

# More Canada

Report for the week ending 25 April, 2026

Dylan Smith

## Key Takeaways

- **MONOLOGUE:** We're expanding our coverage of Canada, starting with an overview of macro/macro dynamics. Despite the USMCA renegotiation overhang, we see green shoots that could blossom into a period of relative outperformance.
- **MARKETS:** Stocks and oil rose in tandem for only the second week since the bombardment of Iran began, with war fatigue creeping into markets. Warsh's smooth confirmation hearing and the dropped Powell investigation cleared the way for bond markets to focus on inflation dynamics.
- **MACRO:** Consumers in the US, Canada, and UK are still spending despite the Iran War oil shock. Canadian core inflation remains stable within the band, and BoC surveys show businesses turning decisively more optimistic for the first time since 2023.
- **MEMO:** Canada is over the hump of a period of painful economic corrections. We're long the loonie on the back of the improving growth outlook and our expectation that better-controlled inflation will support the currency. We also see a reduced spread between US and Canadian rates. Over the next 12-18 months, we see the CAD/USD rate testing 80c (USD/CAD \$1.25).

## Monologue

We're tweaking our research coverage slightly to introduce more insights on the Canadian economy and assets. This is to reflect the significant share of our subscribers who are based in the country and sensitive to local developments.

For the most part, this will be seamlessly integrated into general commentary rather than presented as standalone analyses. Today's note is an exception — we've dedicated the Memo to a stock-taking exercise on the Canadian economy, where we outline our out-of-consensus bullish view on the 1-2-year outlook.

To our international readers: we will not be offended if you skip over the Canada content, but you may benefit from paying a little attention.

Canada is no stranger to the problems plaguing its G7 counterparts. Those familiar with Europe or Australia will recognize the challenges associated with an aging population, recent high immigration causing economic adjustment frictions, a hangover from a house price boom, and flatlining productivity. We will cover all of these issues thematically and in their proper global context.

Canada is unique in two important respects: its close economic relationship with the US (for better or worse), and its recent underinvestment in its mineral and energy sector. In a world of rising geopolitical tension, energy insecurity, and middle powers seeking to diversify their networks, Mark Carney's government is moving to position Canada to exploit its endowments.

This creates a tantalizingly bullish outlook, but there is one major cloud on the horizon: the looming review and renegotiation of the US-Mexico-Canada trade agreement, which is freezing local investment and hiring. There is genuine uncertainty around the outcome, but as we explain in our Memo, the political math for the Trump administration points strongly to a deal before November with only minor adjustments to the framework.

If we're right, the green shoots emerging this spring have the potential to blossom.

**Dylan Smith**

*Founder and Chief Economist*

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## Marginal Movers

### Rising 📈

- **FX Exposure:** [Investment funds' de facto currency risk exposure](#) — "In the run-up to April 2025, equity funds with low hedge ratios attracted most inflows and outperformed those with high hedge ratios, but this relation flipped following 'Liberation Day'."
- **The Garage Door:** [PE hopes garage door roll-ups will be the new HVAC](#) — "Businesses in the two sectors tend to be cashflow-generative, offer services deemed critical to people's homes and businesses, and there are lots of them."

### Falling 📉

- **Kevin Warsh:** [Trump's Fed Pick Faces Tough Task Shedding 'Sock Puppet' Label](#) — To reiterate our view, we think that, once safely ensconced in the Federal Reserve, Warsh will be as independent from the White House as any of his predecessors.
- **Running:** [Robot runner handily beats humans in half-marathon, setting new record](#) — "Autonomously navigating a half-marathon course does not necessarily lead to an immediate robotic application or spell assured success in other domains."

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## Macro Monitor

### Consumers may be grumbling, but they're still buying

Retail sales data for March has shown aggregate consumption holding up better than expected amid the emerging inflation shock of the Iran War.

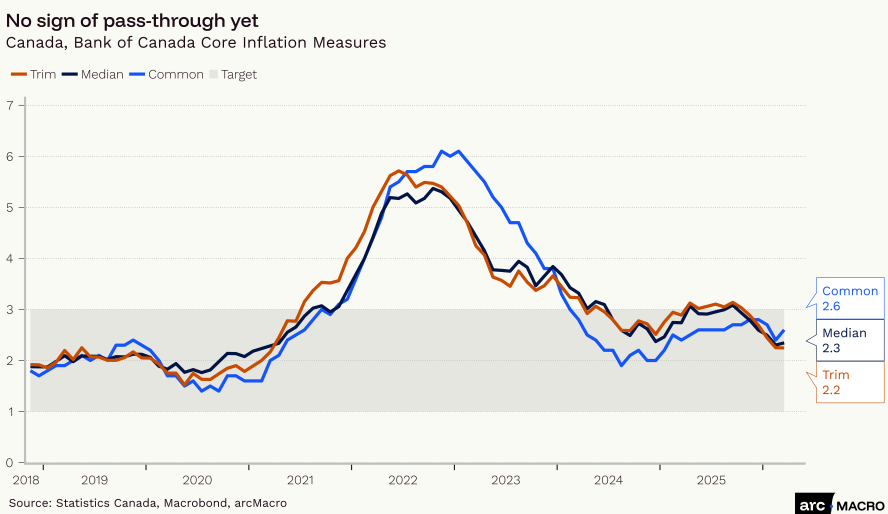
In the US, headline retail sales rose by 1.7% MoM, a marked rise on the 0.7% recorded in February and above the 1.5% consensus expectation. This wasn't just about more spending on higher fuel prices; the "control" group of less volatile spending categories rose by 0.7% MoM (consensus: 0.2%), showing yet again that those betting against the US consumer are on the losing side of the trade.

In Canada, retail sales growth slowed to 0.7% MoM in February (Jan: 1.0%, Cons: 0.9%), and the StatsCan preliminary estimate of March retail growth suggests that momentum held up, coming in at 0.6% MoM. UK sales data confirmed that the strength in consumer spending is an international phenomenon, with sales picking up from -0.6% in Feb to +0.7% in March, against the consensus of 0.2% growth.

If higher oil prices are hurting demand, it's not showing up in the macro numbers just yet.

### No bad news is good news for Canadian rates

The March Consumer Price Inflation print for Canada came in at 2.4%, up from 1.8% in February, and exactly what was expected given the rise in fuel costs in March. All measures of "core" inflation tracked by the Bank of Canada (see chart) were stable within the target band. No signs of spillover to core prices have emerged yet. While it's clear that's coming, this is a positive signal that it may be slower and lighter than some feared.



Meanwhile, the Bank of Canada released the results of its consumer and business surveys for Q1. The signal from businesses was unambiguous. After two years of subdued readings in 2024/25, signs of green shoots are emerging across the board, with most sub-indices improving to their best levels since 2023. To pick some key ones, businesses' assessment of future sales growth and investment plans rose to a net balance of 25% and 29% positive, respectively (from below 15%), and the share of firms planning to raise employment rose to 38% from 16%.

Consumers' outlooks were unchanged compared with the latter half of 2025, with expectations for job losses (20% see their jobs at risk in the next 12 months) and expected income growth (down from 2.9% to 2.7%) still leaving plenty of room for improvement — but at least not deteriorating against a challenging economic backdrop of tariff threats and negative population growth.

The survey period is skewed to the earlier part of the quarter, so some of the negative impact of the Iran war will likely creep into the Q2 survey (especially via inflation expectations, which were muted). Nonetheless, a positive data point for an economy finally showing some green shoots.

### **What Keeps the IMF Up at Night**

In this week's [Tangents Substack post](#), our Chief Economist read through the latest round of International Monetary Fund (IMF) reports so that you don't have to. Click through for his favorite charts covering fiscal imbalances, global trade dynamics, and the AI investment cycle.

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*See the appendix for arcMacro proprietary Factors and the Key Macroeconomic Indicators tracking chart.*

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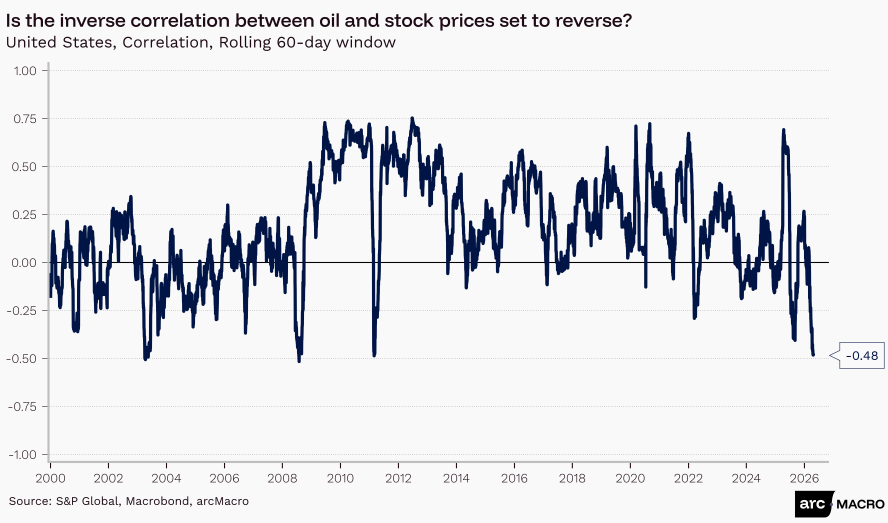
## **Market Monitor**

This week, the eighth since the US and Israel started their bombardment of Iran, was only the second in which equities and the price of oil rose in tandem (the first was two weeks ago). This points to an emerging sense that the fate of the Strait, while still top of mind for most investors, is no longer the sole driver of daily market moves.

The bilateral blockade of the Strait of Hormuz has calcified, with both US and Iranian ships firing on vessels attempting to transit the Strait. The price of WTI crude oil shot up by \$10.6 to \$94.4 per barrel over the week as a result. However, stock traders were undaunted, with the S&P 500 up 0.5% and the tech-heavy Nasdaq rising by 1.5%. US markets diverged from international peers, which were mostly down on the combined impact of inflation fears and local factors (e.g., a sharp drop in gold prices weighing on the TSX).

Why? One coherent explanation is that, despite the military action in the Gulf, investors still assess the chances of a deal to end hostilities as being strong. This may be true for some, but the data doesn't bear it out on aggregate. According to bets placed on the prediction market Kalshi, there is a 41% chance of the US and Iran reaching a new deal by September, down from peak optimism of 75% on April 18th. This should be bad news for equities, so it's probably not the reason for the normalization of cross-asset correlations.

Speaking to clients and contacts, we can't help but feel that fatigue is a major factor. War-weary investors are simply deciding that the worst period of the conflict (for markets) is over, and are refocusing their attention on other factors. If true, a serious blind spot is being created, setting equity markets up for higher volatility down the pike.



Whatever the reason, equity investors have welcomed a strong earnings season. After banks opened the Q1 reporting period with strong trading profits from more volatile asset prices and robust M&A deal flow, this week has seen technology hardware companies and consumer-facing businesses confirm that the economy remains in a relatively solid state, supported by AI-related investment and resilient consumption patterns (backed up by US and Canadian retail sales data, but with inflation impact not yet showing through).

The other major market driver this week was the Federal Reserve Chair confirmation saga. Rates traders were poised for fireworks as President Trump's candidate Kevin Warsh was grilled by Senators. His steady performance and support for the status quo level of Fed independence appeared to silence some skeptics — he's more

interested in shrinking the Fed's balance sheet than taking interest rate orders from the White House. On Friday, the Trump administration dropped its criminal investigation into outgoing Chair Powell, clearing the way for the smooth confirmation vote for Warsh (Republican Senator Thom Tillis was threatening to block confirmation of any candidate while the investigation was ongoing).

The net result was that bond markets could shrug off the risk of inappropriate interest rate reductions from the incoming Chair, and instead price in the inflationary dynamics building in the global economy. Global yield curves lifted as a result, with a 7 basis point rise in the US 2-year Treasury note rate helping the dollar strengthen by 0.4%.

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*See the appendix for the market monitor table*

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## Memo

### Canada: Through the Worst

**Bottom line:** *Canada is over the hump of a period of painful economic corrections addressing past policy errors. The economy can't break out decisively until businesses are confident of favorable access to US markets. We expect a new trade deal to be reached before the midterms with minor tariff concessions. Meanwhile, we see the Iran War inflation shock as genuinely "transitory" in Canada.*

**What it means for investors:** *We're long the loonie on the back of the improving growth outlook and our expectation that better-controlled inflation will support the currency. We also see a reduced spread between US and Canadian rates. Over the next 12-18 months, we see the CAD/USD rate testing 80c (USD/CAD \$1.25).*

We're expanding our macro coverage of Canada, starting with a high-level overview of the cyclical forces shaping its economy, which we tie into our view on the dominant force driving local assets.

When looking at a relatively small open economy, especially one so tightly integrated with a large hegemonic neighbor, the sophisticated factor and regime framework we have developed for the US economy is overkill.

Domestic outcomes are so sensitive to international activity and capital flows that it is far more useful to focus on how much these forces are affecting the small economy relative to local policy and idiosyncratic economic developments. What's more, the available macro data have less breadth and depth, reducing the need for summary statistics to identify underlying trends and making their estimation difficult.

With this in mind, we summarize recent trends and argue that the stage is being set for a period of relatively strong performance for Canadian assets.

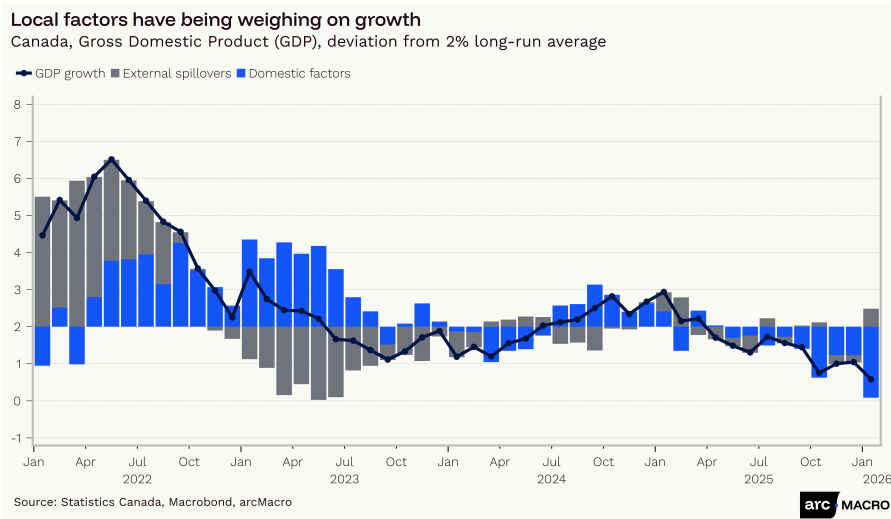
### **Growth is being held back by looming uncertainty**

Over the past two years, Canada has implemented painful policy shifts to deal with the negative aftermath of the post-COVID-19 economic sugar high.

First and foremost, in terms of direct near-term negative growth impact, is the effective freeze on immigration that was implemented in 2025. Net immigration has been calibrated to run at around replacement level between 2025 and 2027. This pause will give local economies time to adjust to a population that surged by over 5.5% during the COVID-19-related labor shortages of 2022/23, before a more gradual net immigration policy returns.

The drop in migrant-related demand, combined with a higher interest rate environment than that which has prevailed for most of the past two decades, has stifled house price growth after a sustained ultra-bull market in real estate. This is welcome news for those focused on improving housing affordability, but the pace of development is slowing, and the sector is no longer a major employment driver.

Canada has also maintained a less expansionary fiscal policy than its southern neighbor – a prudent decision which has nonetheless affected relative growth prospects. And the sluggish state of the US economy has not provided Canada with much support in the form of external demand or capital inflows during this adjustment phase, nor have global commodity prices created much of a boost until recently.



As Canada has taken its economic medicine, the Carney government has spent its first year in power laying the groundwork for a period of economic development centered on large infrastructure projects, mineral extraction, and a more supportive regulatory environment for direct investing and business development.

Some green shoots are showing as the investment case for Canada has improved, and Canada's attractive position as a sleeping energy giant with the healthiest public balance sheet in the G7 has dawned on both the local and global business community.

**But one major obstacle is still holding back growth.** Canada's favorable access to US consumer markets (85% of its exports to the US are tariff-free) is under threat as the USMCA/CUSMA trade deal (signed during the first Trump administration to replace NAFTA) comes under review and renegotiation this summer. Firms are holding back on investment and hiring decisions until they have certainty over their market access.

With midterms looming, we see little incentive for President Trump to override the overwhelming support from Republicans in Midwestern swing states for maintaining roughly the status quo with their Canadian neighbors. The Canadian and Mexican delegations, meanwhile, understand that after the elections, a Democratic House and possibly also Senate, along with the Supreme Court limiting his powers to implement tariffs, will make it more difficult for the President to control outcomes.

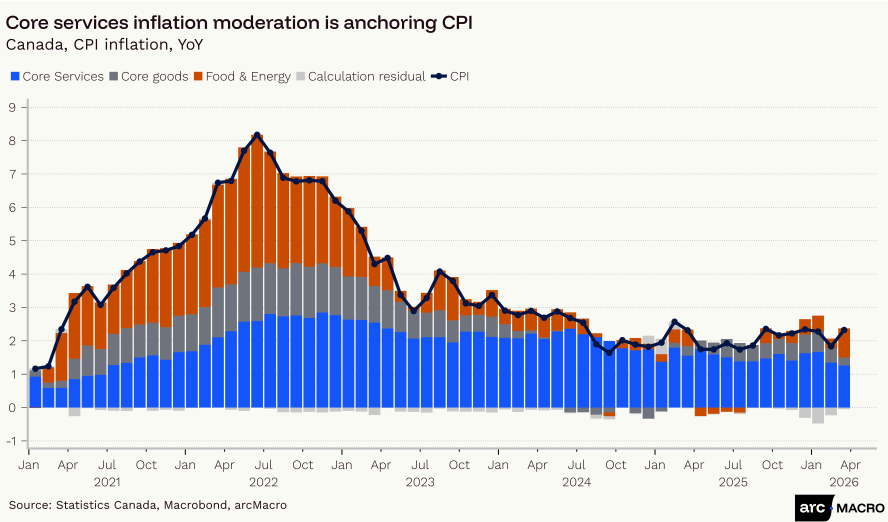
**Therefore, we expect a status quo deal with minor concessions before the November midterms, paving the way for a surge in pent-up activity in Canada.**

This in turn would lift growth back into the 2%-3% range and significantly improve per-capita income. This makes us comparatively bullish over a 1-2 year horizon on growth.

**Inflation will rise, but core dynamics are stable**

The ~30-40% increase in global oil prices that has so far been the upshot of the war in Iran, alongside an increase in the price of hydrocarbon byproducts such as plastics and fertilizers, will not bypass Canada. Headline CPI inflation is set to rise above the Bank of Canada's 1-3% control range over the next six months.

However, we view this as a transitory inflation shock. Underlying price pressures are moderating steadily and will not be affected by the war. Shelter costs are tied to the slow-leak housing market, and core services costs are driven by a labor market that remains relatively loose after prior record immigration.

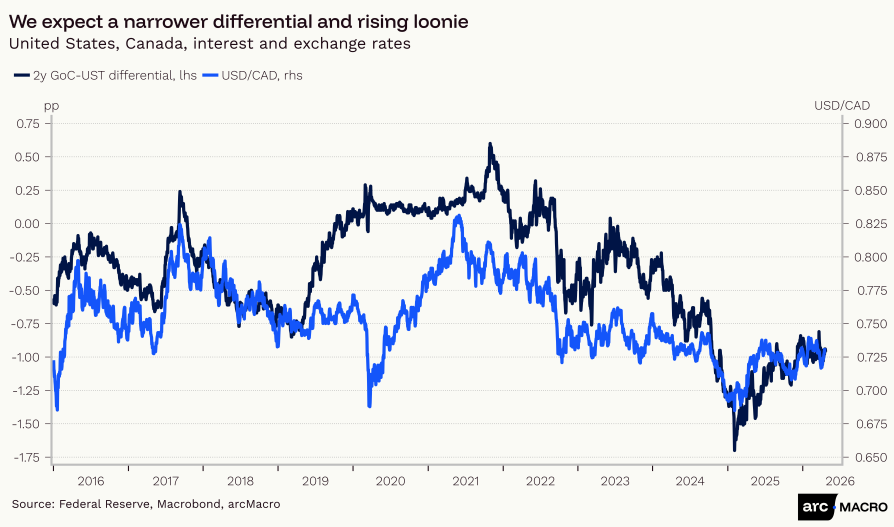


This transitory inflation outlook is very different from our view on the US, where we see the oil price shock as adding to an already inflationary environment. In the US, tariff pass-through and margin recovery amid stronger consumer demand than in Canada, alongside a searing AI and energy investment boom and emerging pockets of labor shortages in immigration-starved industries, all paint a picture of rising price pressures.

## The outlook for domestic assets is improving

Putting together our sanguine view on Canadian growth and our expectation that inflation will experience a transitory rise removes any possibility the Bank of Canada will bring interest rates lower — a scenario that we believe is still in the back of the minds of the market. At the same time, the outlook is indicative of a steepening yield curve as the economy improves. Over the next 12-18 months, as the Fed stands pat and watches inflation rise, this will compress relative interest rates and help the loonie strengthen relative to the dollar.

For those willing to carry some trade negotiation risk, we see current levels as an attractive entry point for long positions on the loonie and domestic risk assets, but are less excited by the outlook for fixed income, where there is potential for a bull steepening.



## Appendix

### Proprietary Factor and Regime Model and Key Indicators

### The Week in Markets

	Latest*	Change since last week (units)	Change since last week (%)	3-month change (units)	3-month change (%)	Year-to-date change (units)	Year-to-date change (%)
<b>US Equities</b>							
S&P 500	7126	309	4.5	182	2.6	281	4.1
Information Technology			8.1		5.4		4.7
Financials			3.3		-3.4		-4.3
Consumer Discretionary			6.6		-1.0		1.7
Communication Services			6.3		4.8		6.0
Health Care			0.9		-5.3		-4.0
Industrials			1.2		4.6		11.9
Consumer Staples			0.0		1.8		7.6
Energy			-3.5		15.1		22.6
Utilities			-1.7		5.8		8.1
Real Estate			3.8		7.5		11.0
Materials			-0.4		5.9		14.0
Nasdaq Composite			6.8		4.0		5.3
Dow Jones Industrial Average			3.2		0.0		2.9
Russell 2000			5.6		3.8		11.9
<b>Global Equities</b>							
DM: MSCI World index			3.9		4.0		6.5
EM: MSCI EM Index			3.2		8.6		14.3
CAN: TSX Composite			1.9		4.0		8.3
EUR: STOXX 600			1.9		2.0		5.8
HK: Hang Seng			1.0		-2.8		2.1
JPN: TOPIX			0.6		2.5		10.3
UK: FTSE 100			0.6		4.2		7.4
<b>Sovereign Fixed Income</b>							
US: 2-year Treasury	3.71	-0.10		0.15		0.24	
US: 5-year Treasury	3.84	-0.10		0.070		0.11	
US: 10-year Treasury	4.26	-0.05		0.090		0.080	
CAN: 2-year GoC	2.77	-0.0100		0.24		0.19	
CAN: 10-year GoC	3.44	-0.03		0.090		0.020	
UK: 10-year Gilt	4.78	-0.060		0.33		0.24	
GER: 10-year Bund	3.03	0.00		0.21		0.18	
CHN: 10-year CGB	1.76	-0.05		-0.0921		-0.0850	
JPN: 10-year JGB	2.4	0.0100		0.23		0.34	
<b>Corporate Bond Spreads</b>							
US: A-rated	72.3	-0.1		5.8		2.5	
US: BBB-rated	107	-3.1		7.6		2.0	
<b>Foreign Exchange Rates</b>							
DXY US Dollar Index	98.1		-0.6		-1.2		-0.2
EUR/USD	1.18		0.7		1.5		0.4
USD/CAD	1.37		-1.1		-1.6		-0.3
USD/CNY	6.83		-0.1		-2.1		-2.4
USD/JPY	160		0.2		0.6		2.0
GBP/USD	1.35		0.6		0.8		0.5
USD/CHF	0.783		-0.8		-2.3		-1.3
<b>Commodities</b>							
WTI Crude	83.9	-12.7	-13.2	24.7	41.7	26.4	46.0
Gold	4871	96.8	2.0	260	5.6	503	11.5
S&P GSCI Commodities			-3.6		20.5		23.8
S&P GSCI Industrial Metals			3.1		4.9		11.0
S&P GSCI Agriculture			1.1		3.0		1.1

\* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

Source: S&P Global, Russell Investment Group, Nasdaq, U.S. Department of Treasury, Macrobond Financial AB, Central Bank of Germany (Deutsche Bundesbank), Bank of Canada, Intercontinental Exchange (ICE), International Monetary Fund (IMF), CME Group, LBMA (London Bullion Market Association), Robert Shiller, Chicago Board Options Exchange (CBOE), U.S. Department of Labor, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Citi, Federal Reserve Bank of St. Louis, Energy Information Administration (EIA), MSCI, STOXX, Tokyo Stock Exchange, Toronto Stock Exchange, FTSE Russell, Hang Seng indexes Company, Pitchbook | LCD, arcMacro



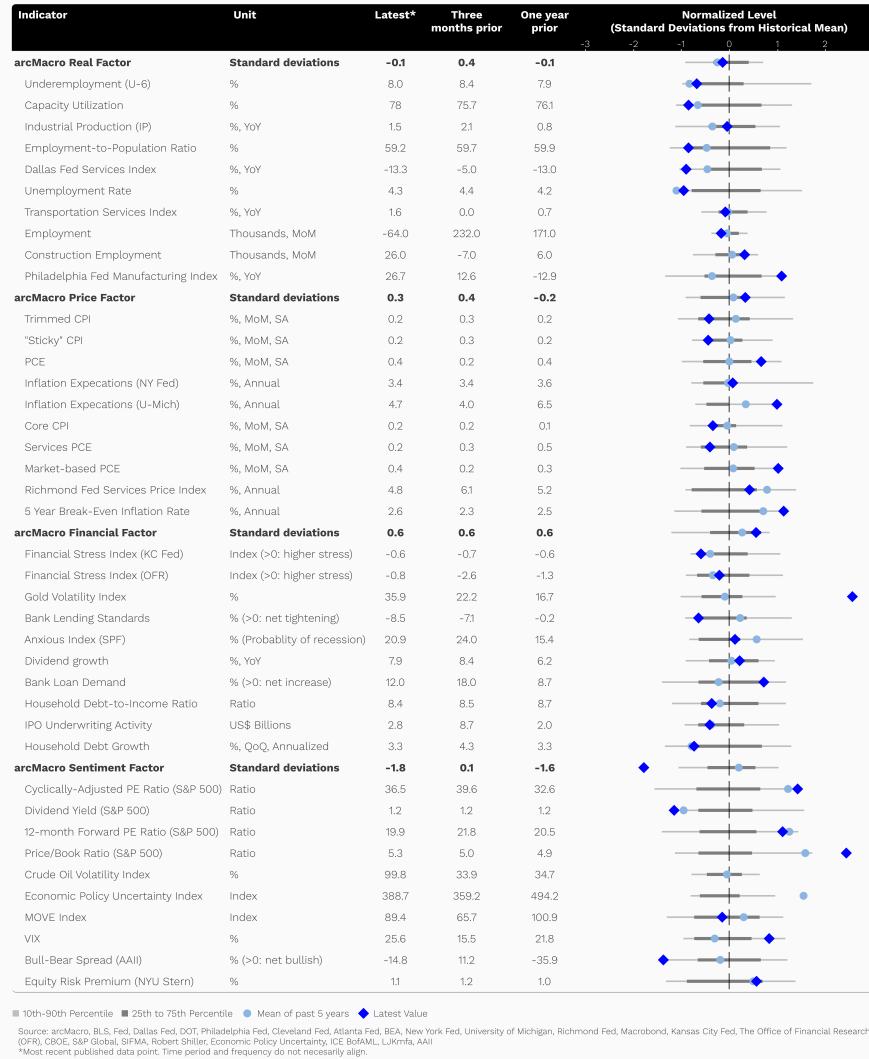
### arcMacro Real Time Factors

United States, z-score



Source: arcMacro

**arcMacro Factor Input Monitor**  
Top 10 inputs by factor loading



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