THE GLOBE AND MAIL

Trump's tariff threats put chill on deals, investment in Canada as weak loonie could keep some investors circling

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The threat of a trade war hanging over the North American economy has sent a chill through investors, putting deals on pause and making it harder for Canadian companies to raise capital.

The prospect that punishing tariffs threatened by U.S. President Donald Trump could upend key industries such as manufacturing and agriculture has raised the risks in making new investments in Canada.

A weakening loonie could accelerate some deals that are nearing the finish line, but more often it is forcing dealmakers to recalculate what Canadian companies are worth.

"For any Canadian business that has meaningful U.S. sales exposure, I think those deals are either getting shelved completely or certainly being negotiated or reassessed with a far higher level of scrutiny. There is no doubt about that," said Stephen Ng, managing director at Toronto-based investment bank Crosbie & Co., which specializes in advising on mergers.

Even after leaders from Canada and Mexico bargained this week to win a 30-day reprieve from the 25-per-cent tariffs on most exports that Mr. Trump had threatened, investors are tweaking their models to account for a more chaotic trade relationship with the United States.

Shoring up Canada as an attractive place to invest will be top of mind at a last-minute summit that Prime Minister Justin Trudeau is convening Friday. The gathering of business and labour leaders as well as investors will discuss ways to spur growth and investment and diversify Canada's trade relationships.

With the clock ticking on the tariff pause, and uncertain timing around a federal election this year, investors, lawyers and bankers expect the current investment freeze could last at least through the first half of this year.

"There is a pause happening now," said Marco Tomassetti, a managing director with KPMG Canada's deal advisory team. "We have deals that have a large U.S. exposure. We're not going to go to market this month. We might wait a few months."

The risk premium on Canadian assets, which is the extra return investors expect to earn for taking risks with their money, has gone up. That could dent the value of some companies, and make it harder or costlier for them to sell new shares to raise money from investors.

With so much in flux, CEOs, boards and major investors are hesitant to make decisions that could blow up if a trade war escalates.

“It’s tough to know how to plan when you don’t know what the rules of the game are going to be,” said Jeremy Fraiberg, co-chair of mergers and acquisitions at law firm Osler, Hoskin & Harcourt LLP. “There are a lot of unknowns, and uncertainty tends to be chilling. That’s the fundamental problem.”

Not all deals are frozen. After a slow year in 2024, major investors are flush with capital that needs to be put to work and under pressure to return cash to clients. As inflation has eased and interest rates have fallen, the conditions for investing have improved – at least, before trade tensions threw a wrench in the machinery.

Blackstone Inc., which manages more than US$1-trillion and opened a Toronto office in 2023, is aiming to ramp up its Canadian transactions.

“Canada is a hugely important market for investment at Blackstone – that has not changed,” president Jon Gray said in an e-mail. “Obviously you have to be more mindful of export-oriented businesses, but we are actively looking at a range of opportunities in the country today.”

A weak loonie may make some Canadian takeover targets more attractive, especially in sectors that aren’t directly exposed to tariffs.

“If you were already looking at a company or you were already looking at closing a deal, then suddenly the exchange rate is leaning in your favour, that acts as a catalyst,” said Adriana Vega, vice-president of government affairs for the Canadian Venture Capital and Private Equity Association. “You accelerate the deal because you have already done your due diligence.”

A weak dollar can cut both ways, however, affecting a cross-border business’s prices and eating into profits. More deals may be structured with a purchase price that is contingent on the selling company’s performance.

Mr. Tomassetti said he had a recent call with a manufacturing client to map out the impact of foreign currency on the company’s supply chain.

“Companies are looking internally at their supply chains, at their pricing, at their cost optimization, and they’re trying to figure out, if there is a new norm coming, what are we going to do?” he said.

The Caisse de dépôt et placement du Québec, a pension fund manager that oversees $452-billion, launched a program Thursday to support Quebec companies on projects that boost productivity or help them pivot to new markets.

It’s not clear how long it may take investors to adapt, but as the trade fight plays out, there is optimism that the pace of deals could rebound later this year.

“This isn’t a country I think would ever fall into the basket of being ‘too hard’ ” to do deals, said Shevaun McGrath, co-head of private equity at law firm McCarthy Tétrault LLP. “Once it stabilizes out, I think the deal flow will continue.”