2025 PERSPECTIVES

FEBRUARY

GUARDIAN CAPITAL | PRIVATE WEALTH

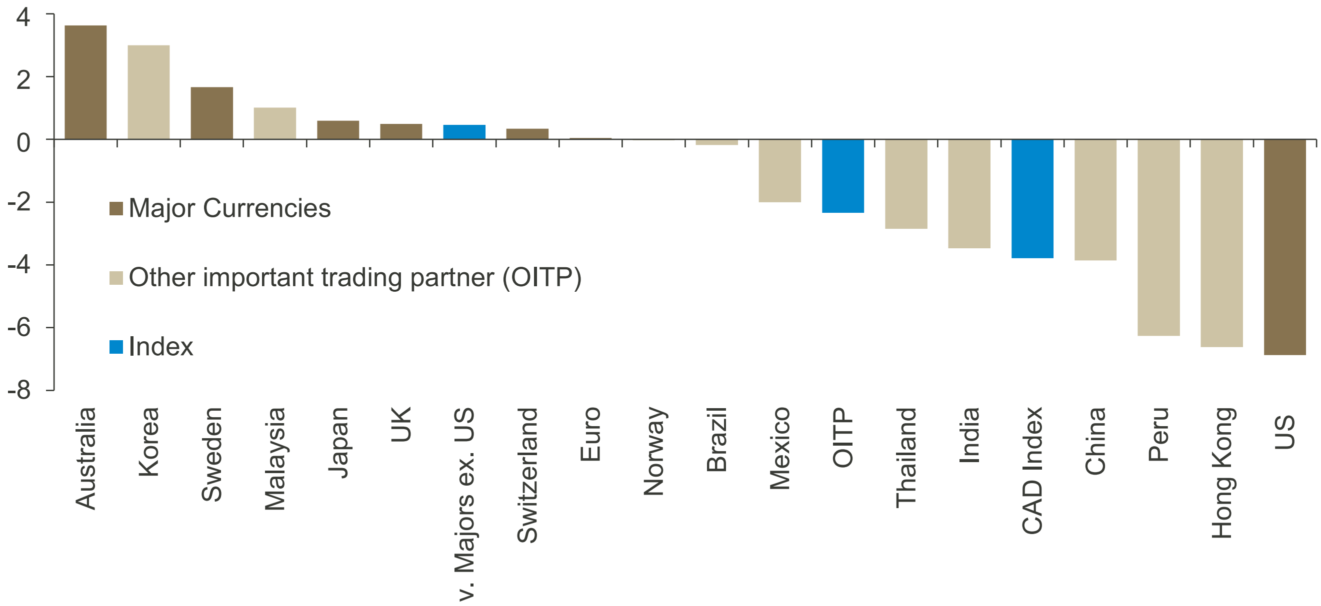
The currency of our discontent

One of the more interesting developments in financial markets over the last few months is that, despite the significant and growing potential for changes in US economic policy to negatively impact Canada, domestic stocks and bonds have held up remarkably well. Case in point, the S&P/TSX Composite Index has generated a 7.4% total return since the end of September, outpacing the American S&P 500 Index's 5.3% gain in local currency terms.

Of course, as snowbirds can attest, one area where negativity appears to be getting to Canada is the currency. The Canadian dollar has declined 7% versus the US dollar over the past four months, which is a nearly two-standard deviation move over that period based on the last half-century of data. While that boosted foreign asset returns in Canadian dollars — the S&P 500 return since September 30, 2024 jumps north of 12.0% when translated into the domestic currency — it also means that travelers get less bang for their buck south of the border.

What is noteworthy, though, is that while the loonie has dived against the mighty US dollar, it is pretty much unchanged against other major Developed Market currencies. The Canadian dollar rose 0.5% since September against a trade-weighted basket of the euro, yen, pound, Swiss franc, Australian dollar and Swedish krona — strengthening against all six of those currencies.

Loonie diving in the US but flying overseas
(percent change in foreign exchange cross rate)



Source: Guardian Capital based on data from Bloomberg and the Bank of Canada from September 30, 2024 to January 31, 2025

GUARDIAN CAPITAL ADVISORS

GUARDIAN PARTNERS INC ™

The depreciation in the Canadian dollar is less a reflection of domestic weakness and more a testament to American exceptionalism. The US economy has persistently been the top performer, interest rates have declined by comparatively less than their peers, and its markets have been at the top of the league tables, all of which is attracting international investment dollars. Compounding this trend is a threat of a burgeoning and broad-based trade war that will do more to spin the dial of America's trade partners than it will within its own borders.

The outlook and rhetoric out of Washington suggest little reason to expect a reversal of the broad US dollar strength anytime soon. The underlying health of the US economy is reducing expectations of policy easing stateside and widening the interest rate differentials, while the threat of tariffs looms large.

Clever Canadians may well continue to keep their portfolios in the US markets, and use those gains to better explore Canada "from sea to sea" or perhaps stretch their wings to take in the old world.

Follow us on LinkedIn and stay in the know.

2025 PERSPECTIVES

FEBRUARY

GUARDIAN CAPITAL | PRIVATE WEALTH

Published Date: February 5, 2025