
February 6, 2025

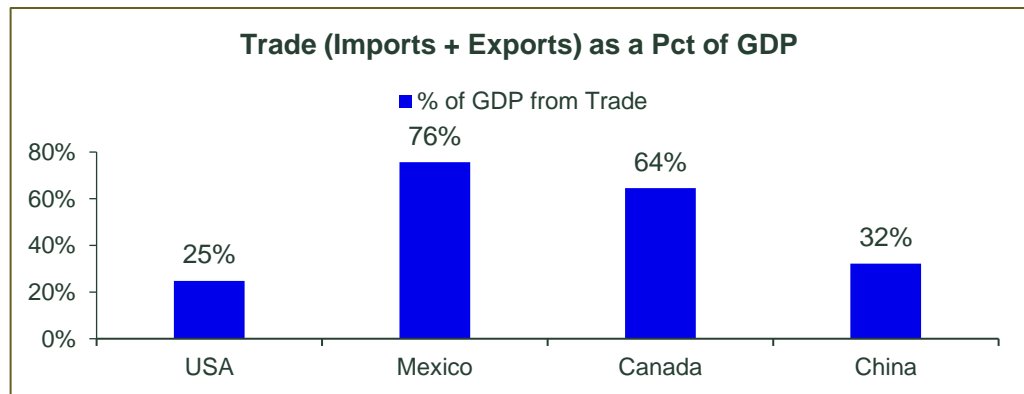
Commentary

Weekly Market Update

Insight of the Week

The Importance of Global Trade

Donald Trump hit the ground running in his first few weeks as US president, quickly imposing tariffs on Canada, Mexico, and China. Soon after their announcement, negotiations commenced and ended with a 30 day pause with Mexico and Canada. During the negotiations, both Mexico and Canada committed to reinforce the border and assist the U.S. in its effort to clamp down on immigration and illegal drugs. The chart below may give us some insight as to why the response was seemingly rather quick.



Source: FactSet, State Street Global Advisors. As of 9/30/2024.

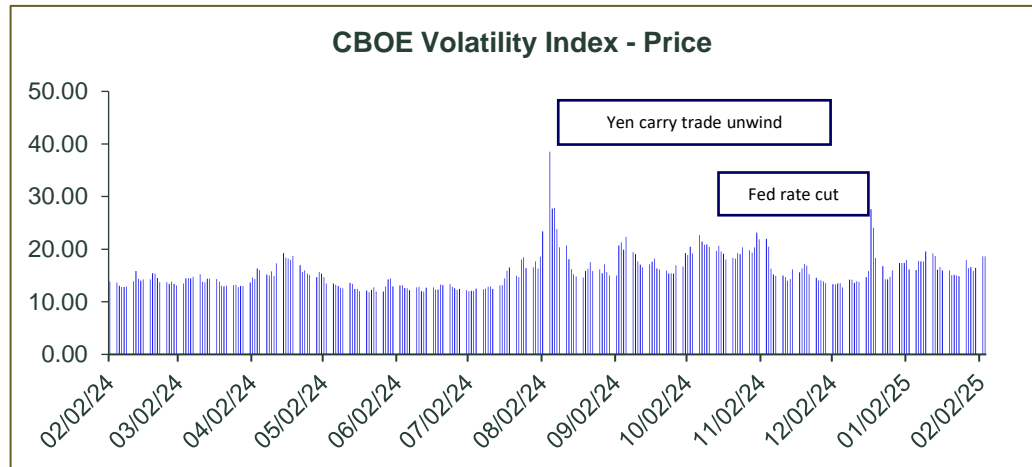
Here we show the amount of global trade (imports plus exports) as a percentage of GDP for each of the countries. What becomes obvious here, is how dependent both Mexico (76%) and Canada (64%) are on trade, and how their overall economies rely on its success. Because of this dependence, they will have a heightened sensitivity to the health of global trade. Conversely, the U.S. is somewhat of a closed economy, deriving only 25% of its GDP from trade, showing it may have less to lose.

The trade crisis has been averted – for now. Through all this, markets have been willing to generally stay calm and see through all the noise. However, this is only the beginning. While the most recent fight has been with the U.S.'s closest neighbors, it's only a matter of time before the Trump administration turns its eyes to Europe, bringing another round of frictions.

Source: FactSet. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Are Tariffs Priced In?

Continuing with the topic of tariffs, we examine how markets have reacted to these announcements. The 25% tariffs on key U.S. trading partners, Mexico and Canada, sparked significant debate. However volatility, as measured by the VIX, has remained stable, showing no signs of heightened investor concern or widespread sell-offs. This suggests that, despite the geopolitical implications, market sentiment has remained resilient.

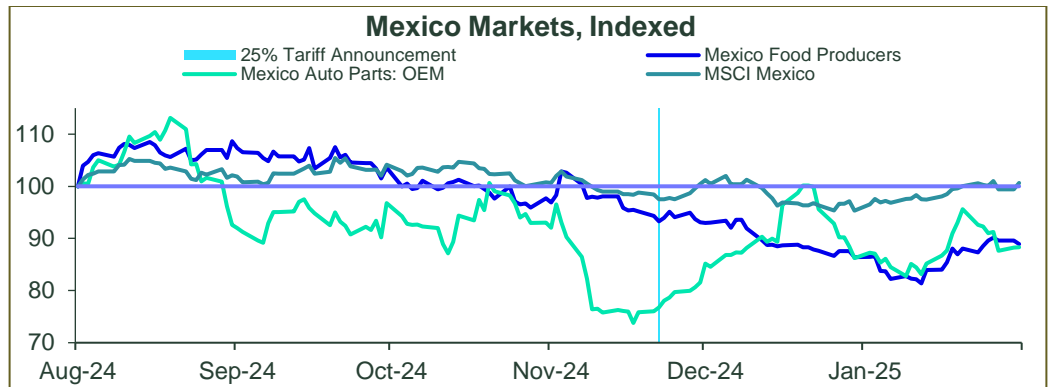


Source: FactSet. Data for the period of 2/2/2024 - 2/4/2025.

Despite uncertainties surrounding tariffs, the U.S. market remains fundamentally strong. It's almost easy to overlook but we're currently in the midst of a strong earnings season. So far, 42% of S&P 500 companies¹ have reported Q4 2024 earnings, with overall EPS growth exceeding consensus by 2.1 percentage points (16.3% vs. 14.2% y-o-y). While recent headlines have focused on DeepSeek and tariff threats, briefly weighing on returns, robust corporate earnings reinforce our long-term positive outlook on the market.

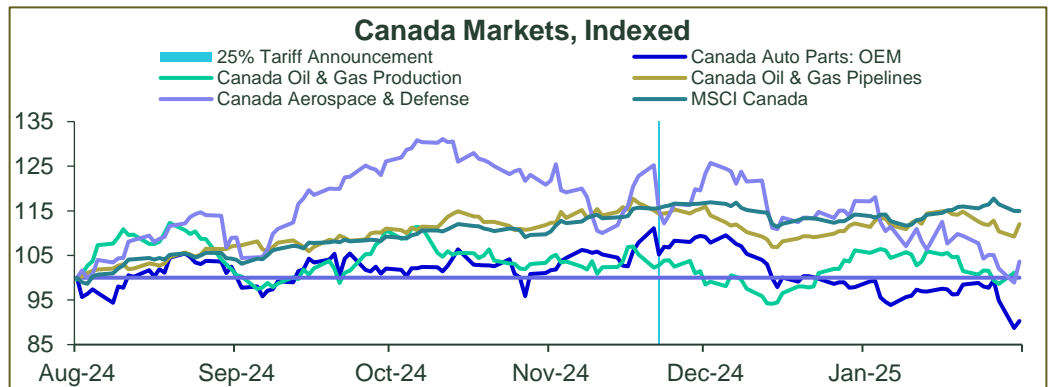
Back in November, then President elect Trump announced the possibility of 25% tariffs on both Mexico and Canada, giving markets a heads-up this may be coming. However, not all markets have fully absorbed this information. In Mexico, agriculture and auto parts are the sectors most exposed to the U.S., while in Canada it's auto production, energy, and defense.

¹ As of 2/4/2025.



Source: FactSet. Data for the period of 8/5/2024 - 2/4/2025 in local currency. Indices used: Mexico – FTSE Mexico All Cap / Food Producers, Mexico / Auto Parts: OEM (FactSet).

Over the past six months, which accounts for President Trump’s rising probably and eventual election, Mexican food and auto indices have declined amid pro-tariff sentiment from Trump, while the overall MSCI Mexico index has remained largely unchanged. While certain sectors have already priced in the potential tariffs, the broader Mexican market seems to be less effected. However, the economic consequences could ultimately be more significant than the current market reaction suggests.



Source: FactSet. Data for the period of 8/5/2024 - 2/4/2025 in local currency. Indices used: Canada – Canada / Auto Parts: OEM (FactSet), Canada / Oil & Gas Production (FactSet), Canada / Aerospace & Defense (FactSet).

Canada’s markets have shown even less sensitivity to the proposed tariffs. In fact, the overall MSCI Canada Index is up +15% over the last 6 months. With the exception of auto parts, trade-dependent industries have posted gains since August, only seeing a modest decline this week following the announcement.

While the announcement of tariffs initially sparked a debate, the overall stock market reaction has been moderate. U.S. equities remain supported by strong earnings, while in Mexico and Canada only certain bespoke sectors have shown some sensitivity. It’s tough to predict where tariffs end up, however if tariffs were to actually be fully enforced, it’s clear the market reaction will probably be more severe.

Source: FactSet. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

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*Pensions & Investments Research Center, as of 12/31/23.

†This figure is presented as of December 31, 2024 and includes ETF AUM of \$1,577.74 billion USD of which approximately \$82.19 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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