ahead for USMCA

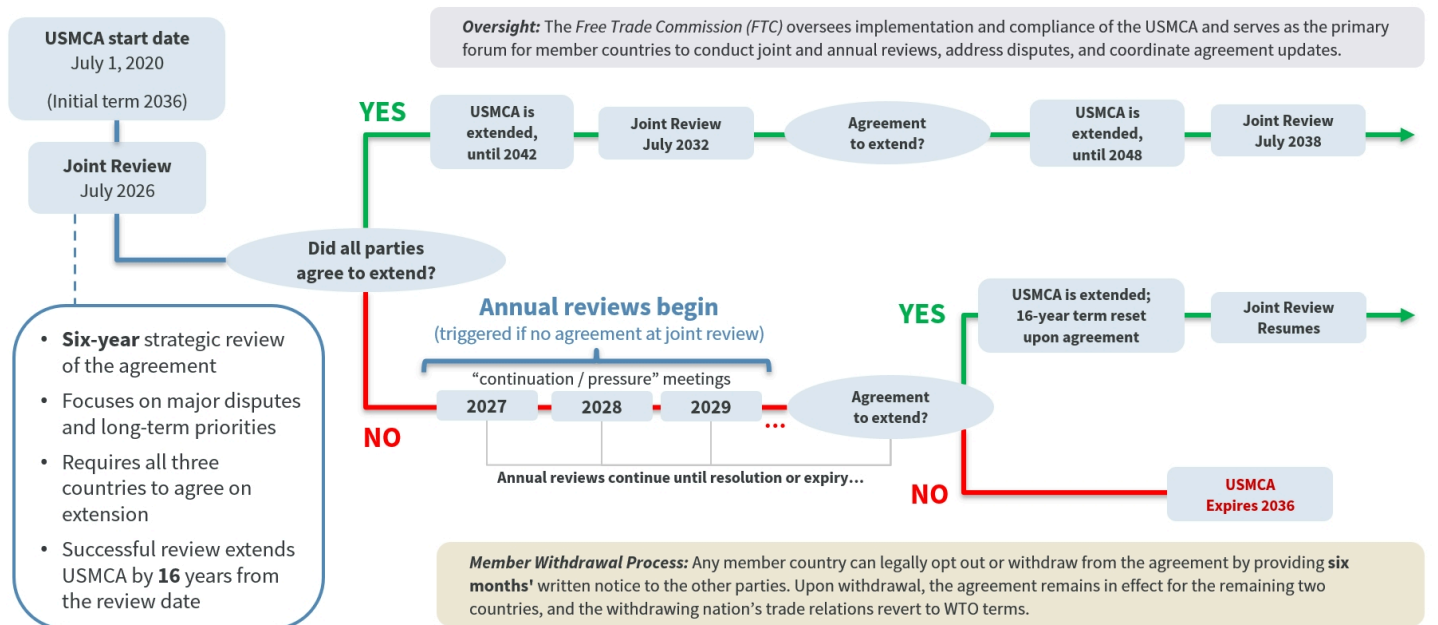
Preamble

In President Trump’s first term, he replaced the North American Free Trade Agreement (NAFTA), with a slightly revised agreement that was termed the United States - Mexico - Canada Agreement (USMCA), also referred to as CUSMA in Canada. USMCA was enacted on July 1, 2020, but with a 16-year term, thus expiring on July 1, 2036. The agreement includes a review every six years. At these reviews, any adjustments can be made, and if mutually agreed upon, the term is reset for another 16 years. If, at each six-year review, the parties cannot agree on adjustments, the remaining 10 years of the agreement is punctuated with annual reviews until a new 16-year reset can be established. If we reach the end of the agreement (i.e. 2036) with no 16-year renewal, the agreement expires. Any party can also leave the agreement on six months notice to the other parties.

What we expect on July 1

With the first six-year review process upon us, by July 1, 2026, Canada, the U.S., and Mexico must agree to either (i) renew the agreement as is to 2042, (ii) agree to revisions and then renew to 2042, or (iii) defer renewal and move into annual reviews, while the current rules and exemptions continue to apply until at least 2036. **At the current time, we are expecting the third option, which will leave the current agreement in force, while the parties take another year to work out any revisions. The benefit is that existing rules and exemptions would be expected to remain in place.** With approximately 85% of Canadian exports to the U.S. currently trading under USMCA exemptions and relatively limited exposure to Section 232 tariffs (Table 1), the overall effective tariff rate on Canadian goods remains relatively manageable at an estimated 5% to 6%. The downside is that lingering uncertainty about those eventual revisions will hamper business investment decisions, and/or that the current U.S. administration will continue to enact new tariff policies or threats that further pressure various Canadian sectors or industries that draw the ire of President Trump.

Chart 1 - USMCA Review and Renewal Framework



Source: Center for Strategic & International Studies, Congress.gov, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 6

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Table 1 - Current U.S. Tariff Measures Affecting Canadian Exports (as of June 17, 2026)

Authority	Products Covered	Tariff Rate	USMCA Exempt?
Section 232	Passenger vehicles, trucks, and auto parts	25%	Partially*
Section 232	Steel, aluminum, and copper (including derivatives)		
	<i>Primary steel/aluminum and most copper products</i>	50%	
	<i>Certain derivative articles substantially made of steel, aluminum, or copper</i>	25%	No
	<i>Certain metal-intensive industrial, grid, agricultural, HVAC, and mobile industrial equipment through Dec. 2027</i>	15%	
	<i>Derivative articles manufactured with at least 85% U.S.-melted/poured steel, U.S.-smelted/cast aluminum/copper</i>	10%	
Section 232	Furnitures, cabinets, and other wood-product derivatives	25%	No
Section 232	Softwood timber and lumber	10%	No
AD/CVD	Softwood lumber (firm-specific)	~35%	No
Section 122	Non-USMCA compliant potash and energy products	10%	Yes
Section 122	All non-USMCA compliant goods	10%	Yes

Source: U.S. CBP, CFIB, Raymond James Ltd. *USMCA-compliant vehicles are subject to tariffs only on non-U.S. content, subject to administrative approval and certification. Certain USMCA-compliant auto parts receive separate exemptions or special treatment.

Table 2 - Bilateral Trade Flows and Concentration

	U.S. Exports	Share of Total U.S. Exports	U.S. Imports	Share of Total U.S. Imports		CAN Exports	Share of Total CAN Exports	CAN Imports	Share of Total CAN Imports
Canada	US\$ 333,620	15.3%	US\$ 381,922	11.2%	U.S.	C\$ 564,647	72.5%	C\$ 361,667	45.8%
Mexico	US\$ 337,282	15.5%	US\$ 534,315	15.6%	Mexico	C\$ 8,889	1.1%	C\$ 53,412	6.8%

Source: U.S. Census Bureau, Statistics Canada, Raymond James Ltd. All figures are based on 2025 data. Trade values in millions.

Who wants what

While Canada and Mexico are generally just looking for longer-term surety of a stable trade agreement, the U.S. is seeking to modify rules to significantly favour the use of U.S. produced goods in any supply chain, and notably reduce the ability for Chinese goods to be included. The U.S. holds the strongest overall negotiating position given the size of its market and the significant reliance of both Canada and Mexico on U.S. demand (Table 2). However, Canada retains meaningful leverage as a major supplier of energy, uranium, and critical minerals that are increasingly important to U.S. supply-chain resilience and economic security. The following sections outline the key objectives, challenges, domestic interests, and sources of leverage for each party.

Canada

Objectives

- Secure a 16-year extension and preserve tariff-free access to the U.S. market
- Maintain stability and predictability for North American supply chains

Key Challenges

- Continued reliance on the U.S. as Canada's dominant export market
- Limited negotiating leverage due to the asymmetry of the bilateral relationship
- Balancing economic integration with the U.S. against the need to diversify trade and strengthen Canada's strategic autonomy

Key Domestic Interests

- Preserve support for automotive, manufacturing, steel, aluminum, and agriculture
- Protect supply-managed sectors (dairy, poultry, eggs)

Key Leverage

- Strategic supplier of energy, uranium, and critical minerals
- Key partner in North American supply-chain resilience and economic security

United States

Objectives

- Increase the share of USMCA benefits captured by U.S.-based production and supply chains
- Strengthen U.S. manufacturing, economic security, and domestic investment

Key Challenges

- Balancing reshoring objectives with highly integrated North American supply chains
- Tightening trade rules without materially increasing costs for U.S. consumers and businesses
- Dependence on Canadian energy, uranium, and critical minerals for key industrial and strategic supply chains

Key Domestic Interests

- Increase automotive rules of origin from the current 75% North American content to at least 82%, with 50% U.S. content
- Reduce indirect access of Chinese goods, capital, and inputs through North American supply chains
- Expand access to Canada's supply-managed agricultural sectors
- Strengthen digital trade provisions and labour enforcement, particularly in Mexico

Key Leverage

- Approximately 70% of North American GDP and the dominant export market for both Canada and Mexico
- Significant bargaining power due to Canada's and Mexico's reliance on U.S. market access
- Ability to influence regional investment flows, supply-chain strategies, and future trade rules

Mexico

Objectives

- Preserve tariff-free access to the U.S. market and secure a stable renewal of USMCA
- Protect Mexico's position as a leading manufacturing platform within North America

Key Challenges

- Significant dependence on the U.S. market as the destination for the vast majority of Mexican exports
- Managing U.S. pressure related to China, labour standards, and energy policy
- Preserving competitiveness while adapting to stricter rules of origin and supply-chain requirements

Key Domestic Interests

- Protect the attractiveness of Mexico's manufacturing sector, particularly in autos, electronics, machinery, and consumer goods
- Avoid trade rule changes that could reduce nearshoring investment or disrupt existing supply chains

Key Leverage

- Largest trading partner of the United States and a critical manufacturing hub within North America
- Central role in integrated supply chains across autos, electronics, machinery, and other industrial sectors
- Increasing strategic importance as the U.S. seeks to reduce dependence on China

Canadian equity market performance during trade disruptions

Canadian equity markets responded relatively calmly to the tariff threats and policy shocks of 2025. Even after the sharp selloff that followed the April "Liberation Day" announcements, losses were recovered relatively quickly. This resilience highlights an important distinction between the economy and the equity market. Industries most directly exposed to trade disruptions, such as automotive, steel, and aluminum manufacturing, represent a meaningful share of Canadian exports and economic activity but account for only a small portion of the S&P/TSX Composite Index.

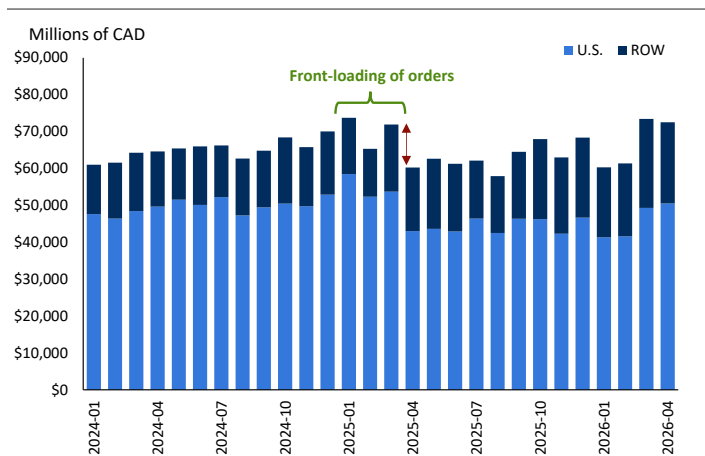
Sector performance during both the selloff and subsequent recovery appeared to be driven less by direct tariff exposure and more by investor expectations regarding the potential impact of tariffs on economic growth. Information Technology, a cyclical sector led by software-oriented companies, experienced the largest decline but also led the market rebound. In contrast, traditionally defensive sectors such as Consumer Staples and Utilities outperformed during the downturn but lagged as market sentiment improved. Most other sectors performed broadly in line with the overall index throughout the period.

Should trade-related threats re-emerge, we would expect a similar market response. In the absence of significant Canadian retaliatory measures, the near-term impact on the broader Canadian equity market is likely to remain manageable, even if certain industries face more pronounced economic headwinds.

While USMCA negotiations may generate periods of market volatility, investors should remember that successful long-term investing is built on time in the market, not timing the market. Trade policy developments can influence sentiment in the short run, but market performance is ultimately driven by fundamentals. Maintaining a diversified portfolio and staying focused on long-term objectives remains the most effective way to navigate periods of uncertainty.

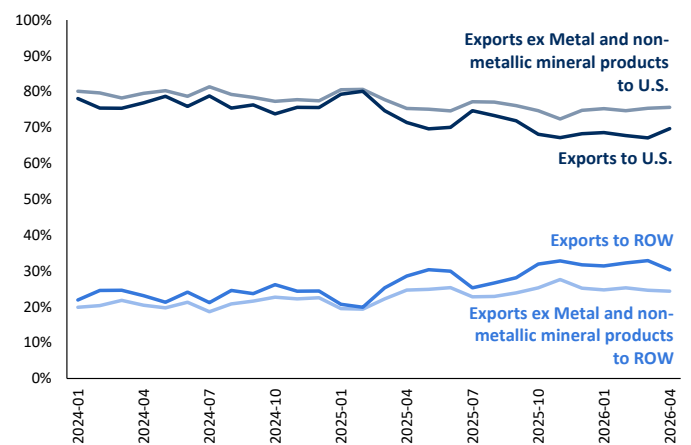
Appendix

Chart 2 - Canada's Monthly Exports (Jan 2024 - Apr 2026)



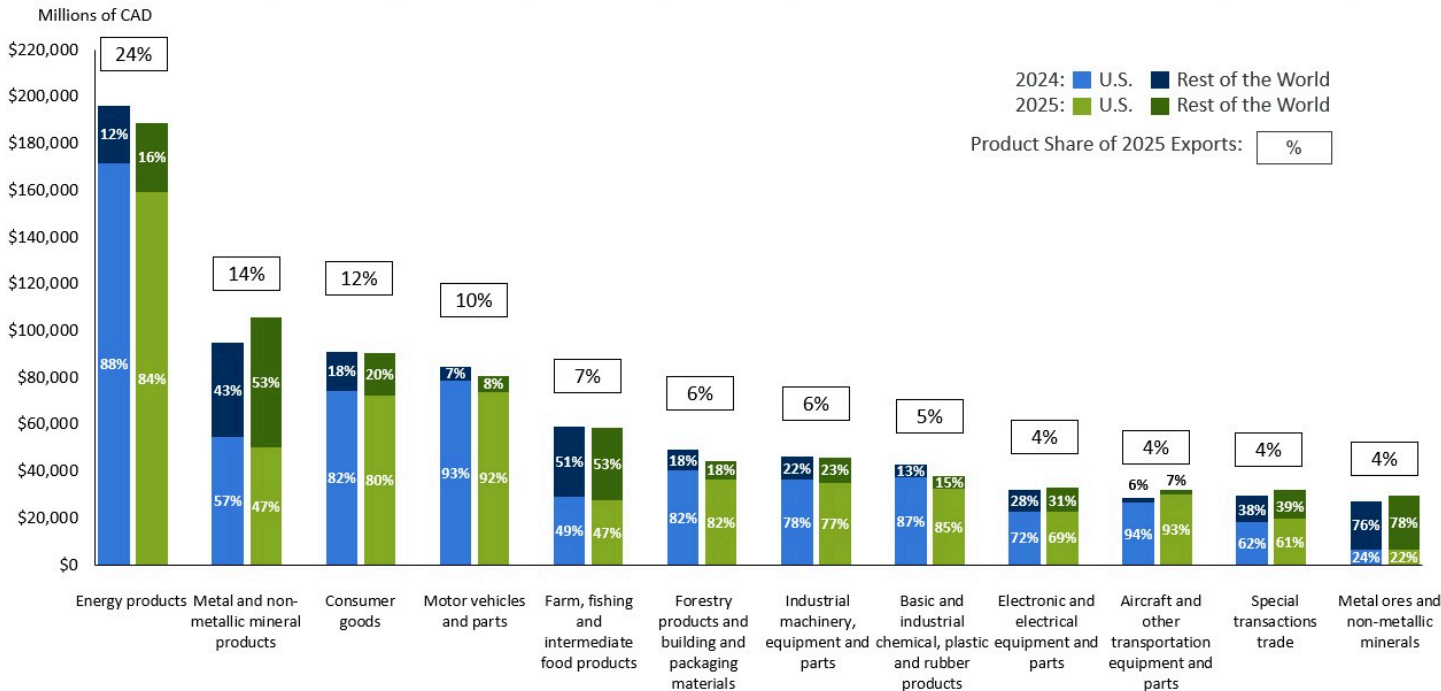
Source: Statistics Canada, Raymond James Ltd.; Data as of April 30, 2026.

Chart 3 - Export Share to Rest of the World Up, But Mainly Driven by Precious Metals



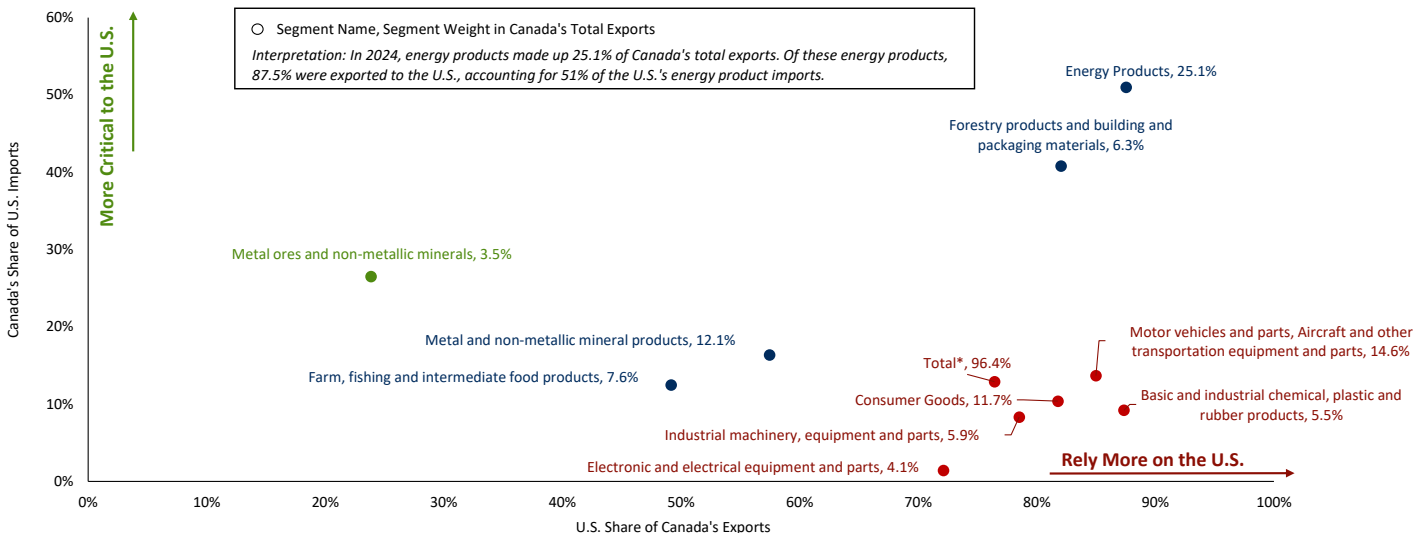
Source: Statistics Canada, Raymond James Ltd.; Data as of April 30, 2026.

Chart 4 - Canada's Export Mix by Destination and Product: Diversification Beyond the U.S. Remains Gradual



Source: Statistics Canada, Raymond James Ltd.; Data as of December 31, 2025.

Chart 5 - Non-Resource Canadian Exports Face Greater Exposure to Tariff Risks



Source: Raymond James Ltd.; Statistics Canada; United States Census Bureau; Calendar year 2024.

Canada's share of U.S. imports is initially categorized under NAICS but converted to NAPCS for comparative analysis. *Canada's total exports do not sum to 100% because 3.6% is attributed to Special Transaction Trade, which is not classifiable.

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