U.S.-CANADA TRADE ESCALATION & SEGREGATED FUND PORTFOLIO POSITIONING

August 24th, 2026

On August 22, 2026, bilateral U.S.-Canada trade negotiations fell apart. Effective 12:01 AM, the U.S. instituted a 50% tariff under Section 338 on approximately USD $20 billion (CAD $28 billion) of Canadian exports, representing ~5% of total U.S. imports from Canada (~7% excluding energy).

In response, Canada pledged dollar-for-dollar retaliatory counter-tariffs on USD $20 billion of U.S. goods, scheduled to take effect on September 8, 2026. In response, the U.S. has threatened additional tariffs on autos, so the potential for escalation remains high.

This recent development is a major walk-back on any progress towards a CUSMA renegotiation. Section 338 tariffs apply regardless of CUSMA origin rules.

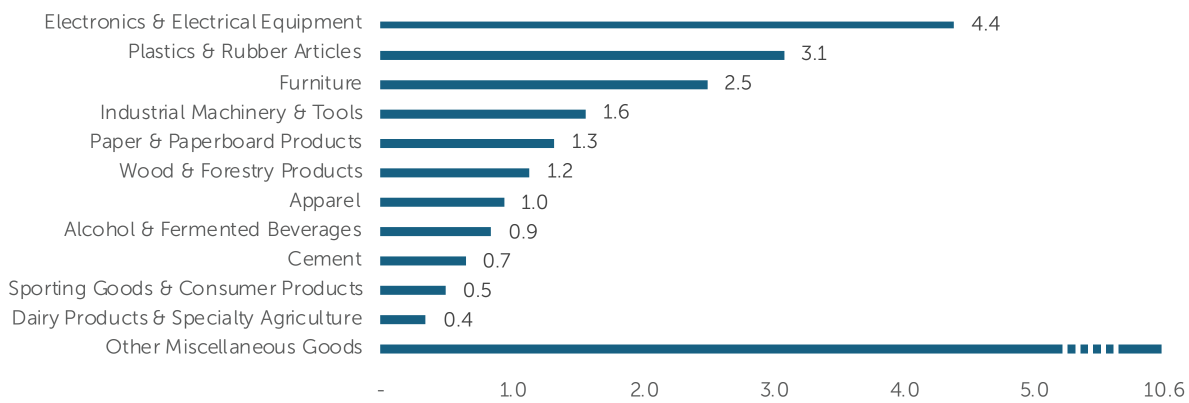
Mexico is reportedly seeking its own bilateral deal with the U.S. following the collapse of Canada-U.S. talks.

U.S. demands rejected by Canada (cited by Prime Minister Mark Carney on August 22, 2026):

- Constraints imposed on future trade agreements with other countries
- Surtax reduction only on small cars, excluding trucks
- Restrict language and cultural protection measures

Impacted sectors

Estimated Annual Export Value (28B$ CAD)



Bloomberg, August 22, 2026

Pledge made by the Canadian government. Details pending.

In his August 22, 2026 statement, Prime Minister Mark Carney promised that Ottawa would announce support measures for affected workers and businesses "in the coming days". However, specific financial mechanics, eligibility criteria, or dollar amounts tied directly to this round of Section 338 tariffs have not yet been formally released.

Dollar-for-dollar retaliatory counter-tariffs by Canada, scheduled to take effect on September 8, 2026, are inflationary for Canada. They also weakens economic activity and will act as a headwind on the Canadian dollar. The policy response from Bank of Canada will be limited but increased trade uncertainty will temper any impulse to tighten (i.e. increase rates).

Empire Life Investments Inc. insights on segregated fund positioning

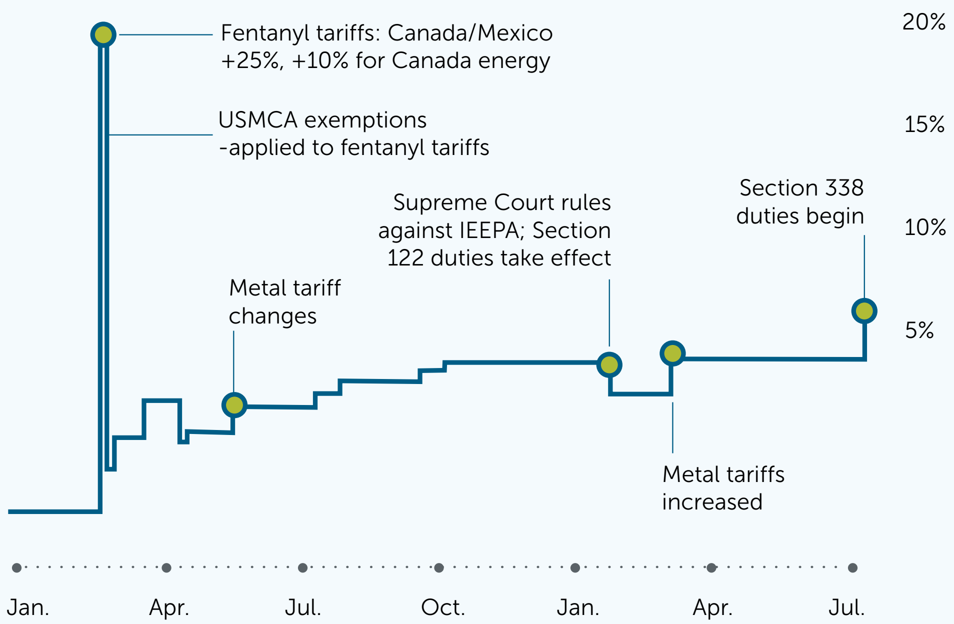
Canadian equity mandates managed by Empire Life Investments Inc. are well diversified by sector – in addition, with tariff uncertainty ongoing for months, companies have evolved their businesses to lower sensitivity to tariffs. Most of the holdings are well-diversified by region and have minimal exposure to the new Section 338 tariffs.

Natural resources – which make up a significant part of the funds — are not impacted by these new tariffs. Moreover, Empire Life's Canadian segregated funds have no direct exposure to domestic auto parts suppliers, steel/aluminium, and dairy products.

It's difficult to determine how the market will respond to the escalation in the Canada-U.S. trade war; however, if there is a material negative response, it would be expected that funds managed by Empire Life Investments Inc. will be insulated given the diversified and defensive nature of our positioning. Portfolio managers will also be on the offense looking to take advantage of any opportunities that might arise from any material sell-off.

Aug. 22 US tariff hike on Canada biggest since spring '25

US average effective tariff rate on canadian imports



Note: Uses 2024 trade composition.
Source: US Census, Bloomberg Economics.
Bloomberg Economics

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