

Three priorities for lenders navigating USMCA uncertainty

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On 20 February, 2026, the US Supreme Court issued a 6-3 ruling that reshaped the tariff environment for the remainder of the year. The Court held that the International Emergency Economic Powers Act does not grant the President broad-based tariff authority.

The Trump administration imposed a 10 per cent global tariff through 24 July, 2026, with one critical exception: USMCA-compliant goods remained exempt. (The USMCA is the United States-Mexico-Canada Agreement that entered into force in 2020.)

According to BBVA Research, Mexico maintained an effective tariff rate of less than 7.0 percent, compared to 9.3 to 45.4 percent for other major trading partners. Canada faced no such protection.

On 18 March, 2026, the United States and Mexico launched a bilateral USMCA review without Canada present. This signalled Washington's preference for country-by-country arrangements over regional integration, a significant structural shift. Mexico focused discussions on domestic production requirements and rules of origin for key industrial goods.

Canada pursued a different strategy, diversifying its exports and exploring engagement with non-US partners as a hedge against market dependence. The Center for Strategic and International Studies noted that bilateral negotiations might yield faster results but risked fragmenting the trilateral framework.

On 1 July, 2026, the United States declined to renew the USMCA in its current form. The agreement remained fully in force through July 2036 but entered a ten-year cycle of annual reviews and renegotiations. For North American businesses, this meant the end of planning certainty.

Companies could no longer forecast beyond twelve-month horizons with confidence about tariff treatment or market access.

Damage from trade uncertainty was already visible before 1 July. TD Economics reported that Canadian private non-residential investment contracted 0.3 per cent in 2025 due to tariff uncertainty. The Bank of Canada Development Corporation projected GDP growth of one per cent in 2026, down from 1.2 per cent in 2025. RBC's chief executive acknowledged that USMCA uncertainty prevented firm guidance to clients.

The automotive sector bore the heaviest burden. Global automakers incurred around US\$35.4 billion in tariff expenses in 2025. Toyota projected US\$9.1 billion in costs, while General Motors, Ford, and Stellantis combined for US\$6.5 billion. These pressures resulted in a 7.3 per cent decline in US purchases from Mexico, though Mexico's market share held steady, reflecting the industry's fundamental dependence on North American production networks.

Diverging strategies

Canada and Mexico pursued markedly different strategies.

Canada entered the extended review cycle in a structurally weaker position than during previous tariff waves. Ontario, the heart of manufacturing, faced the most exposure. Canadian businesses in auto parts and steel operated with thinner margins and significantly less financial resilience than during the 2018-2019 NAFTA renegotiation, with direct implications for collateral quality.

Mexico adopted a cooperative posture with Washington, aligning on Chinese tariffs and positioning itself as a compliant supply chain partner. US imports from Mexico reached US\$534.9 billion in 2025,

a 5.8 per cent increase, consolidating Mexico as America's primary trade partner at 15.0 per cent of total imports.

Mexico's automotive sector faced pressure from Chinese vehicle imports, which now constituted approximately 30 per cent of Mexico's car market.

On 23 July, Mexico and the United States concluded their third bilateral review. Mexico proposed six priorities, including a protocol against unilateral tariffs and mechanisms for preserving automotive competitiveness in North America. Outcomes included duty-free treatment for roughly 85 per cent of Mexican exports and assurances that tariff approaches would not alter Mexico's terms.

Fitch and S&P flagged the annual-review pattern as a lingering source of investor uncertainty. Despite ongoing policy uncertainty, President Sheinbaum indicated an unnamed automaker was expected to announce a new Mexico manufacturing plant.

On 21 August, 2026, US-Canada bilateral negotiations collapsed before a midnight deadline. The Trump administration imposed 50 percent tariffs on US\$20 billion of USMCA-compliant Canadian goods, including dairy and beverages. Prime Minister Carney announced retaliatory tariffs effective 8 September. While Mexico secured 85 per cent duty-free access weeks earlier, Canada's bilateral track reached an impasse.

What these developments mean for lenders

For lenders with exposure to businesses operating across North American supply chains, the 1 July decision demands a more active approach to portfolio management. Collateral and covenant structures should be evaluated for the possibility of recurring disruptions:

1. Collateral visibility

Tariff costs need to be recognised in restructurings. Current book values for inventory, machinery, equipment, and receivables may not reflect the true realisable value in stressed situations. Lenders need to obtain current, market-based appraisals from advisors with proven country and sector expertise.

2. Borrower-level stress testing

Facilities designed for stable trade environments tend to develop structural weaknesses when faced with recurring policy uncertainty. For instance, Canadian borrowers have less of a financial cushion following the last spate of tariff disruption. You need to model covenant performance for automotive, steel, and manufacturing borrowers under scenarios of prolonged annual reviews and tariff shifts.

3. Liquidity options

Major US banks remain cautious about asset-based lending into Canada and Mexico. You need to identify and establish relationships with specialised lenders now, before credits deteriorate and lenders pull back.

The USMCA will undergo annual reviews through 2036. Lenders cannot afford to treat this period as a waiting room. Those who act now will have options. Those who wait may find choices have narrowed considerably.