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JAMES DIXON, CIM®: MACRO THOUGHTS – JUL 29, 2026

CUSMA UNDER REVIEW

EXECUTIVE SUMMARY

The 2026 CUSMA (USMCA) review has entered a new phase. Rather than renewing the agreement for another 16-year term, the United States has elected to move the agreement into its annual review process. While this has generated headlines suggesting renewed trade tensions, my assessment is considerably more constructive.

The latest developments from the Trump Administration reinforce an important distinction: the review is not about dismantling North American trade—it is about reshaping it. The agreement remains fully in force; existing tariff preferences continue to apply; and the institutional framework ensures negotiations can continue annually until 2036 without creating a cliff-edge for commerce.

At the same time, President Trump's latest tariff threats against Canada demonstrate that Washington increasingly views tariffs not simply as trade policy, but as leverage across a broad range of strategic objectives. This reinforces a structural shift away from purely rules-based trade toward negotiated industrial policy.

Three structural forces remain intact:

- **Near-shoring**. China diversification continues to drive manufacturing back into North America.
- **National security**. Supply chain security has become a national security priority.
- **AI.** AI, advanced manufacturing and critical minerals require regional production ecosystems rather than globalized supply chains.

Consequently, the review should be viewed as an evolution of CUSMA rather than a referendum on its survival.

My base case remains that the agreement survives largely intact, with targeted amendments around autos; critical supply chains; industrial policy and enforcement mechanisms. Although negotiations may increasingly occur through bilateral channels with Canada and Mexico, the economic reality is that North America is becoming more—not less—integrated.

For investors, the principal risk is therefore uncertainty rather than disruption.

Episodes of political volatility are likely to create opportunities rather than fundamentally alter the long-term investment case.

1. THE LATEST DEVELOPMENTS

The six-year review deadline passed without the United States agreeing to extend CUSMA for another sixteen years.

This was widely anticipated.

Instead of renewal, Washington triggered the agreement's built-in annual review mechanism.

While this has created volatility, importantly:

- CUSMA remains fully operational.
- Preferential tariffs remain in place.
- Rules of origin remain unchanged.
- Investment protections remain intact.
- Dispute resolution mechanisms continue to function.

The next meaningful negotiation deadline therefore becomes July 2027 rather than an immediate renegotiation.

This institutional design is critical.

Unlike previous trade agreements, CUSMA was intentionally constructed to prevent sudden policy shocks. Rather than creating a "hard expiry," it creates a rolling negotiation process extending until 2036.

In other words: Political headlines may become louder, but the legal framework remains remarkably durable.

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2. TRUMP'S LATEST TARIFF THREATS: A NEGOTIATING TOOL

President Trump's latest threats to impose significantly higher tariffs on Canadian exports initially appear inconsistent with preserving CUSMA.

The messaging here should not be misunderstood. In reality, they reinforce a broader trend.

Tariffs have evolved from being simply an economic instrument into a negotiating mechanism used to pursue wider strategic objectives including:

- Industrial policy
- Border security
- Investment commitments
- Manufacturing reshoring
- Supply-chain resilience
- Fiscal negotiations

This reflects an important philosophical shift: Trade policy is no longer purely about maximizing free trade. It is increasingly about maximizing strategic advantage.

While this approach increases uncertainty, it does not necessarily imply a desire to dismantle North American trade.

Rather, it suggests Washington intends to negotiate from maximum leverage before ultimately preserving the broader integration framework.

Investors should therefore distinguish between negotiating rhetoric and long-term policy direction.

This distinction matters!

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3. A STRUCTURAL SHIFT AWAY FROM RULES-BASED TRADE

Research from Morgan Stanley, Goldman and JP Morgan all support the underlying argument that North America is transitioning from a rules-based trading system toward one increasingly driven by industrial policy.

For context, historically, businesses could rely on stable tariff schedules and legal certainty. Going forward, investment decisions will increasingly depend upon:

- Strategic industries
- Domestic manufacturing priorities
- National security considerations
- Supply-chain resilience
- Critical technology
- Government incentives

I have underscored this thesis all year, so the idea is not new.

From an investment perspective this creates greater short-term uncertainty. However, it simultaneously channels more investment into strategically important North American industries.

In other words, while certainty declines, investment opportunities become increasingly concentrated.

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4. WHY RISKS REMAINS STRUCTURALLY LIMITED

Despite the political rhetoric, the probability of a collapse in North American trade remains low. There are several drivers supporting this thesis.

1. CHINA DIVERSIFICATION CONTINUES

The most powerful force supporting CUSMA is not politics. It is economics.

American companies continue relocating production away from China.

Initially this involved transferring existing manufacturing capacity into Mexico. The next phase involves building entirely new North American manufacturing ecosystems.

Every factory relocated from China further embeds North American supply chains.

This trend has years—not quarters—to run.

2. EXISTING SUPPLY CHAINS

Modern manufacturing is deeply interconnected.

- Automobiles cross borders multiple times before completion.
- Energy systems operate across integrated pipelines.
- Critical minerals flow through highly specialized processing facilities.

Replacing these supply chains would require enormous capital expenditure while reducing competitiveness.

The economic incentives therefore overwhelmingly favour preserving existing integration.

3. CANADA IS STRATEGICALLY CRITICAL

Although Canada sends approximately three quarters of its exports to the United States, the relationship is far from one-sided.

Canada remains essential to U.S. strategic priorities through:

- Energy exports
- Electricity interconnections
- Uranium
- Potash
- Critical minerals
- Aerospace
- Automotive manufacturing

As the United States seeks greater supply-chain independence from China, Canada's importance increases rather than declines.

4. MEXICO HAS BECOME THE US's MANUFACTURING PLATFORM

Perhaps the most important structural development since CUSMA has been Mexico's extraordinary manufacturing integration. For context, a research piece from Morgan Stanley highlights:

- Mexico now supplies roughly 35% of US IT hardware imports.
- Nearly 50% of US server imports originate from Mexico.
- Northern Mexico has become a critical AI infrastructure and electronics manufacturing hub.

Nearshoring is therefore evolving beyond traditional manufacturing into AI infrastructure, cloud computing and advanced electronics.

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5. THE KEY NEGOTIATING THEMES

Rather than rewriting CUSMA, negotiations are likely to focus on targeted reforms, including:

1. AUTO'S

In autos, expect greater emphasis on:

- North American content
- Chinese component restrictions
- Rules-of-origin enforcement
- Supply-chain security

Autos remain the political centerpiece of North American manufacturing.

2. CRITICAL MINERALS

North American industrial policy increasingly depends upon secure access to:

- Nickel
- Copper
- Uranium
- Lithium
- Rare earth processing

Canada becomes increasingly valuable within this framework.

3. AI SUPPLY CHAINS

The rise of AI changes the strategic importance of North America.

Future negotiations are likely to increasingly incorporate:

- Semiconductor manufacturing
- Data centres
- Servers
- Cloud infrastructure
- Electricity
- Advanced manufacturing

This was largely absent from the original agreement.

4. LABOUR ENFORCEMENT

Expect procedural refinements rather than wholesale reform.

These are aimed at ensuring the US can remain competitive given the cheaper Mexican labour complex.

These changes reduce friction without materially altering trade flows.

5. DIGITAL TRADE

Canada's withdrawal of its Digital Services Tax removed one of the largest bilateral irritants.

While disagreements remain around digital taxation, the direction has become more constructive.

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6. BILATERAL NEGOTIATIONS ARE NOT THE SAME AS FRAGMENTATION

One interesting developments is the increasing asymmetry between Canada and Mexico.

Negotiations with Mexico appear to be progressing more rapidly than discussions with Canada.

This should not necessarily be interpreted as the breakdown of trilateral trade. Instead, it reflects the fact that each country occupies a different strategic role. For context:

CANADA'S ROLE

Canada's relationship increasingly revolves around:

- Energy
- Critical minerals
- Defense
- Autos
- Heavy industry

MEXICO'S ROLE

Mexico increasingly dominates:

- Electronics
- AI hardware
- Assembly

- Industrial manufacturing
- Nearshoring

Different priorities naturally require different negotiations.

The end result can still be a stronger integrated North American economy.

7. INVESTMENT IMPLICATIONS

FOREIGN EXCHANGE

Political uncertainty should continue generating episodic volatility in CAD and MXN.

However, a preserved CUSMA framework should gradually compress risk premia.

For investors not looking to get involved in the FX game, the USD-smile framework underscores that over the long run owning USD wins in two out of three scenarios (SEP 17, 2025: THE USD SMILE).

FIXED INCOME

Investors should not get caught up in the yield volatility resulting from trade talks.

Ultimately, successful negotiations should compress credit spreads for trade-sensitive issuers while supporting a gradual normalization in North American yield curves.

EQUITIES

Ultimately, the largest beneficiaries should be:

- Industrials
- Logistics & Warehousing
- Automation
- Factory construction
- Energy & Electrical infrastructure
- Critical minerals

These sectors stand to benefit regardless of periodic negotiation noise because they represent the physical build-out of North American supply chains.

8. CONCLUSION: INTEGRATION, NOT ISOLATION

Headline risk surrounding CUSMA should not obscure the larger structural trend. North America is entering a new phase of economic integration.

The objective is no longer simply reducing tariffs. It is building a strategically resilient continental production system capable of competing with China across manufacturing; AI; critical minerals; energy and advanced technology.

The review process reflects this transition!

Importantly trade policy is becoming more political; more sector-specific; and more closely aligned with industrial strategy. That undoubtedly increases short-term volatility, but it also reinforces the strategic importance of producing within North America.

Viewed through this lens, recent tariff threats, annual reviews and bilateral negotiations are best understood as bargaining tools within a broader effort to modernize—not dismantle—the North American economic bloc.

For long-term investors, the implications remain constructive. Regional supply chains continue to deepen; capital expenditure should remain elevated; and strategic industries are likely to attract sustained policy support. While negotiation headlines may periodically unsettle markets, they are unlikely to reverse the structural forces driving reshoring; nearshoring; and continental integration.

Accordingly, bouts of trade-related volatility should be viewed as opportunities to selectively add exposure to manufacturing; logistics; automation; energy; and critical mineral supply chains.

Key insight: The direction of travel remains clear: North America is becoming a more integrated, strategically aligned and economically self-sufficient trading bloc.

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