



From the desk of

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Trump, Tariffs, & Trade:

How to
prepare for
three potential
scenarios

Within days of his one-sided election victory, Donald Trump reignited trade tensions, promising tough tariffs on Canadian imports and referring to Canada as the “51st state.” While the rhetoric grabs headlines, the bigger question is: where might these threats lead, and how is NCM Dividend Champions fund prepared to respond?

Trade tensions between Canada and the US are nothing new. From John A. Macdonald’s first campaign slogan (“No truck or trade with the Yanks”) to NAFTA and USMCA, our economic relationship has evolved through decades of disputes and agreements. Yet, despite lumber wars and political theatrics, our shared economic prosperity endures.

Three scenarios

Trump is nothing if not unpredictable. While pundits and market watchers scratch their heads over his recent salvo, here are three potential outcomes as I see it:

1. **Trump does all of it.** Trump's transactional mindset, famously outlined in *The Art of the Deal*, suggests he likes big wins. Massive tariffs on Canadian goods would fit this narrative, but such actions ignore the deep integration of our economies. For example, a single car part can cross the border up to seven times during production. Untangling this relationship would be far more complicated than Trump's rhetoric suggests.
2. **Trump does some of it.** Tariffs might be more nuanced. While Trump highlights a trade deficit with Canada, removing energy and minerals shows a US surplus. To avoid political backlash from higher gas prices, energy exports might be spared. Instead, tariffs could target sectors like electronics, machinery, and chemicals - likely at modest rates.
3. **Trump does little or none of it.** Trump might back off considerably if he gets the Canadian policy concessions he wants. This might include an increase in NATO spending to meet or even exceed the 2% of GDP contribution target (Canada is one of only a few NATO allies falling short) and improving border security to stem the tide of illegal immigrants and drugs.

In my view, we are likely to end up somewhere in the middle. There is an element of showmanship taking place, but Trump's own advisors, not to mention a parade of Canadians who will be lobbying governors, state politicians, and US CEOs, are likely to head off drastic action. Further, any tariffs may be applied gradually, or not until months after they are announced.

I could see energy and the auto industry escaping tariffs, perhaps a modest tariff on less critical goods, and, in true Trump style, maybe a symbolic victory or two, such as adding tariffs to Canadian milk (which mostly does not go to the US anyway) or canola (which is in the crosshairs of RFK's MAHA initiative).



How to prepare

NCM Dividend Champions is well-positioned to navigate any economic ripples caused by Trump's actions. Here's why:

- **Modest exposure to trade.** Although we invest in businesses across North America, most are not trading goods across the border that would be subject to tariffs.
- **Tax cut and deregulation benefits.** Many of our holdings pay tax in the US and stand to benefit from potential Trump tax cuts. Others may benefit from promised deregulation.
- **Resilient businesses.** We place more focus on owning resilient businesses than worrying about the broader environment. No matter who has the white house, things like railways, cell phones, and garbage collection never stop.
- **Clarity is coming.** Markets dislike uncertainty, but clarity on leadership in both Canada and the US could soon provide a tailwind for investors.
- **Dividend Champions.** In times of uncertainty, owning dividend-paying companies with cash flow to spare is like having insurance for your equity portfolio.

Dividend Champions at work

For evidence of the strength of our approach, have a look at the following table. On the 10 worst days for its benchmark over the past two years, NCM Dividend Champions has captured only 71.2% of the market's downside on average.

10 worst days for the benchmark over the past two years

DATE	S&P/TSX Composite Index	S&P 500 Index	Dividend Champions	Benchmark*
February 21, 2023	-1.28%	-1.98%	-1.33%	-1.49%
March 9, 2023	-1.24%	-2.03%	-1.34%	-1.47%
March 10, 2023	-1.55%	-1.33%	-1.36%	-1.49%
August 15, 2023	-1.92%	-1.03%	-0.94%	-1.66%
September 21, 2023	-2.09%	-1.01%	-1.31%	-1.77%
February 13, 2024	-2.29%	-0.59%	-0.87%	-1.78%
August 1, 2024	-1.67%	-1.20%	-0.83%	-1.53%
August 2, 2024	-2.18%	-1.71%	-1.24%	-2.04%
October 31, 2024	-1.42%	-1.66%	-1.21%	-1.49%
December 18, 2024	-2.24%	-2.87%	-1.77%	-2.43%
AVERAGE	-1.79%	-1.54%	-1.22%	-1.71%

*70% S&P/TSX Composite Index / 30% S&P 500 Index

Downside capture: 71.2%



At NCM Investments, we don't react to political theatrics - we stick to what works. Our track record speaks for itself, and we remain committed to helping you achieve your financial goals, no matter what lies ahead. Thank you for your continued confidence in us.

Yours truly,

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