

Monthly economic webcast:

Tariffs + shutdown versus **monetary stimulus + AI cap ex**



Report card

POSITIVE THEMES



- Monetary stimulus to continue
- AI cap ex boom helps U.S.
- Recession likely avoided
- Tariff-driven GDP and CPI damage proving lighter than feared
- Lower oil prices help global inflation, economy

NEGATIVE THEMES



- U.S. gov't shutdown continues
- New lumber and truck tariffs arrive
- Canadian trade negotiations with U.S. falter
- U.S. economy mildly decelerating
- U.S. domestic margins compressing due to tariffs
- Watching market fault lines

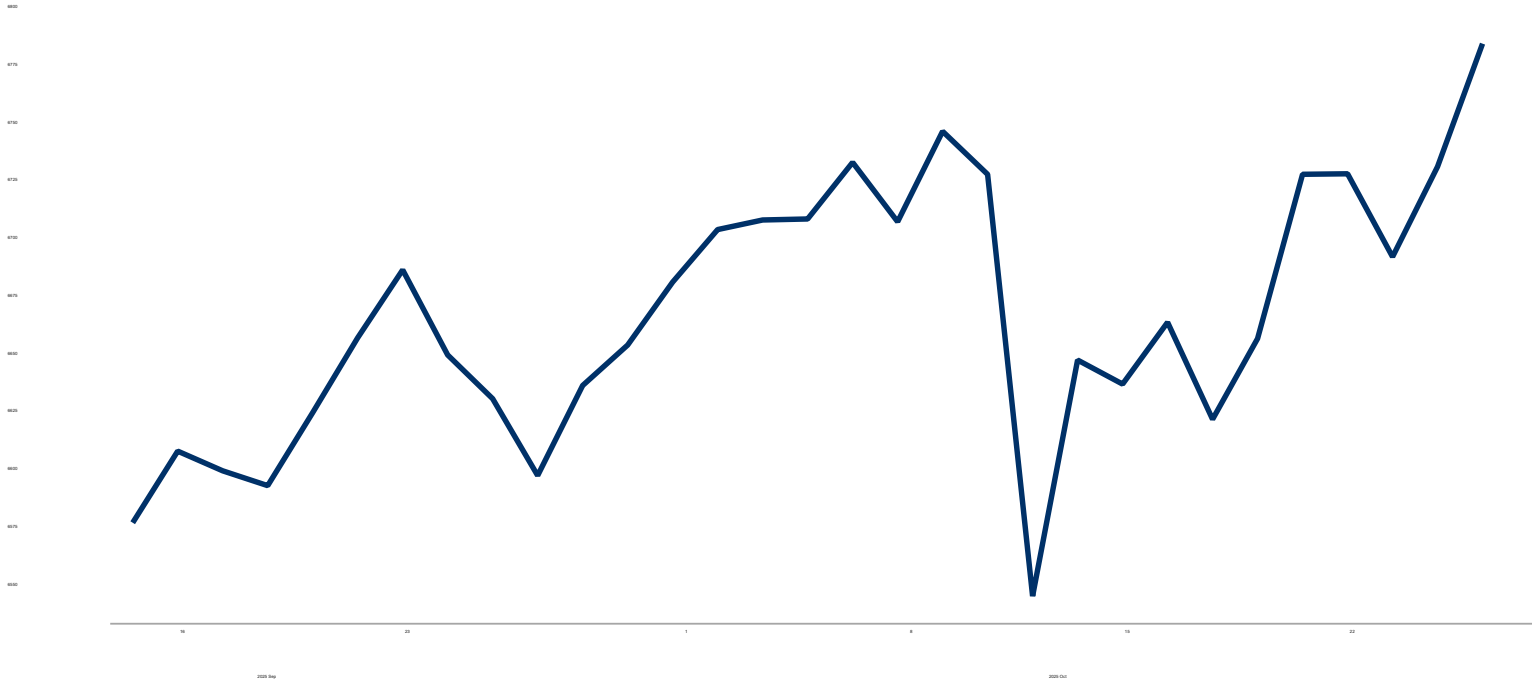
INTERESTING



- K-shaped economy (rich vs poor)
- Examining countries by income and growth thresholds

On alert for fault lines in markets

Equity volatility (annualized) to 10/25/25



Jittery stock market

- Though still near record highs

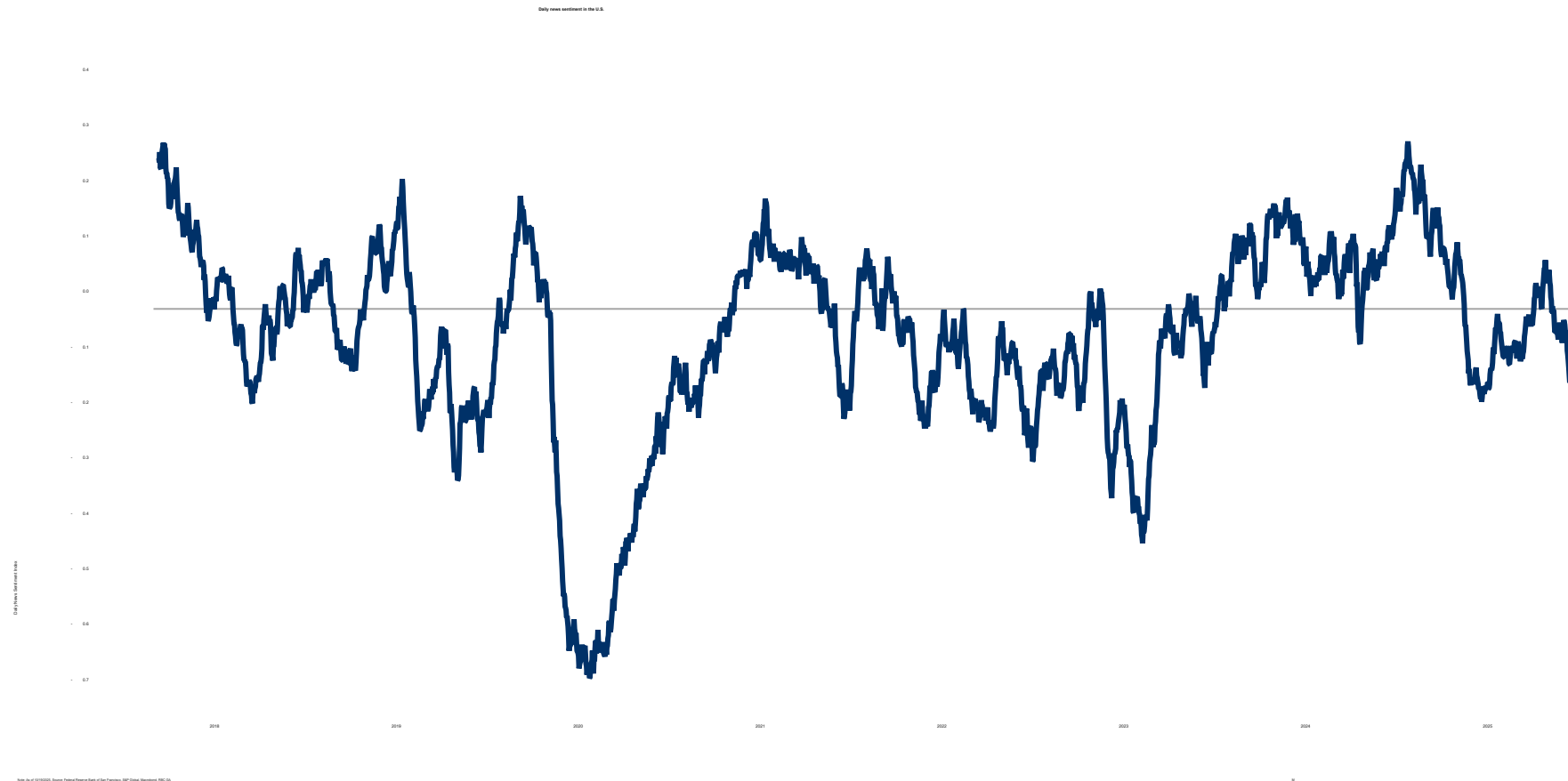
Sovereign debt concerns

- Though long-term bonds recently rallied

Credit concerns

- Though credit spreads still quite narrow
- Private debt not actually rising as % GDP
- Recent problems only idiosyncratic?
 - Tricolor – reflects subprime stress, but also possible fraud and the federal crackdown on undocumented residents
 - First Brands – reflects private debt problems, but also possible fraud and auto parts tariffs

SF Fed's U.S. Daily News Sentiment Index: dip following shutdown and new tariffs



U.S. government shutdown

- Republican and Democrats struggling to agree on a budget for 2026
 - Resulted in U.S. government shutdown starting October 1
 - Non-essential work halts, ~750,000 workers furloughed; essential workers continue but pay delayed
- Longest shutdown in history was 2018—2019, lasting 35 days
 - Financial markets usually suffer only modest losses (S&P 500 down, 10-year yield down, USD down)
- This shutdown is more intense: spans all areas of government (not just 5 of 12 as in '18-19)
 - Length of this shutdown is uncertain, betting markets think ~30-45 days
 - Neither party has strong incentives to cave, but pressure starting to build as essential workers balk
 - GDP approximately 1.0%-1.25% smaller while shutdown persists
 - Missing economic data
- Economy bounces back once shutdown is over
 - Furloughed workers receive back pay

Tariff developments

- **New U.S.-China frictions**
- **U.S.-Canada negotiations hit speed bump**
 - Pause in talks
 - Extra 10% tariff threatened
- **New U.S. sector tariffs**
 - Scope of steel and aluminum tariffs widened
 - Timber and lumber tariffed at 10%, some specialized products at 25%
 - 25% tariff on medium and heavy-duty trucks effective November 1
 - Pharmaceuticals – threatened but not implemented yet
- **Mild economic damage**
 - But less than feared (so far)
- **Mild additional inflation**
 - But less than feared (so far)
 - Margin compression becoming visible

Canadian tariff thoughts

Tariffs on Canada – 7% average rate:

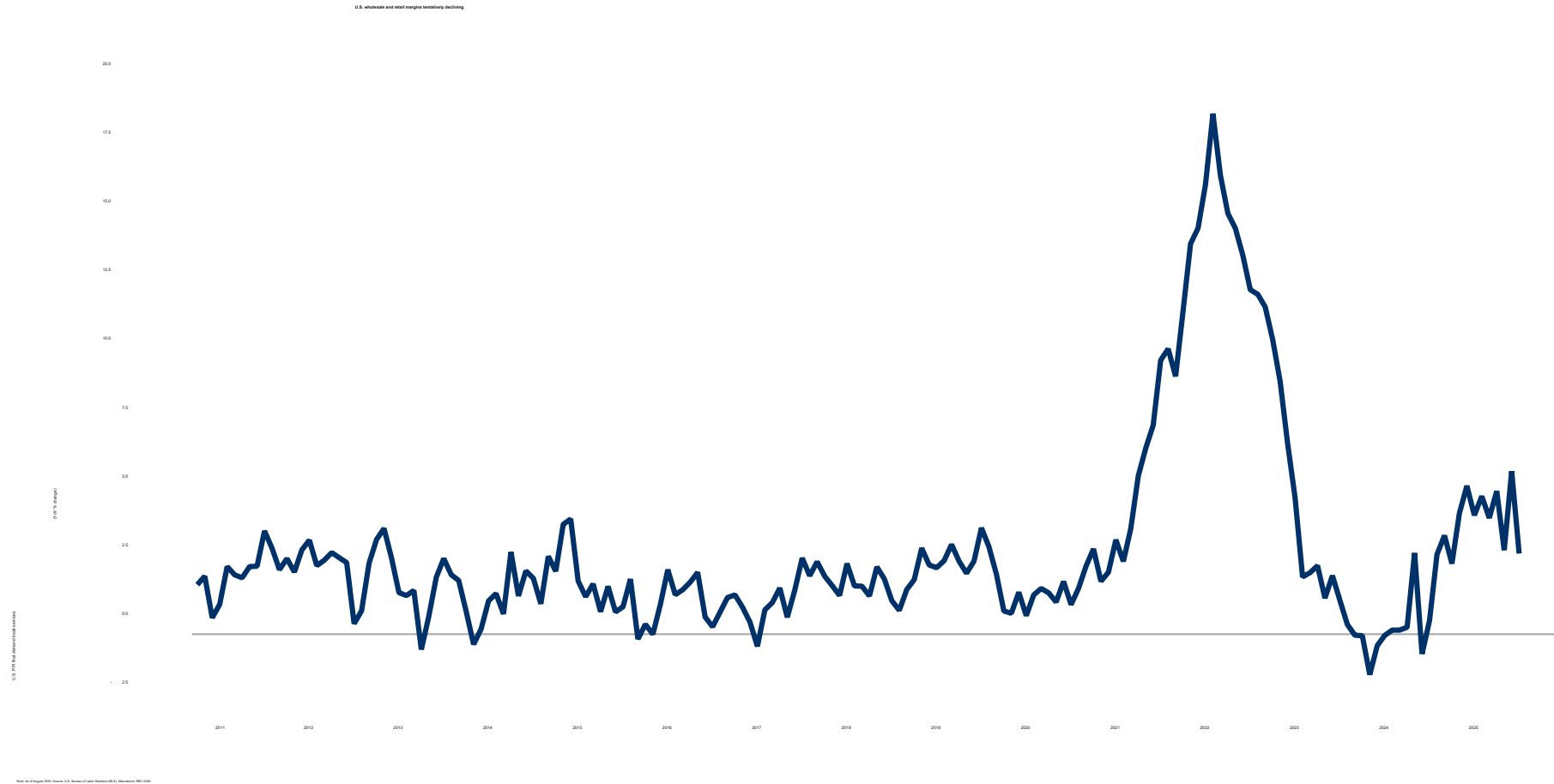
- Non-USMCA-compliant products pay 35% tariff – but affects <10% of exports to U.S.
- New threat to raise Canadian tariffs by 10%
- 50% tariffs on steel, aluminum, copper; new lumber tariffs
- 25% tariff on value-added portion of autos and now trucks
- Canada has scaled back its own tariff retaliation

Looking ahead:

- Canada has made significant concessions (border, military, digital services tax, retaliatory tariffs)
- U.S. still has complaints/demands (fentanyl, supply management, trade surplus, auto assembly, missile defense)
- Canadian government signals deal won't eliminate tariffs altogether
- Still attempting to negotiate with U.S., though recent speedbumps
- There is hope that a near-term deal will lighten tariff burden on steel, aluminum
- USMCA to be renegotiated mid-2026 – highly important:
 - Worst case: Tariffs on everything Canada sells to U.S.; service sectors targeted?
 - Base case: USMCA persists, but formalizes sector tariffs and potentially further constrains auto sector trade
 - Best case: USMCA persists, several sector tariffs lifted
- Canada attempting to strengthen trade ties with other countries

Tariff pain being spread around

- consumers, domestic margins, foreign manufacturers

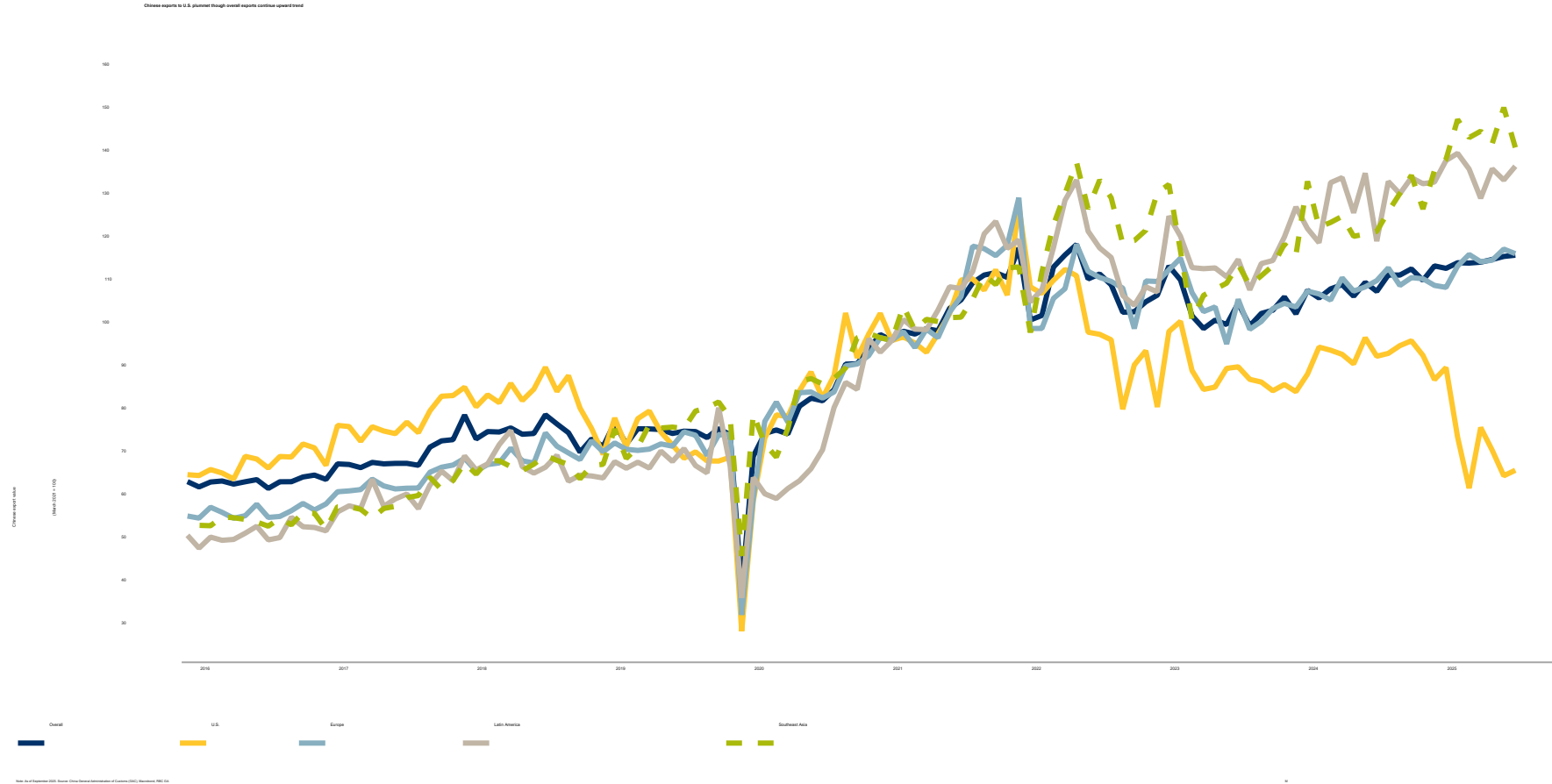


Decent trend in global trade despite tariffs

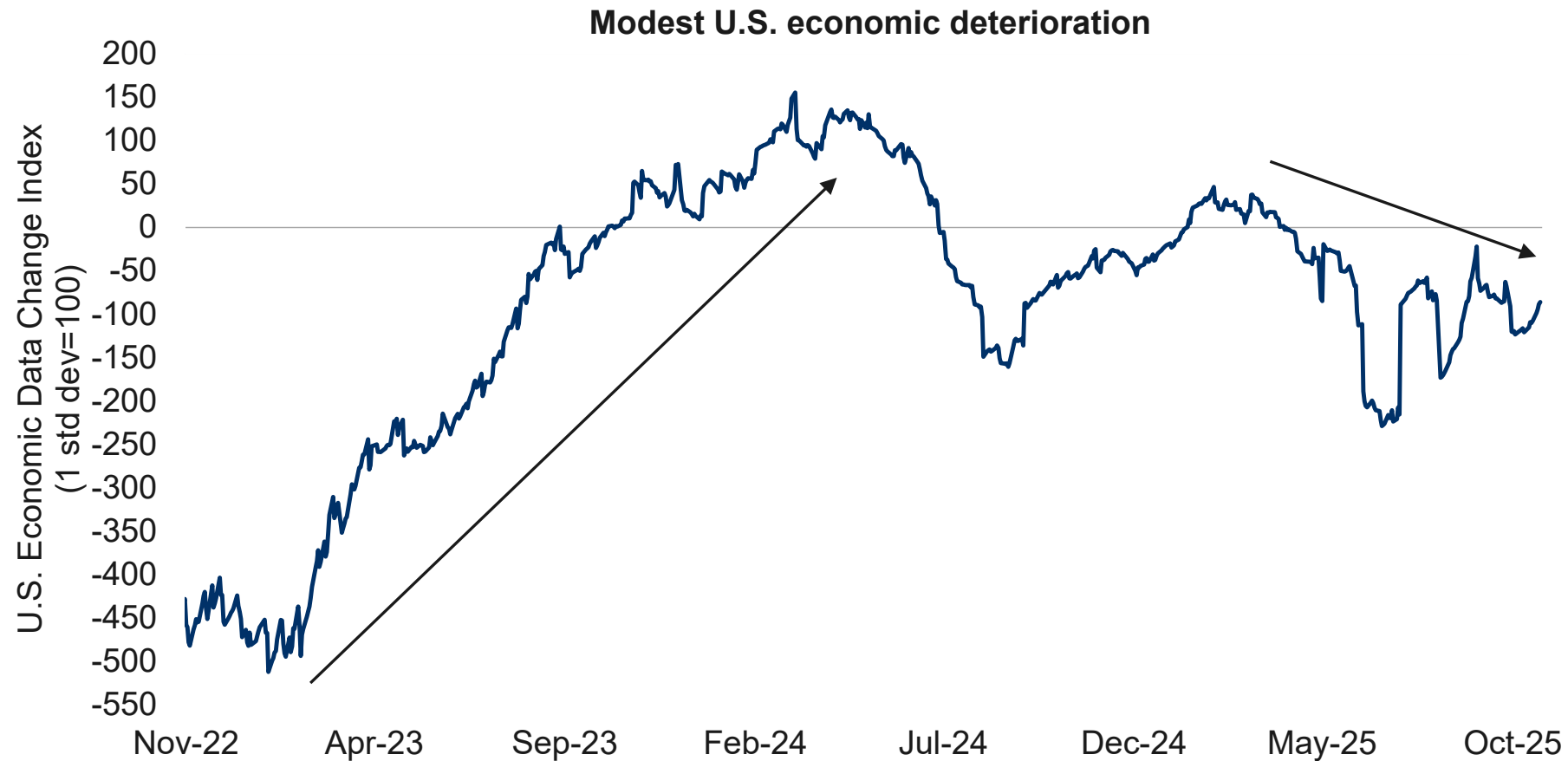


Note: As of Aug 2025. Shaded area represents U.S. recession. Source: CPB Netherlands Bureau for Economic Policy Analysis, Macrobond, RBC GAM

Chinese exports find new destinations

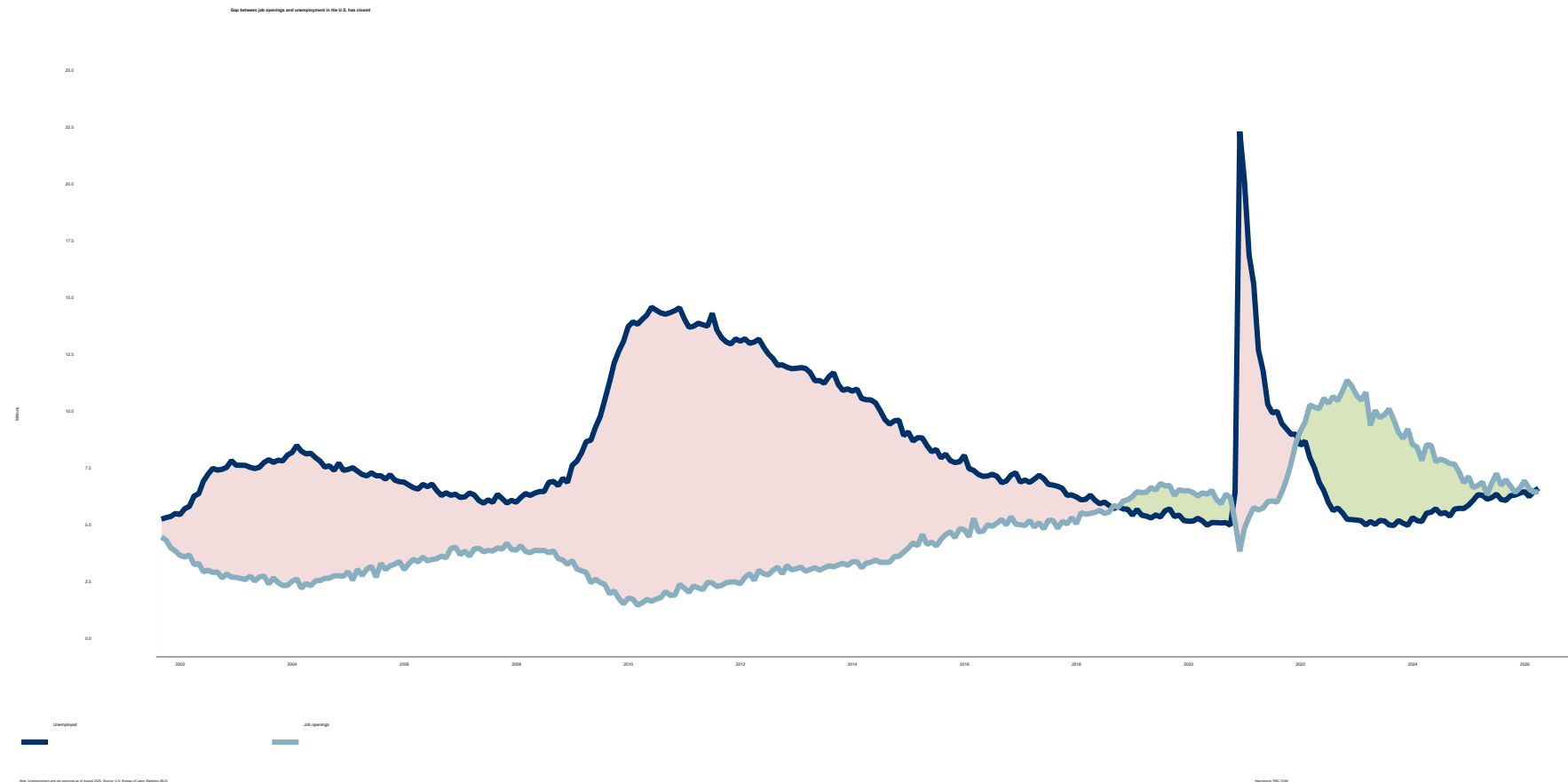


U.S. economic data is moderating but not crashing

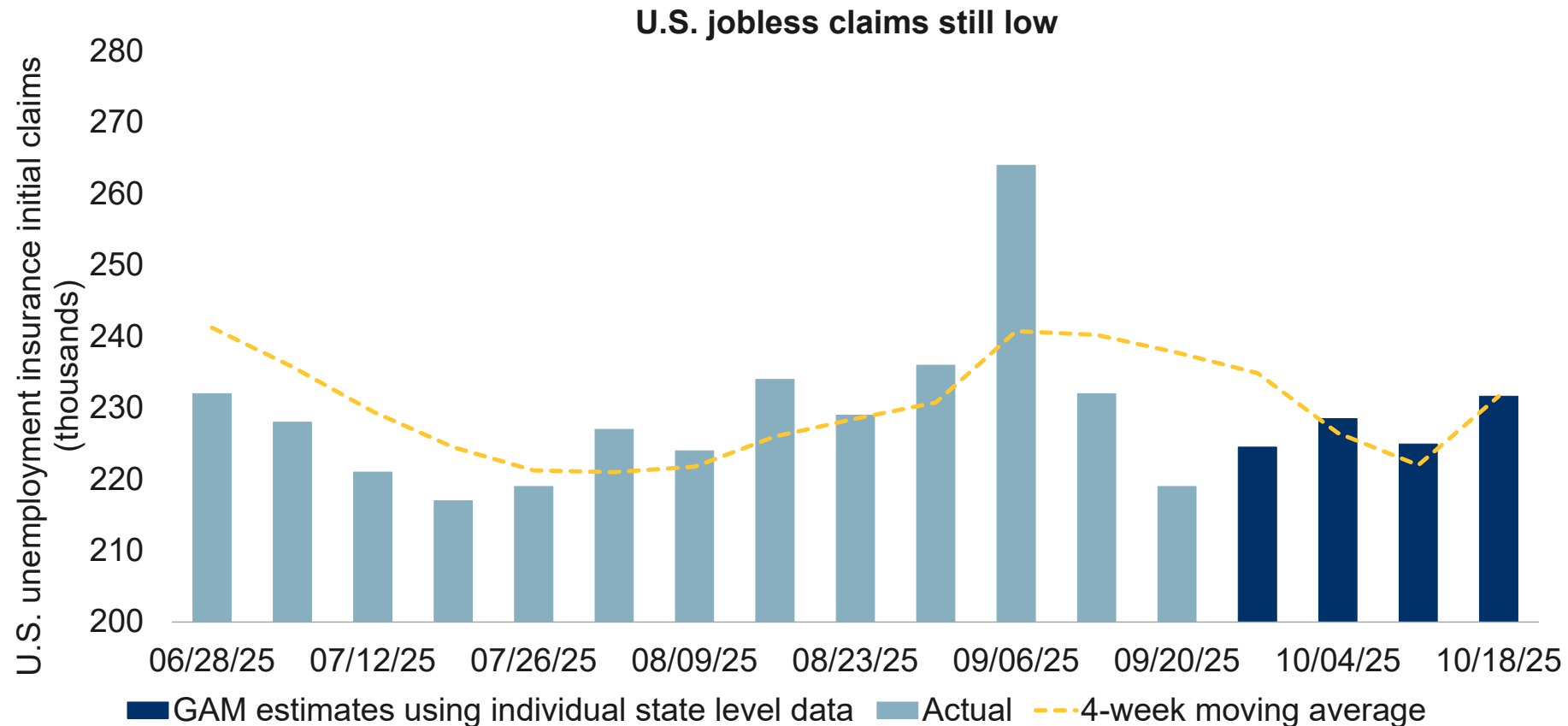


Note: As of 10/23/2025. Source: Citigroup, Bloomberg, RBC GAM

Unemployment now exceeds job openings for the first time in several years

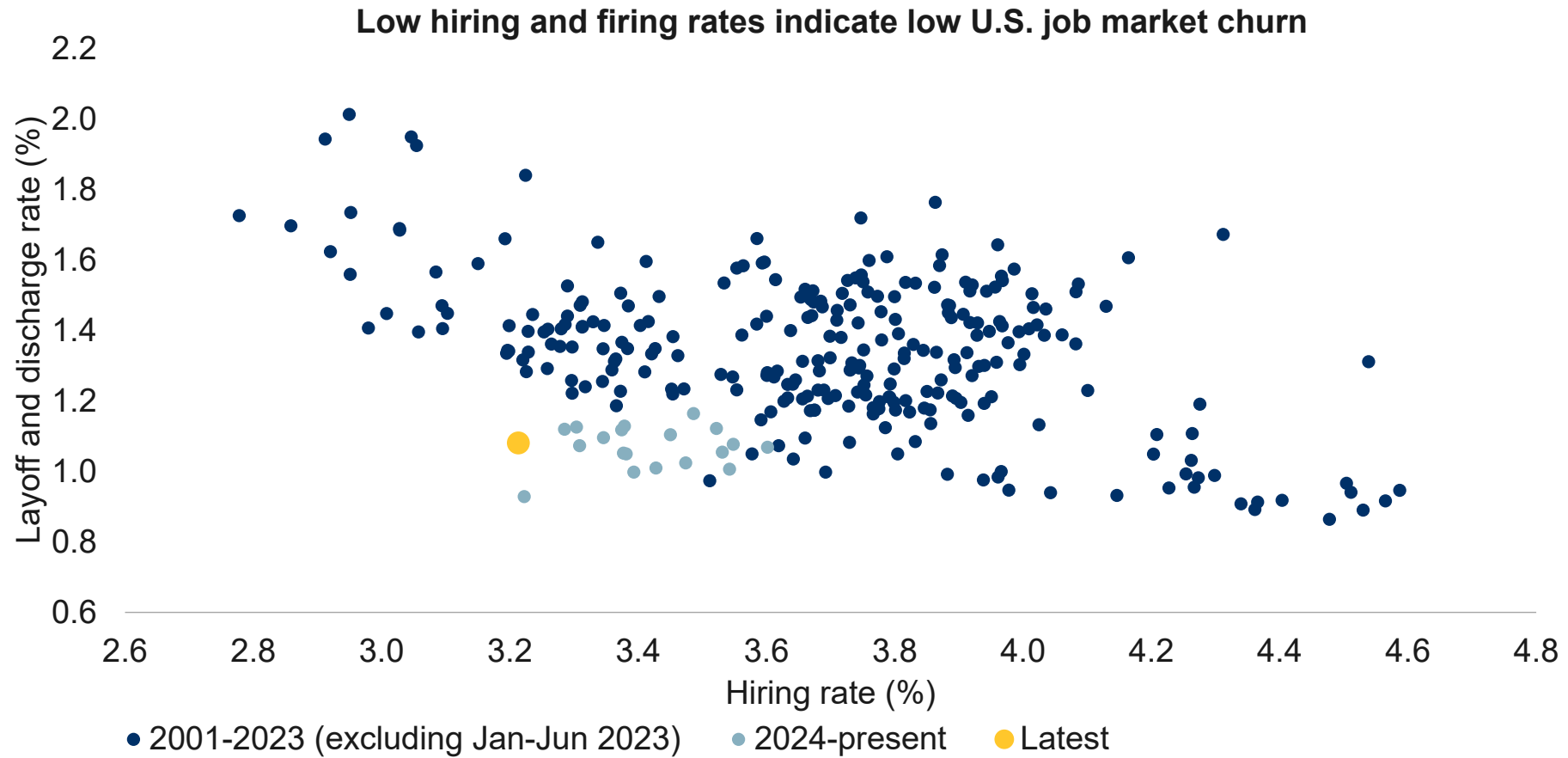


U.S. labour market is soft, but jobless claims say not too problematic



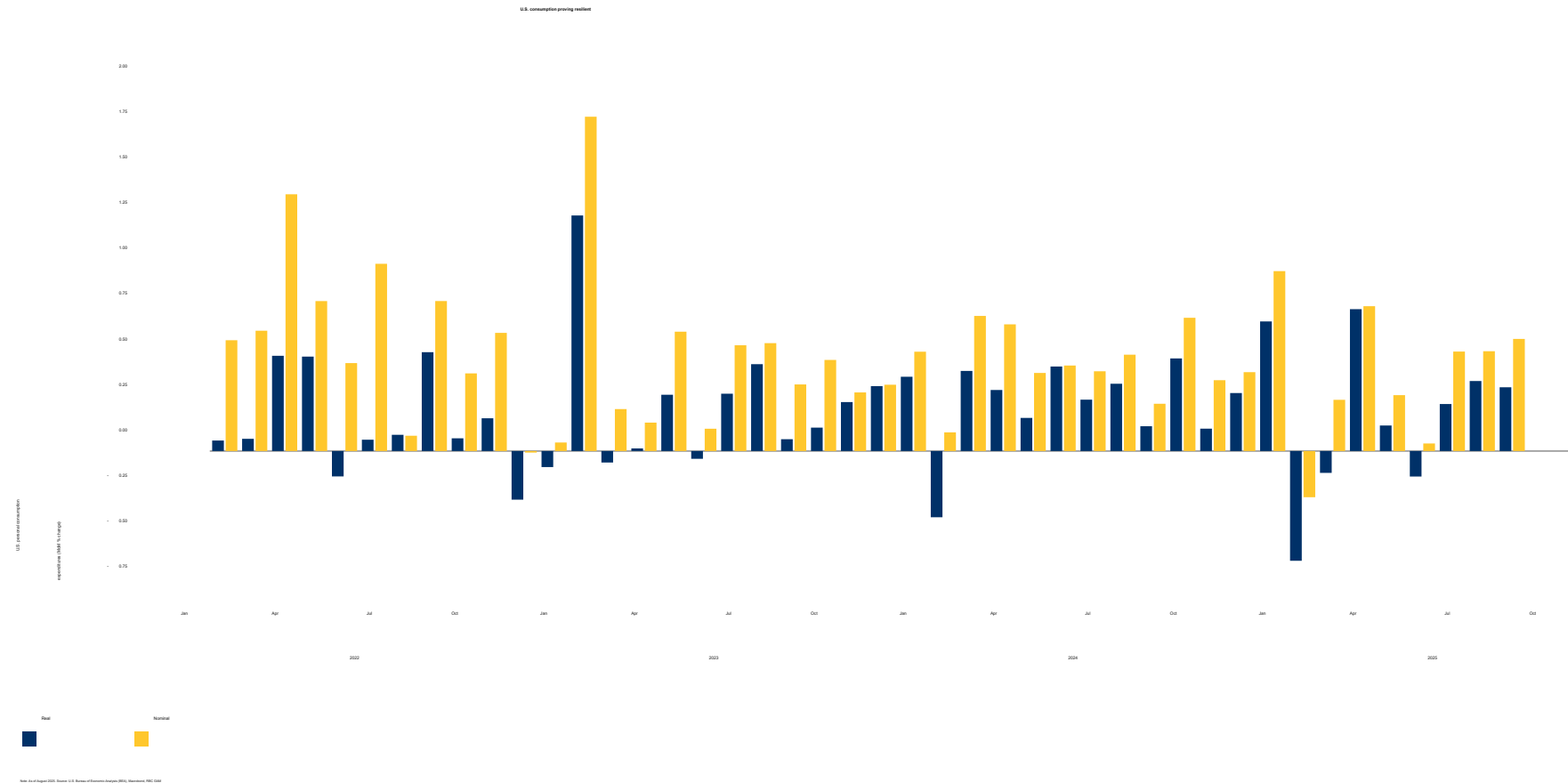
Note: RBC GAM estimates, as of the week ending 10/18/2025, based on latest state level data available. Actual claims data as of the week ending 09/20/2025. Source: DOL, Haver Analytics, RBC GAM

Weirdly stagnant labour market – low hiring and firing

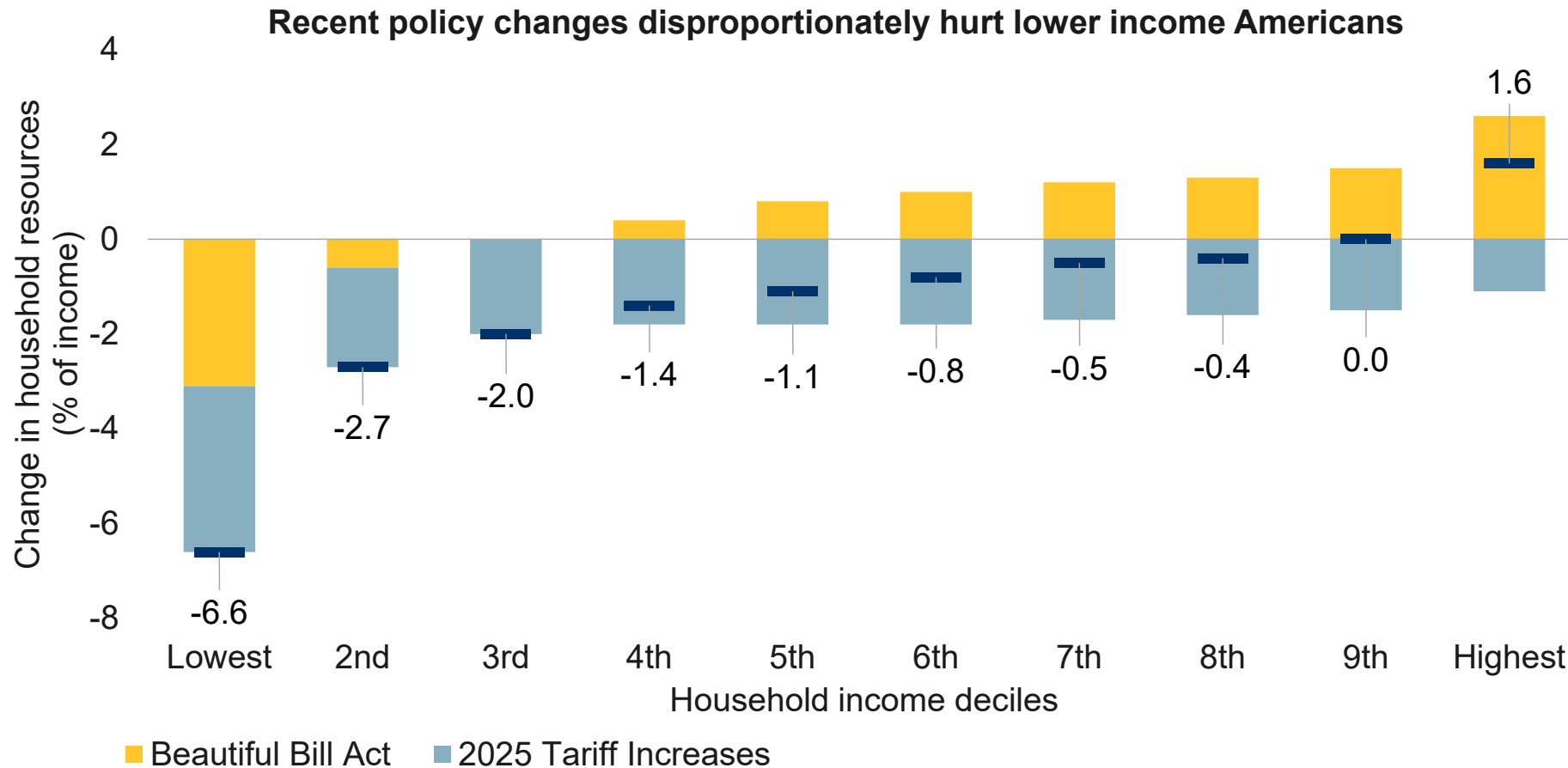


Note: As of Aug 2025. Source: U.S. Bureau of Labor Statistics, Macrobond, RBC GAM

U.S. consumption a source of recent strength, but should slow with anemic hiring

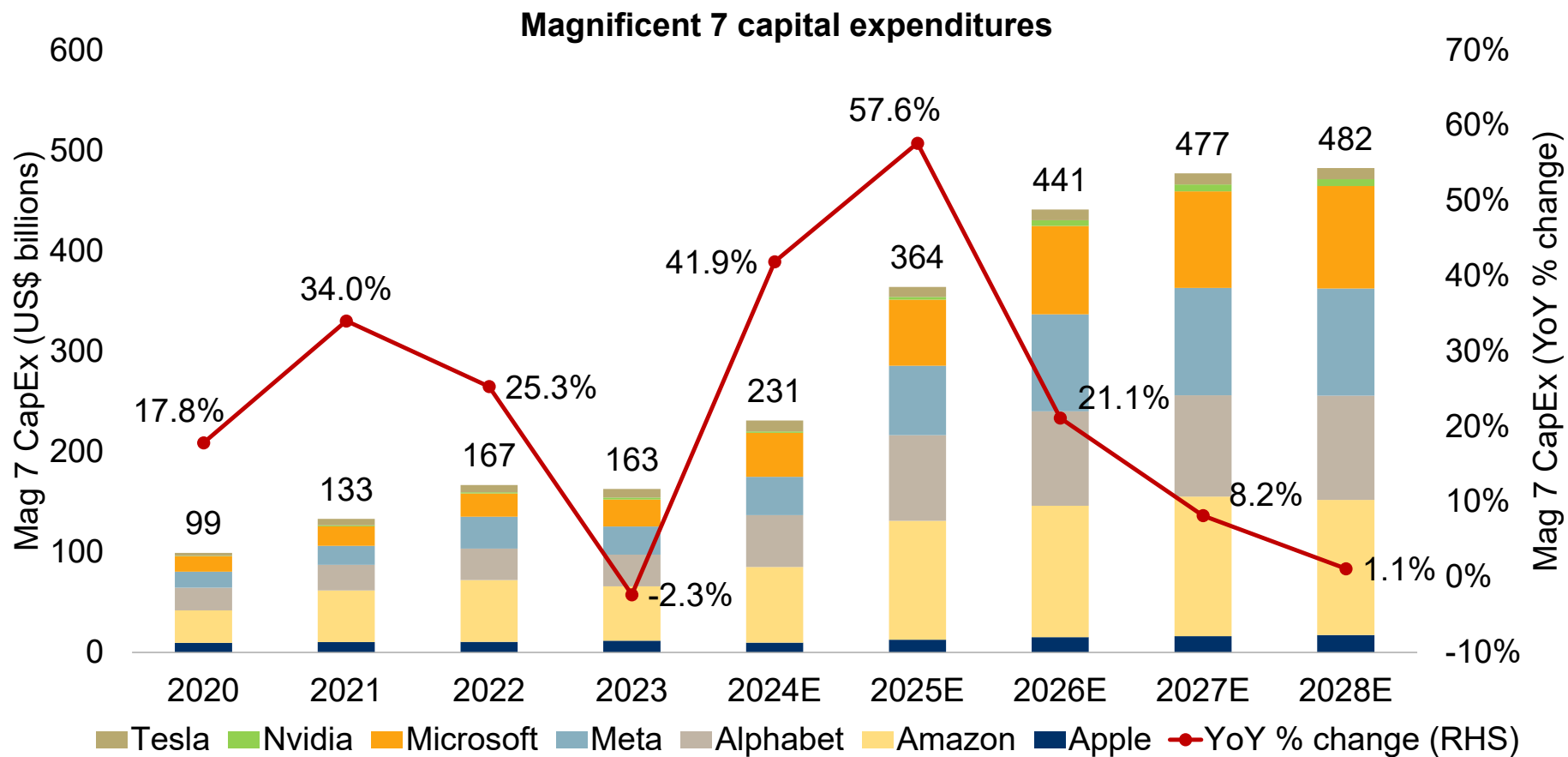


K-shaped economy: Lower- and middle-income Americans hit hardest by tariffs and tax changes



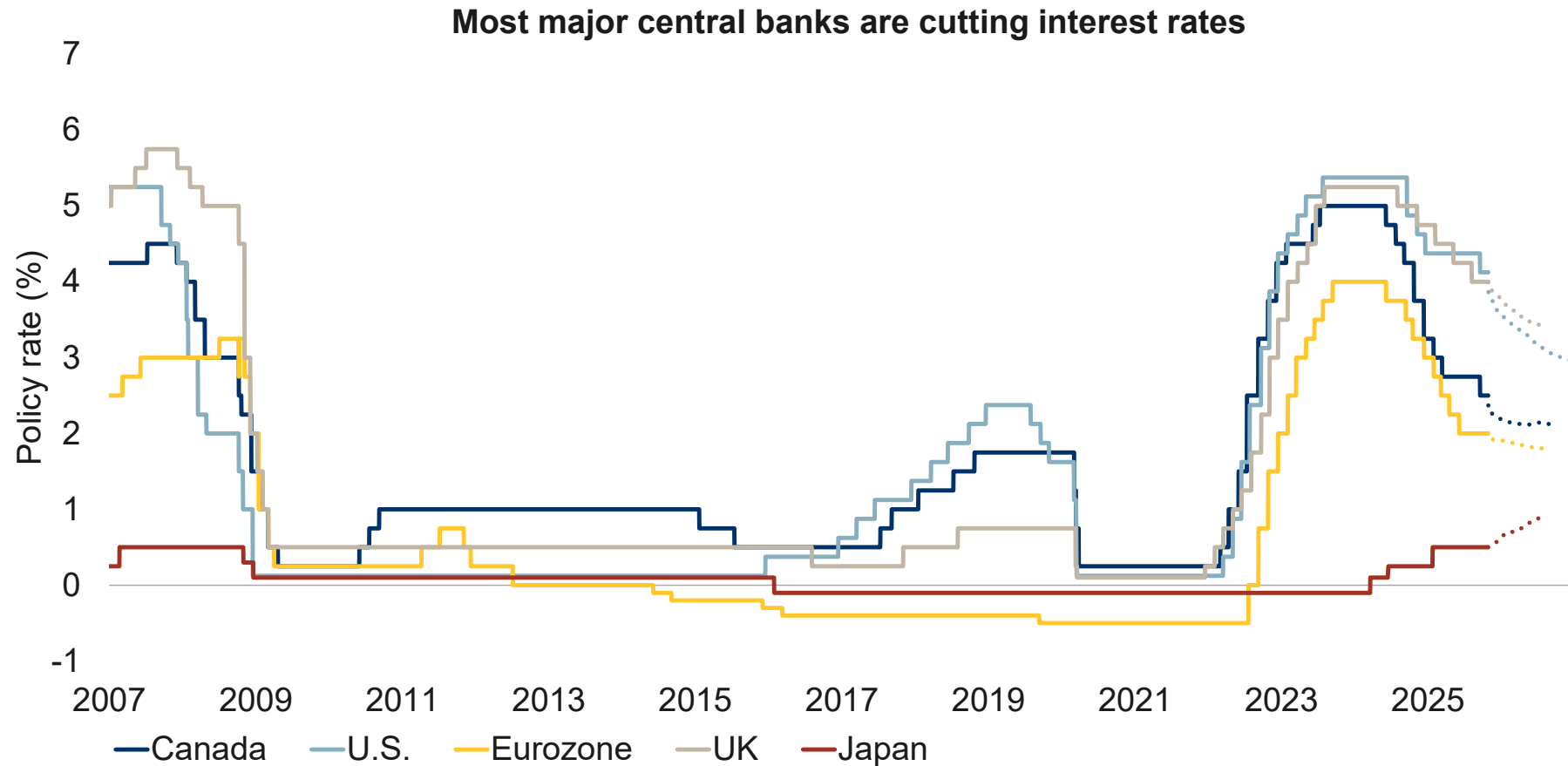
Note: As of 09/03/2025. Source: Yale Budget Lab, Congressional Budget Office, RBC GAM

AI cap ex boom supported U.S. economy in 2025 (+0.5% to GDP); less support expected in 2026 (+0.25% to GDP)



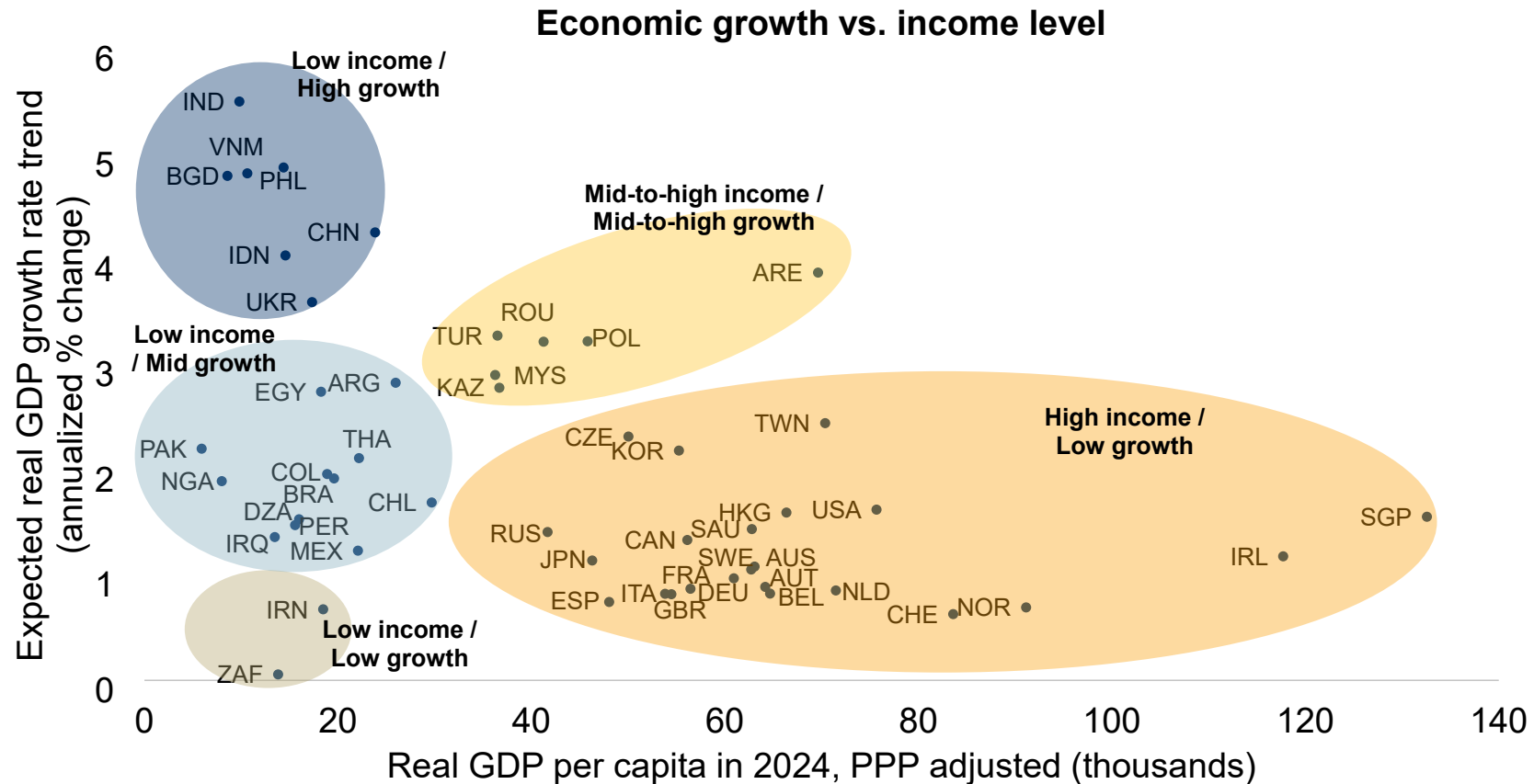
Note: As of 10/23/2025. Source: Bloomberg, RBC GAM

The general trend is toward less restrictive monetary policy – a boost for 2026 economic growth



Notes: As of 10/27/2025. Dotted lines indicate futures pricing. Source: Bloomberg, RBC GAM.

Grouping countries by income and growth outlook



Note: Includes largest 50 countries in the world by Real GDP 2024; IMF growth based on 2025-2029 forecast. Source: U.S. Central Intelligence Agency; IMF World Economic Outlook October 2025; RBC GAM

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