

## 2025 Wrapped (Global Trade Edition)

By Ethan Currie

At least for economists, a contender for 2025's word of the year would surely be "tariff." With the recent release of U.S. / Canada merchandise trade figures for December 2025, it's a natural moment to look back with twelve months of hard data now in hand. In this brief *Market View*, we present our version of *2025 Wrapped*—ten charts that recap and highlight all things trade and tariffs from an exciting(?) year. Let's dive in...

**U.S. protectionist trade makes a comeback** ➤ After whipsawing in 2025, the U.S. average effective tariff rate (AETR) is at its highest level since the 1940s. As political pressures mount and trade deals are struck, there's scope for tariff rates to moderate further. However, protectionist policies are likely to persist, the role of tariffs increasingly becoming one of geopolitical leverage, rather than an attempt of reshoring production.

**Trade basket has shifted, but the deficit stays unchanged** ➤ Despite large swings in the U.S. trade deficit last year, the annual shortfall was largely unchanged vs 2024. The composition of U.S. trade (by product and geography) has adjusted, however—evidenced by a persistent gap between customs- and policy-implied levy rates. In Canada, trade

diversification to other partners has, on the surface, made up for less U.S.-bound exports. However, that's largely a gold story, without which rerouted trade is not nearly as standout.

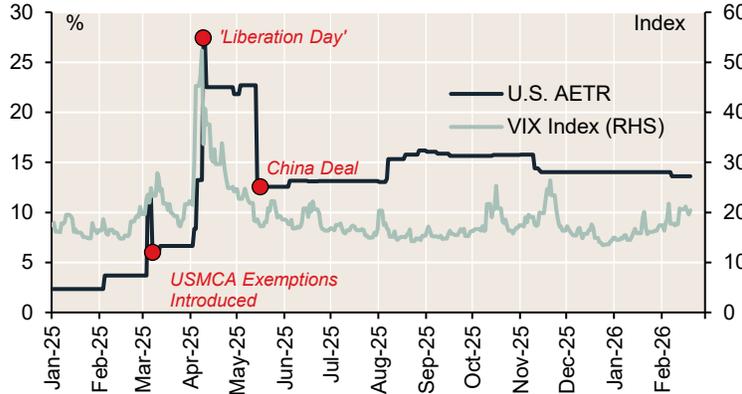
**Though helpful, levies are not enough for complete fiscal offset** ➤ 2025 brought ~\$290bn of tariff revenues to the U.S. government's bottom line. Even if tariffs are sustained at current levels, that won't be enough to prevent further fiscal deterioration.

**Future deals remain uncertain** ➤ The legality of tariffs has been challenged, posing downside risks to global tariff rates. Certain sectors remain exposed to targeted levies, while many countries are patiently waiting for a trade deal to form. In Canada, an upcoming review of the USMCA agreement is paramount to maintain a relative tariff advantage.

**Economic (& market) impacts of policy regime to linger** ➤ Tariffs haven't made inflationary waves as large as anticipated. While that effect could still be lagged, plenty of factors—such as still-elevated geopolitical uncertainty and incoming fiscal stimulus—argue for sticky term premia.

### Chart 1: Tariffs stole headlines (& markets) for much of '25...

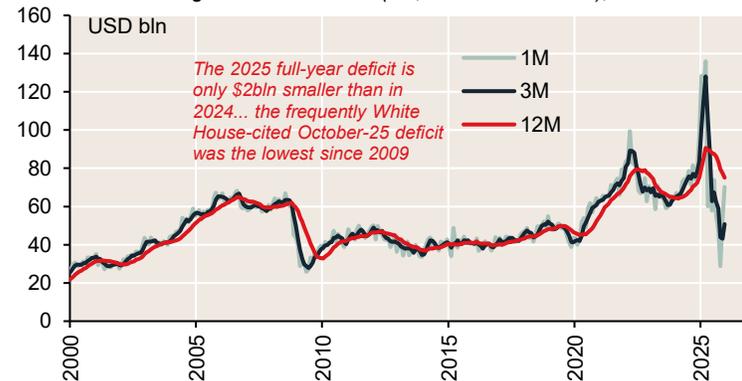
Evolution of the U.S. average effective tariff rate (AETR) and VIX, since 2025



Source: NBC, Bloomberg

### Chart 3: A volatile trade deficit is largely unchanged in '25...

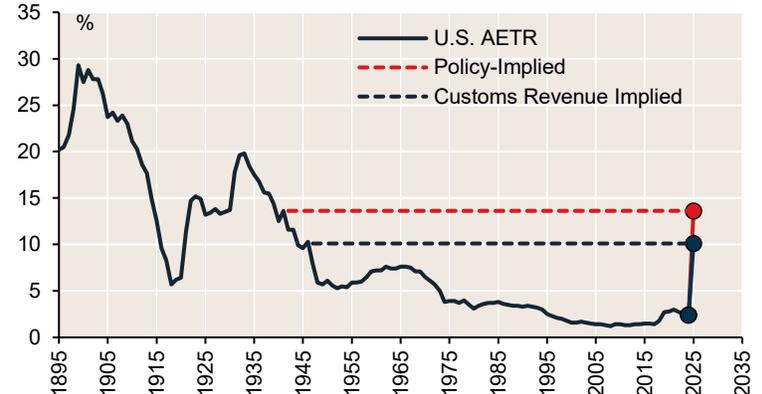
U.S. trade deficit of goods and services (SA, and 3M / 12M MA), since 2000



Source: NBC, Bloomberg | Note: SA refers to seasonally adjusted, MA to moving average

### Chart 2: ... zooming out, U.S. AETR the highest in decades

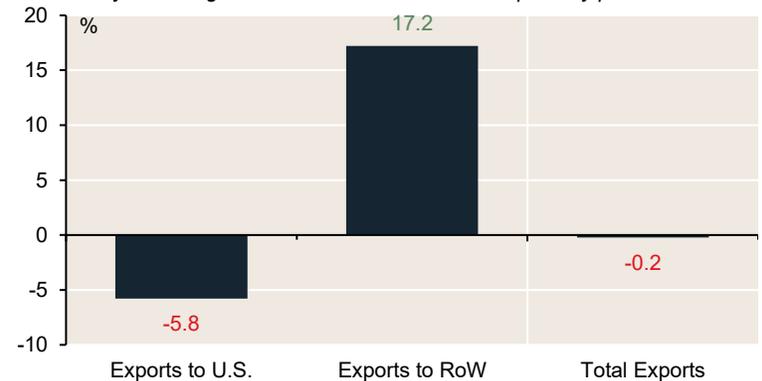
U.S. average effective tariff rate—historical and 2025 using customs, current policy



Source: NBC, USITC, Bloomberg | Note: Customs Revenue Implied uses Q4:2025 average

### Chart 4: ... and Canada misses our biggest trade partner

Year-over-year change in annual sum of Canadian exports by partner



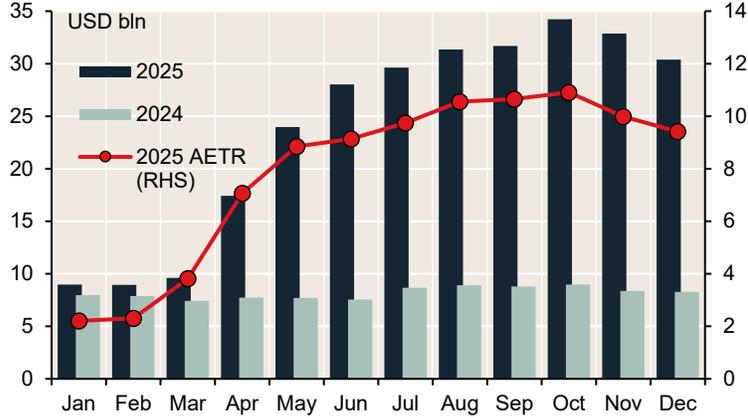
Source: NBC, StatCan, Bloomberg | Note: Nominal figures

Volatility in U.S. tariff policy closely tracked with market volatility in 2025:H1. As tariff rates came down and (largely) stabilized, that relationship unwound, but we're left with a U.S. AETR that is the highest in ~80 years. That didn't move the U.S. deficit much in 2025, but it did impact trade compositions, especially in Canada, where total exports struggle to advance on the year even as diversification plays out. That diversification is likely overstated too, as gold exports—predominantly already shipped overseas—benefitted from surging prices in the year.



### Chart 5: New trade policy is bringing in plentiful revenue...

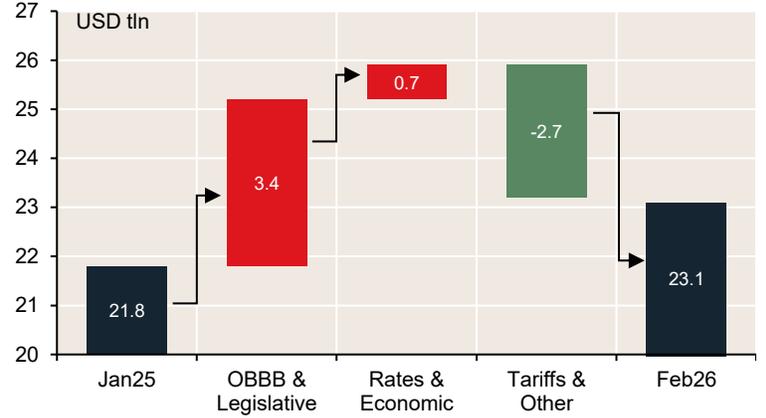
U.S. customs collections by month / year (LHS) vs 2025 AETR (RHS)



Source: NBC, Bloomberg | Note: AETR is customs-implied by month (NSA)

### Chart 6: ... but that won't be a fiscal fix (even if sustained)

Changes to the CBO's 10-year deficit projection by category (Jan-25 vs Feb-26)

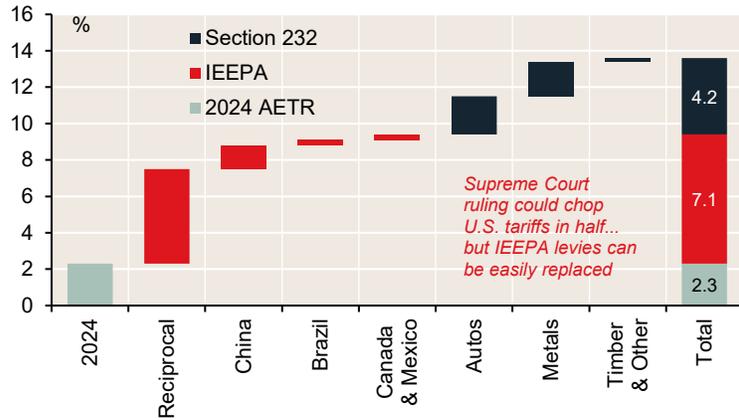


Source: NBC, CBO | Note: Red bar denotes projected fiscal deterioration, green improvement

Historically elevated tariff rates have coincided with a near 200% year-over-year surge in U.S. customs revenues. That will only provide a partial **fiscal offset** to stimulus over the next decade. Further budgetary consolidation will be minimized should tariffs gradually be reduced, or should revenues be paid out in the form of 'dividends', as alluded to by the White House on occasion.

### Chart 7: Globally, tariff sustainability called into question...

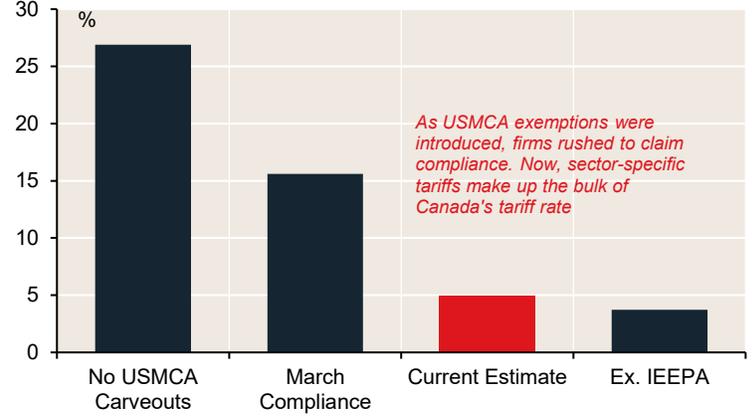
Contributions to the current U.S. AETR, by method of implementation



Source: NBC, Bloomberg | Note: '24 AETR comprised of other non-IEEPA measures

### Chart 8: ... in Canada, USMCA review in the 2026 spotlight

U.S. AETR applied to Canadian goods under various policy scenarios

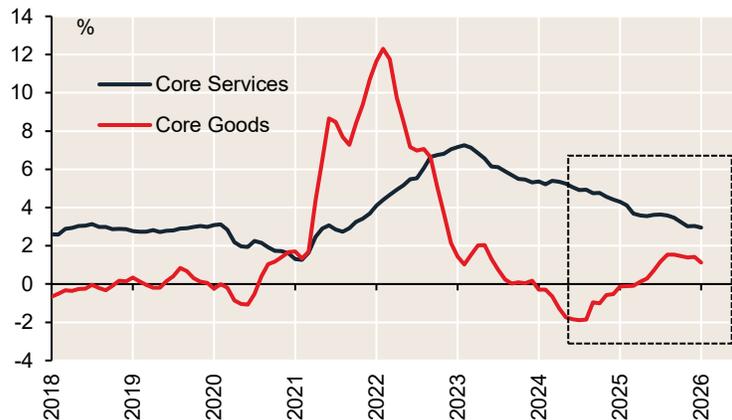


Source: NBC, StatCan, U.S. Census Bureau

A White House-adverse ruling on the implementation of IEEPA tariffs (as early as tomorrow) could cut current levy rates in half. Prediction markets suggest this is the most likely outcome, however multiple avenues exist to keep tariffs in place. In Canada, a review of the **USMCA**—which allows for a relatively favourable tariff rate on the global stage—will be a key input in economic forecasts.

### Chart 9: Tariff price pressures could have peaked already...

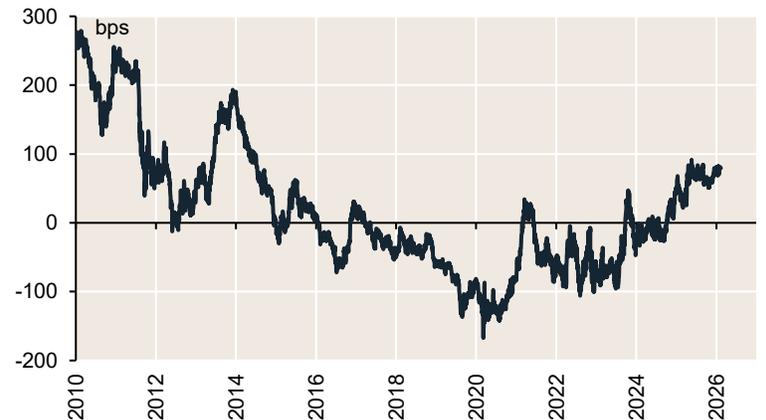
Year-over-year change in U.S. core service and core goods prices, since 2018



Source: NBC, Bloomberg

### Chart 10: ... but plenty will keep curves steeper in 2026

UST 10-year term premium since 2010 (Adrian, Crump & Moench)



Source: NBC, Bloomberg

U.S. core goods prices—which brought the bulk of headline disinflation following COVID—have begun to taper off after peaking in mid-2025. While this could suggest that a one-time, tariff-induced price bump is behind us, we still see upside risks to inflation (and term premia) as fiscal stimulus comes online and geopolitical uncertainty remains elevated.



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