

# Trump tariffs as a valuation tool

By Warren Lovely (leveraging analysis from NBC’s resident ‘Tariff Czar’, Ethan Currie)

U.S. trade policies remain the ultimate wildcard, with President Trump’s alternating fits of tariff escalation and de-escalation influencing the outlook on most everything. Whether crafting a broad/global economic view or assessing one’s personal prospects, Trump’s tariff policies remain a vital input. And so it is in credit markets.

As we’ve regularly detailed, the U.S. weighted average effective tariff rate, or AETR, started its ascent back in February. U.S. tariffs reached their zenith in the wake of the tragicomedy that was ‘Liberation Day’, briefly breaching a global economy killing threshold of 30%. Thankfully, there’s been some important (needed) de-escalation since, with the U.S. AETR currently hovering in/around 15%. (Our own Ethan Currie can provide interested readers an up-to-minute estimate.)

The roller-coaster ride that has been U.S. tariff policy helps explain year-to-date oscillations in credit spreads, including here in Canada. The statistical connection between the aforementioned U.S. AETR and the most liquid, actively traded and/or frequently quoted Canadian credit spread—the Ontario 10-year spread vs. GoC—is, to us, undeniable.

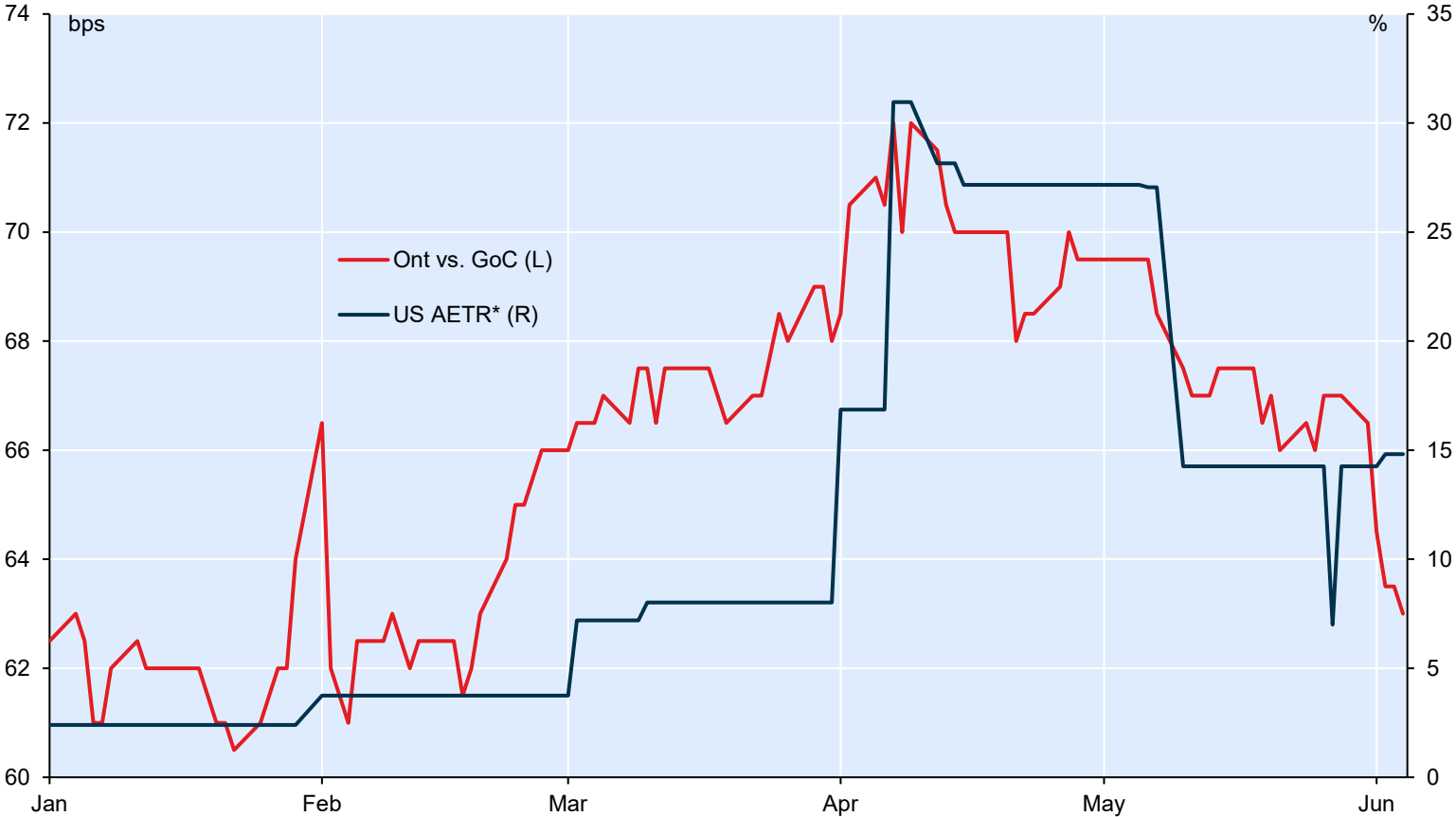
With more than 100 of the calendar year’s trading days now in the book, the correlation coefficient (r) between the U.S. AETR and Ontario 10s

exceeds +0.8. Using an r-squared approach, that means the AETR, on its own, explains two-thirds of the spreads posted in the provi market.

Strictly speaking, provincial credit has been just as positively correlated with that most traditional of risk proxies, U.S. IG CDX. But with U.S. credit indices also taking clear statistical direction from the effective tariff rate, all (credit) roads seemingly lead back to the White House. So if you want to know where we’re headed on spreads, you might just as well ask (or guess at) what Mr. Trump has in mind for U.S. tariffs.

It may be that the ultimate destination for U.S. tariffs remains an open question. And as we’ve witnessed more than a few times this year, when America’s trade policies are shifting violently, it’s tough for credit markets to focus on too much else. Simply put, volatile trade pronouncements shake investor conviction. But the corollary could also hold. If, as and when we return to a period of relative tariff policy stability, credit investors should once again be able to revert to traditional valuation models. Wishful thinking? Perhaps. Nonetheless, in the coming days we will explore certain non-tariff inputs/developments that help to inform our broader view on credit... all the while keeping close tabs on the President.

**Chart: So far this year, credit markets have their cue from U.S. tariff policy (including in Canada’s provincial bond market)**  
Evolution of Ontario 10-year domestic credit spread (vs. GoC) & U.S. average effective tariff rate (AETR): 2025 YTD (to 6-Jun)



Source: NBC, U.S. Census, BBG | Note on Ontario spread: Reflects NBC’s daily new issue indications; constant maturity spreads vs. GoC curve | Note on U.S. AETR: Constructed by NBC based on White House announcements through 5-Jun-25; applies 2024 trade weights by country / HS2 code



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