

Finding Balance on the 49th Parallel: Canadian & U.S. Investing

KEY TAKEAWAYS

Canada's equities have shown solid performance for the year to date. With 73% of TSX stocks in the green and nearly half delivering double-digit returns, performance for the year so far was strong, with financials, consumer staples and utilities making up 40% of the main TSX Composite index.

Canadian sentiment is shifting toward homegrown exposure. Retailers like Canadian Tire reported surging sales, while nearly half of Canadians favour lowering pension fund holdings in U.S. assets, signaling a growing preference for domestic investment.

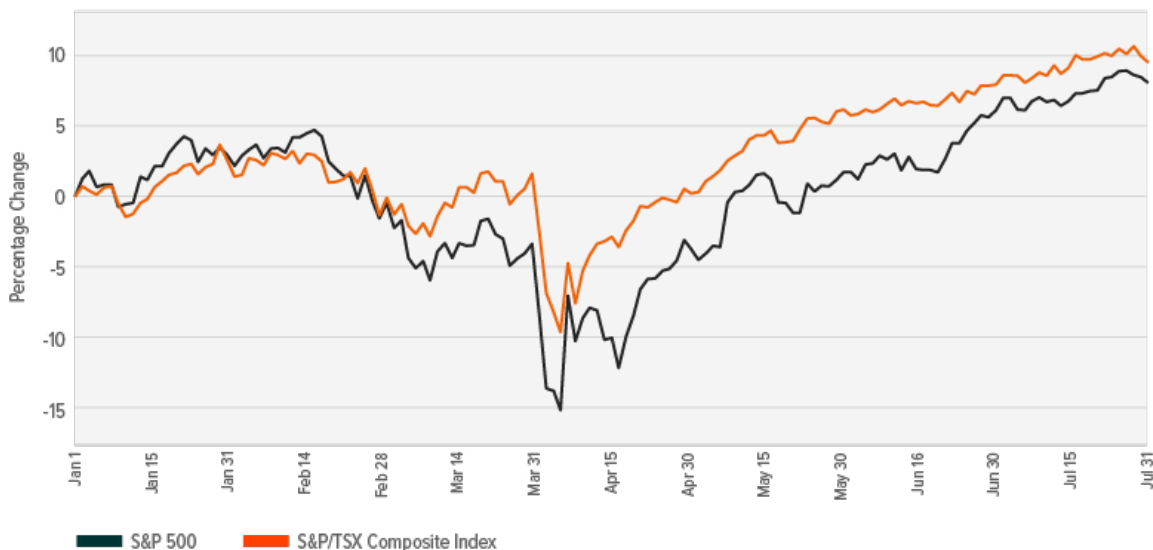
U.S. equities show signs of concentration and uncertainty. The S&P 500® is weighted towards technology names, with Big Tech companies being seen as the primary drivers of U.S. equity performance as of late. Combined with waning growth forecasts and lingering tariff concerns, this narrow market could raise questions for diversified equity portfolios.

Canadian Investors Enjoy a Strong 2025 – So Far

Despite tariff tensions, Canadians have enjoyed a strong 2025, so far, with the main equities market showing solid performance: from the start of the year to July 31, the S&P/TSX® Composite Index has gained 9.5%. South of the border, the S&P 500 advanced 6.8%.

TSX COMPOSITE VS S&P 500 TO JULY 31, 2025

Source: Bloomberg as at August 12, 2025.

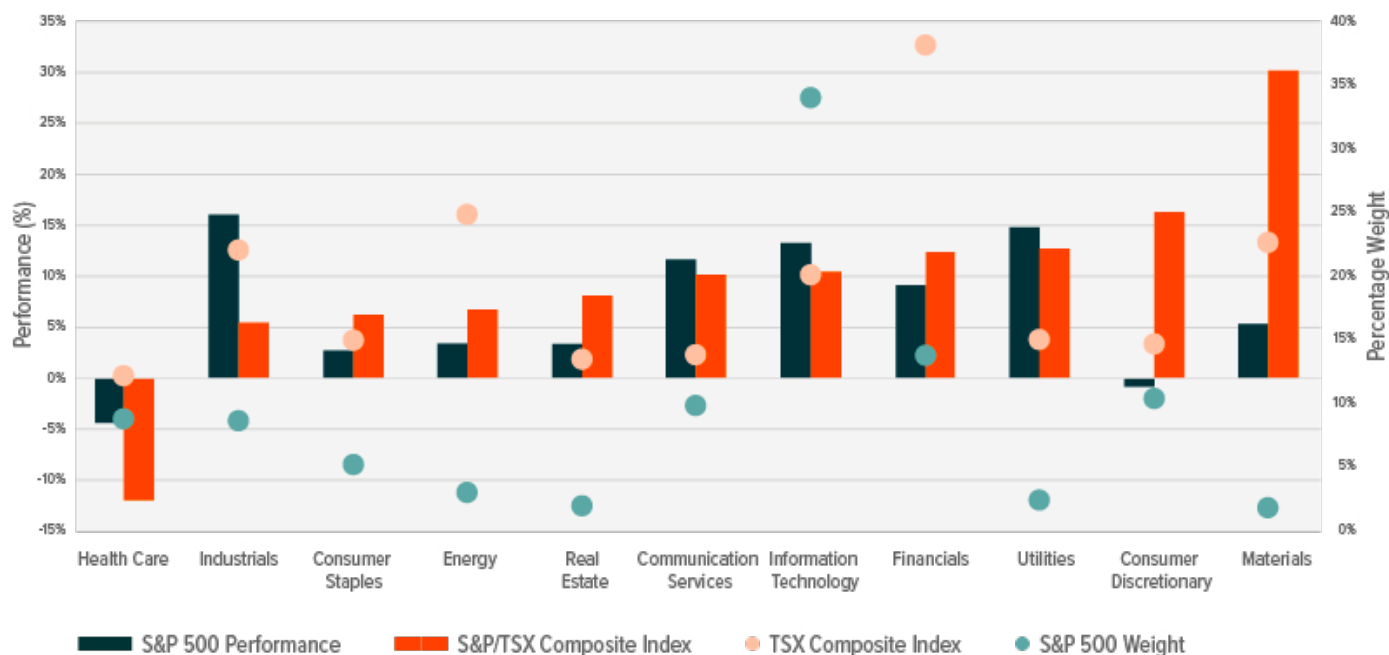


As of the latest data¹, 73% of the S&P/TSX Composite constituents are in positive territory, and nearly half have returned more than 10%.

In contrast, U.S. equities are posting more muted figures. So far this year, only 46% of the S&P 500 are up, and just 36% have delivered double-digit returns. The share of stocks outperforming the index stands at 39%, trailing historical norms.²

TSX COMPOSITE AND S&P 500 PERFORMANCE TO JULY 31

Source: Bloomberg as at August 21, 2025.



Part of a backlash to President Donald Trump's [trade war](#) and [annexation threats](#), has seen Canadian consumers boycotting or reducing their business with U.S. companies. Domestic retailers have used advertising and signs to wrap themselves in the maple leaf or make it easier for customers to find Canadian products on store shelves: Canadian Tire said [retail sales jumped 6.4%](#) at its eponymous big box stores during the second quarter of 2025.

Also, almost half of Canadians — 47% — believe that pension fund managers should be reducing their holdings of American assets, [according to a poll](#) conducted by Nanos Research for Bloomberg News.

Canada's equity market continues to stand out for its defensive profile. Financials, consumer staples, and utilities [account for 40%](#) of the S&P/TSX Composite Index, underscoring its tilt toward high-dividend, lower-volatility sectors.

In contrast, the S&P 500® skews more aggressive. Defensive sectors represent a far smaller share, while technology driven by the "[Magnificent Seven](#)" makes up 35% of the index's total weight.

American Exceptionalism Tamed?

This trend—fewer outperformers in a rising market—has persisted since the 2008 Global Financial Crisis and may reflect the increasing dominance of mega-cap and technology names in U.S. equity performance.

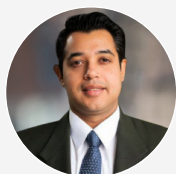
Uncertainty over U.S. tariffs is acting as a drag on global growth, with the [OECD forecasting global growth slowing to 2.9%](#) from 3.3% in both 2025 and 2026. The organization projects that the U.S. economy will slow from 2.8% growth in 2024 to 1.6% for the current year and 1.5% in 2026.

Current U.S. economic activity data [has been softening](#) but has yet to show signs of an official recession, whilst resilient consumer consumption and the passage of President Trump's "[Big Beautiful Bill](#)" could benefit small- and medium-sized firms operating in sectors that will see increased spending coming from this piece of legislation.

A record [91% of fund managers](#) now view U.S. equities as overvalued, following the sharp rebound off April lows—marking the highest reading in data going back to 2001.

Despite these concerns, broader sentiment has improved. Investor optimism reached its strongest level in six months, recovering from the market volatility sparked by President Trump's latest round of tariffs.

“Despite a record number of fund managers calling U.S. stocks overvalued risk appetite has improved and U.S. equity overweight allocations have risen,” says Global X Canada ETF Strategist Raghav Mehta.



Raghav Mehta

Vice President ETF Strategist

Professional fund managers have been less underweight U.S. equities into mid-summer versus the spring, hinting at a reluctant participation despite valuation worries.

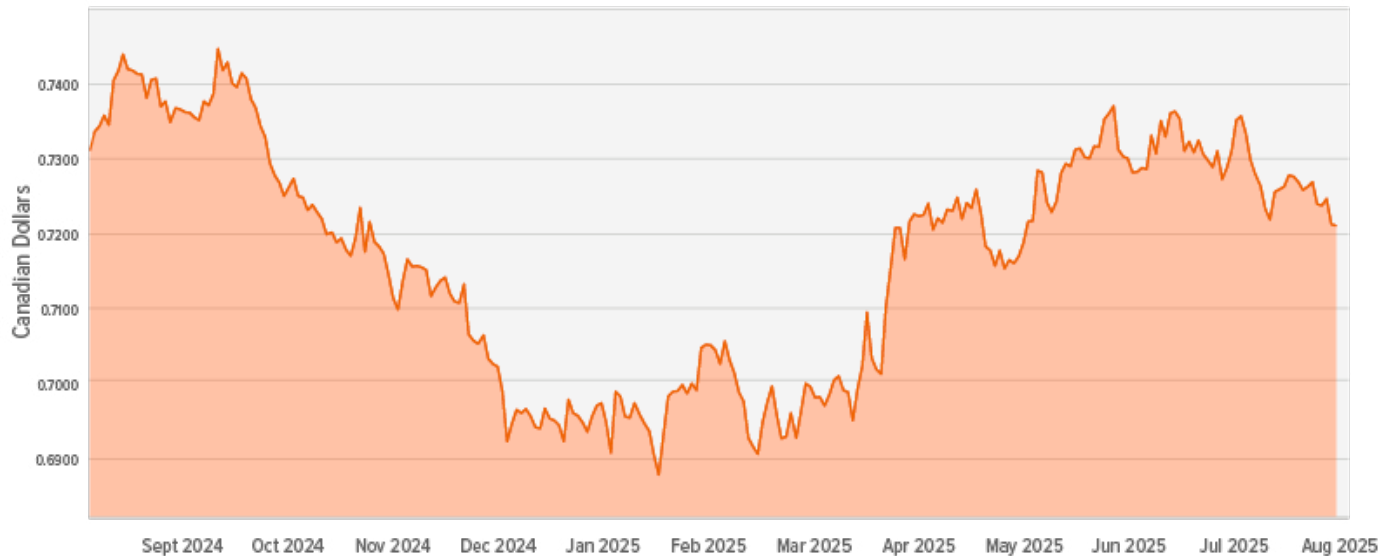
Currency Considerations

Despite [erasing its 8% decline](#) from 2024, the Canadian dollar has softened recently after a weaker-than-expected domestic inflation print and weakening labour market signals, while lower oil prices and risk sentiment shifts have augmented the moves in foreign exchange.

Markets have priced in the increasing probability of Bank of Canada (BoC) rate cuts, creating a near-term headwind for the loonie as the policy outlook narrows.

THE CANADIAN DOLLAR VERSUS THE U.S. DOLLAR OVER 1 YEAR

Source: Bloomberg as at August 20, 2025.



That said, CAD could still see modest appreciation if commodities stabilize or rebound and if Federal Reserve-BoC rate differentials compress over the medium term.

Timing is uncertain and volatility is likely. For Canadian investors, staying unhedged exposes U.S. equity returns to foreign exchange risks, i.e. a stronger loonie would detract from U.S. equity gains, while a weaker loonie may add to the upside. Remaining currency-hedged removes that volatility but it comes with explicit costs and could underperform in case the Canadian dollar weakens.

“CAD has been volatile; currency strategists are flagging a soft CAD versus USD year-to-date with mixed forecasts near-term. A firmer CAD would dampen US equity returns for unhedged Canadians; a weaker CAD boosts them,” Global X’s Raghav Mehta said.

Old Trade vs New Trade

For the near-term, Global X's Mehta suggests a "barbell" approach when considering North American investments: "Tilt towards the U.S., diversify into Canada. Still lean into the U.S. for earnings leadership/Artificial Intelligence (AI), but many recommend adding to Canada based on attractive valuations, broadening breadth, and potential catch-up, especially if the price of oil stabilizes and rate cuts progress."

Regarding the bullish investment case for the U.S., Mehta says he sees AI and Big Tech still delivering upward earnings revisions into 2026; even critics concede that the fundamentals are stronger than the early 2000s. In terms of U.S. risks, Mehta sees "crowded leadership and stretched multiples".

For Mehta's bullish investment case for Canada, he sees cheaper valuations, possible BoC rate cuts and an investment mix of financials/materials/energy tied to a global recovery narrative. "Some Canadian houses argue TSX earnings growth can be similar to the S&P 500 in 2025, which challenges the valuation gap."

As for Canada headwinds, the Global X's ETF strategist sees smaller tech weighting, slower domestic growth versus the U.S. and oil price uncertainty (the IEA [warns of oversupply](#) into late-2025 and [Goldman Sachs's base case](#) for Brent crude in the second half of the year is for mid-US\$60s).

Canadian equities are having a strong 2025, outpacing U.S. markets with broader gains. Yet, dispersion remains high and gold plays a key role in headline performance. Meanwhile, the Canadian dollar, trade tensions, and U.S. equity valuation concerns are prompting many investors to rethink regional allocations and currency-hedging strategies.

Related ETFs

CNDX – [Global X S&P/TSX 60 Index ETF](#)

CNCC – [Global X S&P/TSX 60 Covered Call ETF](#)

CANL – [Global X Enhanced S&P/TSX 60 Index ETF](#)

CNCL – [Global X Enhanced S&P/TSX 60 Covered Call ETF](#)

USSX/USSX.U* – [Global X S&P 500 Index ETF](#)

USCC/USCC.U* – [Global X S&P 500 Covered Call ETF](#)

USSL – [Global X Enhanced S&P 500 Index ETF](#)

USCL – [Global X Enhanced S&P 500 Covered Call ETF](#)

*Trades in U.S. dollars. | ¹ Source: Scotiabank Global Banking and Markets ETF Edge note as at August 13, 2025. | ² Ibid.

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