

Investment Insights

The Diversification Imperative

As trade threats have escalated, they have prompted the question: If the U.S.-Mexico-Canada free trade agreement (USMCA) were dismantled, what would happen to Canada?

Trade remains top of mind for many investors. While USMCA renegotiations were originally expected in the months ahead, debate over its future has come back into focus, driven by tariff rhetoric that continues to fuel uncertainty. Many economists expect the agreement to survive in some form, as dismantling it would risk disruption in a midterm election year, despite the increasingly heated tone.

Prime Minister Carney's provocative speech in January at the World Economic Forum, cautioning that the old rules-based international order is unlikely to return under current hegemonies, was hailed by some as one of the boldest by a Canadian leader in decades. His message was clear: Canada must act decisively with a new economic strategy, and focus on diversifying global trade relationships.

But how feasible is it to reduce dependence on the United States? Exports alone to the U.S. represent roughly 20 to 25 percent of Canada's GDP, underscoring the scale of that challenge. Unwinding integrated trade relationships can carry lasting economic costs. The United Kingdom's exit from the European Union offers a cautionary example: a decade after the referendum, the UK economy is estimated to be 6 to 8 percent smaller than it would otherwise have been.¹

However, a recent study suggests a more tempered outlook. Oxford Economics projects that a collapse of the USMCA would reduce Canada's GDP by about 1.8 percent below baseline and cut private investment by 6 to 7 percent; not great, but far less severe than past downturns Canada has absorbed and recovered from.² In the early 1980s recession, Canada's economy contracted by around 5 percent, and unemployment peaked at 12 percent, driven by elevated inflation and sharply tightened monetary policy. High trade barriers between Canada and the U.S. are also not unprecedented, having occurred during long stretches of the 19th and 20th centuries.

Not to diminish the potential consequences, but Canada's inherent strengths provide reason for broader optimism. We are a nation rich in resources, boasting abundant fresh water, three coastlines and the most educated population globally.³ Beyond these advantages, Canada's stability, both politically and economically, offers a firm foundation for investors, businesses and policymakers alike. Under current leadership, there is a clear imperative to reorient the economy. Regardless of political views or opinions on specific trade partners, Carney has been steadfastly working to diversify trade and attract investment to build resilience into Canadian supply chains.

These lessons extend into investing as well. What seems certain one day can quickly reverse tomorrow. Nothing lasts forever. Diversification is not just prudent; it is imperative for managing the risk of change. Markets are inherently volatile, and, at a time when impulsiveness may feel embedded in the new world (dis)order, discipline during periods of uncertainty is critical as the range of outcomes can vary widely. Balancing conviction with flexibility enables investors to pivot when necessary, a core part of our role as advisors in managing portfolios.

While the path ahead may look complex today, Canada has the tools and resilience to navigate it with resolve. Our capacity may be tested, but the country remains well-positioned to meet the task.

1. "If free trade dies, what happens to Canada," T. Shufelt, *Globe & Mail*, Jan. 31, 2026, B10; 2. www.oxfordeconomics.com/resource/usmca-scenarios-north-american-trade-at-a-crossroads/; 3. <https://worldpopulationreview.com/country-rankings/most-educated-countries>



The VCCA Group of BMO Nesbitt Burns
100 Ouellette, Suite 1100
Windsor, Ontario, N9A 6T3
Tel: 519-258-7430
Toll Free: 1-800-354-9127

To Our Clients:

Volatility has returned, not just to financial markets but also to U.S. policy, driving geopolitical uncertainty amid widening global conflict. Even before recent events, there were notable swings in precious metal prices alongside a declining U.S. dollar. Technology stocks, despite solid earnings, were punished for elevated capital expenditures, and concerns over artificial intelligence disruption spread across sectors.

Despite this, (at the time of writing) equity market indices have largely held their own. Perhaps many have learned from the policy-driven disruption of 2025 to maintain a longer-term focus, often a prudent strategy during periods of uncertainty.

After what has seemed like a particularly long winter for many, take time to enjoy the spring months ahead. Please don't hesitate to call should you require any investment assistance.

Victor, Colleen, Eva and Nicole

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Generation Squeeze: 30 Years of Inflation

Flash back to 1995: Do you remember a time when gas cost 52 cents per litre, and a carton of eggs would run just \$1.64?

With Canadian food prices rising by 6.2 percent in 2025 alone, Canada has recently been dubbed the “food inflation capital” of the G7 (Group of Seven advanced economies). It therefore comes as little surprise that Prime Minister Carney moved in January to introduce a grocery rebate (an enhancement of the existing GST/HST rebate) for low-income earners.

There is little question that inflation has driven up the cost of most goods substantially in recent years. Viewing those increases over a 30-year period provides additional perspective. Many Canadians would be hard-pressed to recall a time when a kilogram of chicken cost just \$3.75. While the Consumer Price Index (CPI), the federal government’s official measure of inflation, suggests that average prices have risen by roughly 88 percent over three decades, your grocery bill likely tells a different story.

The good news? Over the same period, investors have seen the S&P/TSX Composite Index rise more than 573 percent (and this is excluding reinvested dividends!). This return has outpaced price increases across every category on the chart, including average home prices during a prolonged housing boom. Of course, this growth did not come without volatility, including four bear markets spanning a combined 40 months, two of which saw declines of more than 45 percent. Still, for investors who stayed the course, equities have proven to be one of the most effective

Beyond Canada: A Look at Global Markets

There’s nothing more permanent than change, and this applies equally to the stock market. Looking back over time provides an interesting view of how global equity market share has shifted.

The dominance of the U.S. in equity markets today has been fuelled by mega-cap tech stocks and their substantial valuations. Its significance shouldn’t be overlooked: With just 4 percent of the world’s population and about 25 percent of global GDP, the U.S. accounts for at least half of total global market capitalization (or more, depending on metrics used).¹

Yet, markets ebb and flow. Seasoned investors may recall the great Japanese asset price boom of the late 1980s. The Nikkei 225 Index rose from around 12,000 in 1985 to 38,915 in 1989: a 225 percent increase in just four years. Land under the Imperial Palace in Tokyo was famously said to be worth more than the entire state of California. A snapshot of global market capitalization at the end of 1989 shows a dominant Japan, with almost 40 percent of total global share (bottom, right). At that time, many believed Japan would surpass the U.S. as the world’s largest economy.

Fast forward to 2009, just two decades later, and the picture was quite different. Japan’s share had shrunk to 7 percent (bottom, left). Developing economies like China and India, which didn’t appear on global capitalization charts in 1989, were gaining share during rapid economic expansion. Today, they capture a combined 13.4 percent of global capitalization (top).

Looking ahead, what will global markets look like in another 20 years?

tools for building wealth and offsetting inflation. And, if history is any guide, that’s encouraging news for long-term investors looking ahead to the next 30 years.

Note: Interestingly, we also examined a 20-year period and found similar results—investment in the S&P/TSX Composite index would still have outpaced the price increases across all categories shown in the chart.



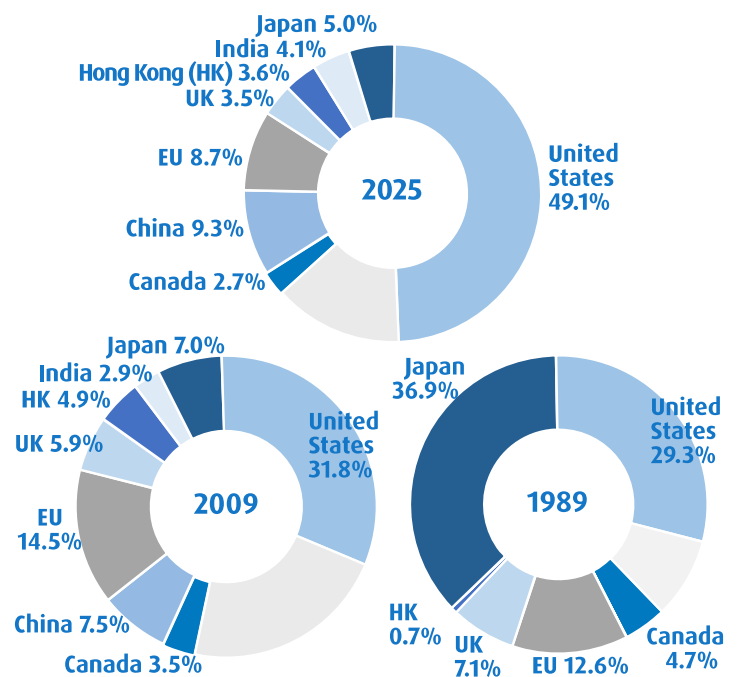
Changes in (Nominal) Prices of Select Items: 1995 & 2025

	1995	2025	Change
Ground Beef (1 kg) ¹	\$3.80	\$15.54	+309%
Chicken (1 kg, breast) ¹	\$3.75	\$15.19	+305%
Eggs (1 dozen) ¹	\$1.64	\$4.74	+189%
Coffee, Roasted (300g) ¹	\$3.86	\$8.25	+114%
Oranges (1 kg) ¹	\$2.30	\$4.46	+94%
Unleaded Gas (Reg, c/L) ²	52.4	137.0	+161%
Consumer Price Index ³	88.01	165.4	+88%
University Tuition (Undergrad) ⁴	\$2,384	\$7,734	+224%
Cdn. Family Income (Median) ⁵	\$41,343	\$130,120	+215%
Cdn. Median Home Price (CMHC) ⁶	\$170,000	\$740,000	+335%
S&P/TSX Composite Index ⁷	4,661.18	31,382.80	+573%

1. Statistics Canada, Table: 18-10-0002-01 (November 1995 data); Table: 18-10-0245-02 (November 2025 data)
 2. Table: 18-10-0001-01, November 1995 & 2025
 3. <https://www.bankofcanada.ca/rates/price-indexes/cpi/>
 4. <https://www150.statcan.gc.ca/t1/tbl/en/tv.action?pid=3710015001>; <https://www150.statcan.gc.ca/t1/tbl/en/tv.action?pid=3710004501>
 5. <https://open.canada.ca/data/en/dataset/cf5a0c30-8893-11e0-b0f5-6cf049291510>; Stat Can T-1110019101, using 2023 figure of \$121,000 with 3.6% (2024) & 3.8% (2025) wage growth assumptions
 6. CMHC New Build Median Price; <https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research>
 7. At close 11/30/95 and 11/28/25.

The evolution of market share over the past decades demonstrates that nothing is permanent. Japan’s experience is a reminder that even widely held predictions can be wrong, reinforcing the value of diversification and adaptability in navigating an uncertain future.

Global Market Capitalization, Share by Geography: 2025, 2009, 1989¹



1. This methodology uses World Bank Data, World Federation of Exchanges Database; 2025 data from SIFMA, to end of 2024; however other analyses use FTSE index data to allow for up-to-date analysis.

How Is Investment Income Taxed?

With tax season in full swing, here's a refresher on common types of investment income and how each is taxed.

While this overview focuses on investments held in non-registered accounts, keep in mind that the type of account where investments are held impacts tax obligations. While this article doesn't address investment location, given our role as advisors, we can provide perspectives.

Interest Income — Income earned from interest-producing bank accounts and fixed-income investments, such as GICs, government Treasury bills, bonds and fixed-income mutual funds/ETFs is taxed as ordinary income. It is fully taxable at your marginal rate, making it one of the least tax-efficient types of investment income. During tax season, it's important to remember that, generally, interest income is taxable in the year it is earned and must be reported on a tax return, regardless of whether it has been received.

Dividends From Canadian Corporations — Canadian dividends are designated as either "eligible" or "non-eligible" and are included in income at a grossed-up rate. However, they generally qualify for the dividend tax credit, which can reduce the taxes you pay. Eligible dividends (typically received from larger publicly-traded Canadian corporations, but also issued by private corporations) qualify for an enhanced tax credit. Non-eligible dividends are typically received from Canadian private corporations to the extent their income is subject to tax at the lower small business rate. In general, Canadian dividend income receives preferential tax treatment compared to interest income. That said, since the grossed-up amount is reported on your tax return, it can potentially impact income-tested government benefits, like Old Age Security.

The Wealth Gap: A Two-Speed Economy

Canada's wealth gap continues to reach historic highs. Recent Statistics Canada data shows the gap between the top 20 and bottom 40 percent of households reached 62.4 percentage points in Q3 2025.¹ This divergence is often referred to as a "K-shaped economy": the upward-sloping arm represents higher-income households, supported by rising income and wealth, while the downward-sloping arm reflects low- and middle-income households facing stagnant wages, rising living costs and mounting debt.

This has implications for investing. In a two-speed economy, consumer segments and the businesses serving them are growing at different rates. Higher-income households continue to drive a disproportionate share of economic activity. In the U.S., where consumer spending accounts for more than two-thirds of total GDP, at one point last year, the top 10 percent of earners accounted for nearly half of all consumer spending. Economic resilience has been driven by wealthy consumers, who have benefited most from asset price appreciation. As a result, softer labour-market data in 2025 attracted less concern since the impact was concentrated among lower-income households with a limited effect on overall consumption.

Where are economies headed? In the U.S., if consumer spending endures and tech capital investments begin to show real returns, markets are likely

Dividends From Foreign Corporations — Dividends from non-Canadian corporations are fully taxable at your marginal rate and do not qualify for a dividend tax credit. Additionally, they may be subject to foreign withholding taxes at source. A foreign tax credit may be available to reduce the taxes payable.

Capital Gains — When a capital asset, such as company shares, is sold for more than its adjusted cost base (ACB, generally its cost plus any expenses to acquire it), the profit is considered a capital gain when realized. Since 2000, one-half of a capital gain has been included in computing a taxpayer's income.

Mutual Funds and ETFs — There are additional considerations for mutual funds and ETFs. In general, when held in a non-registered account, two situations require you to report information on an annual tax return: i) when a fund makes a distribution, and ii) when you dispose of some or all of your fund holdings.

- **Distributions** — A distribution represents the earnings being passed to the investor/unitholder. Distributions are taxed based on type (i.e., dividends, interest, capital gains) and are taxable whether you receive the distribution in cash or reinvest it in additional units. The amount of the reinvested distribution is also added to the ACB of your investment.
- **Return of Capital (ROC)** — A ROC may be reported as a distribution and represents a return of your original investment. This generally occurs when the amount distributed exceeds the fund's earnings (income, dividends and capital gains). ROC is not considered income and is non-taxable, but generally reduces the ACB, as long as the ACB is positive.

It's important to keep good records of changes to the ACB as a result of reinvested distributions and ROC. When the fund is eventually sold, this must be reported on a tax return and any capital gain/loss resulting from the disposition will be based on the ACB.

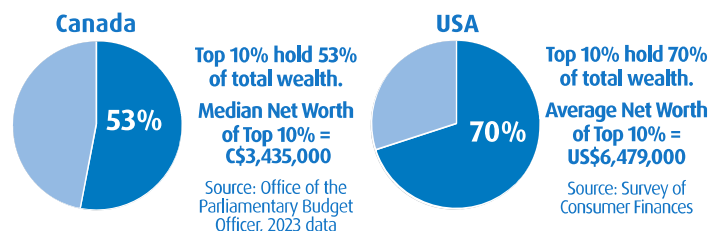
to continue discounting labour-market weakness. Canada's picture is more nuanced, challenged by heightened trade uncertainty, slower population growth and an overall cooling labour market. While U.S. tariffs have weighed on exports and jobs in affected industries, substantial spending announced in last November's Federal Budget is expected to help offset some pressure.



As advisors, we continue to navigate the evolving landscape. The K-shaped economy reinforces the value of time-tested principles such as diversification, quality and ongoing risk management as key to successful long-term wealth management in an increasingly uneven economic environment.

¹ <https://www150.statcan.gc.ca/n1/daily-quotidien/260129/dq260129b-eng.htm>

How Concentrated Is Wealth? Top 10% Hold a Significant Majority...



Strategic Insurance Planning for the HNW Investor

As a high-net-worth (HNW) investor, you likely have more complex insurance needs than the average investor, and not just because you have more assets to protect. With greater wealth comes more complex structures, broader objectives and often a desire to ensure that hard-earned success creates a lasting impact. Here are five ways your needs are unique and how insurance strategies can provide support:

1. Larger, More Diverse Estates to Protect — Many HNW investors have significant wealth tied up in private corporations, real estate and investment portfolios. Here, insurance can provide more than just basic protection: it can help create essential estate liquidity, facilitate succession planning or equalize inheritances when assets like businesses or property are difficult to divide. Unlike Wills or testamentary trusts, insurance proceeds transfer privately (outside of probate). This discretion and control may be valued by HNW individuals who prioritize confidentiality and ease for beneficiaries.

2. Tax Efficiency Is Paramount — Insurance can play a valuable role in HNW tax planning. Permanent insurance offers tax-deferred growth on the policy's cash value. It can also facilitate a tax-efficient wealth transfer. Given high marginal tax rates and the deemed disposition of assets at death that can trigger significant capital gains tax, strategic use of insurance may help preserve more wealth for beneficiaries.

3. Legacy Goals and Family Planning — Insurance can play a central role in turning long-term intentions into lasting impact. Whether the goal is to support heirs equitably, endow charitable initiatives, sustain a family enterprise or protect vulnerable family members, insurance can help support these outcomes while addressing future tax liabilities without forcing the liquidation of valued assets. Some families also incorporate intergenerational strategies, such as gradually transferring policy ownership to children or grandchildren, allowing wealth to grow tax-efficiently and transition smoothly across generations. Others use insurance to fund a trust to provide long-term care or financial longevity for vulnerable family members, without compromising eligibility for government benefits.

4. Enhancing Investment Portfolios — Often, HNW investors have already maximized contributions to tax-advantaged accounts like RRSPs or TFSAs, and may hold substantial assets in non-registered accounts. As such, they may seek ways to minimize the tax burden associated with non-registered investments. This is where permanent insurance solutions offer an opportunity. The tax-preferred growth of the cash value in participating whole life insurance, along with the tax-free death benefit (and protection from probate fees, where applicable), makes insurance a potential alternative to low-risk fixed-income options. Some policies may even outperform the fixed-income component of a traditional balanced portfolio on an after-tax basis. As a result, alternative wealth strategies using insurance and annuities are increasingly used to complement investment portfolios and provide diversification.

5. Business Support and Succession Planning — For business owners, insurance can help fund buy-sell agreements, cover key person risks or support a smooth ownership transition to the next generation or business partners. It can help ensure continuity and financial stability during periods of change. For estate planning, holding insurance within a corporate structure may offer additional tax advantages, including the use of the capital dividend account to distribute death benefits tax free to shareholders.

Insurance can be a compelling addition to a high-net-worth wealth strategy, not just as a standalone product, but as part of an integrated plan. Tailored insurance solutions help protect what matters most while unlocking opportunities to shape your legacy. If you'd like to explore how insurance can complement your wealth plan, please get in touch.



With the compliments of...

Victor Chan

CFP®, CIM, FCSI
Senior Investment Advisor
519-977-6619
victor.chan@nbpcd.com

Colleen Thorpe

Senior Associate
519-977-6519
colleen.thorpe@nbpcd.com

Eva Nhan

CFP®
Investment Associate
Financial Planner
519-739-2827
eva.nhan@nbpcd.com

Nicole Laporte

Administration Assistant
519-258-9038
nicole.laporte@nbpcd.com

BMO Nesbitt Burns Inc.

100 Ouellette, Suite 1100,
Windsor, Ontario, N9A 6T3
Tel: 519-258-7430
Toll Free: 1-800-354-9127
Fax: 519-256-3093



BMO Nesbitt Burns

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