

What the Canadian election means for markets

Canada holds a federal election on 28 April amid a fierce debate on how to face Trump's tariffs. Polls and betting odds project that Liberals, led by PM Mark Carney, will win with an absolute majority. This scenario is likely priced in by markets, and should have a limited short-term impact on CAD. A surprise Conservative win could instead trigger a CAD rally

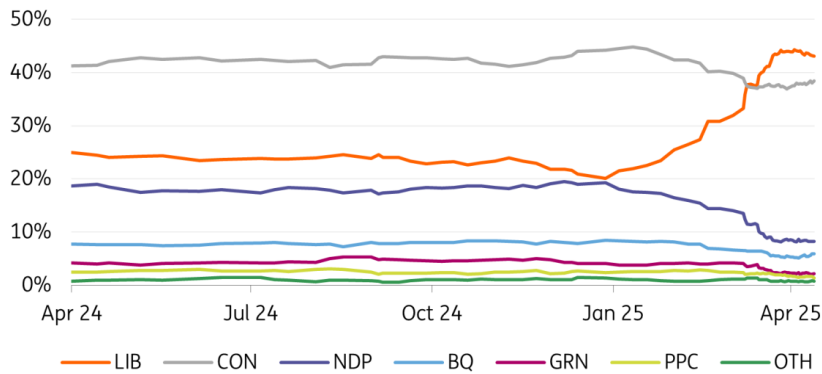


Liberal Party Prime Minister Mark Carney (right) and Conservative Party leader Pierre Poilievre (left) square off in the 28 April federal election

Liberals lead in the polls

Our working assumption up until President Trump came into office was that the Conservatives – up by 20+ points in the polls at the start of the year – would have won the 2025 federal election in Canada, which was set to be held no later than October. Seismic changes in the Liberal party leadership and an unprecedented deterioration in Canada-US economic ties have however transformed the political landscape. The new Prime Minister and new leader of the Liberal Party Mark Carney has announced elections for 28 April, and the polls are currently giving him a narrow lead over the Conservatives, led by Pierre Poilievre.

A big comeback for Liberals in the polls



Source: CBC poll tracker

A parliamentary majority in Canada requires 170 seats. In the past two governments, the ruling Liberal party fell short of an absolute majority and has relied on a coalition with the New Democratic Party. Polls suggest the NDP may lose most of its House seats, and the Liberals are projected to be more likely to secure a majority win rather than having to look for coalition partners again.

Based on latest polls, [CBC](#) projects Liberals will win 151-226 seats, with a central projection at 191, well above the 170 absolute majority threshold. Conservatives are projected around 94-156 seats, the Bloc Quebecois 12-29 and the New Democrats 0-18. Canada's first-past-the-post electoral system means popular vote shares don't necessarily translate directly to parliamentary seats.

Conservatives promise larger tax cuts than Liberals

A recent survey conducted by [Abacus data](#) shows two dominant factors driving voter decisions: reducing the cost of living (45%) and managing relations with Donald Trump (33%). Healthcare improvement and housing affordability follow as key concerns.

Both parties promise tax cuts. Carney pledged to trim 1 percentage point off the lowest income bracket tax, and has already removed Trudeau's consumer carbon tax. The Liberals' platform includes a widening of the fiscal deficit in 2025-26 to 1.96% of GDP from 1.6% in 2024-25. That comes, however, with a pledge to reduce it to 1.45% by 2029, and a split of government finances into an operating budget (to be balanced in three years) and a modestly in-deficit capital-spending budget.

The Conservatives have promised even larger cuts: 2.25pp off the lowest income bracket. They also propose a "Taxpayer Protection Act", that would ban federal tax hikes without a referendum. Poilievre wants to scrap the carbon duties for corporations, trim home sales tax and deliver larger cuts to bureaucracy and de-regulation. The total budget impact of Conservative measures would amount to roughly C\$75bn in tax cuts and C\$34bn in spending over the next four years. Funding relies heavily on government savings: C\$56bn. As a result, Conservative estimates for the deficit are roughly half of those of the Liberals for this fiscal year.

On the defence side, both parties are pledging to reach NATO's spending target of 2% by 2030. In terms of foreign policy, both leaders want to keep supporting Ukraine, but the Liberals have

sounded more explicit in wishing to strengthen ties with European nations.

Similar approaches to Trump's protectionism

Things are less clear when it comes to dealing with Trump's economic and diplomatic confrontation towards Canada. All Canadian parties are firmly condemning US tariffs: Trump is a deeply unpopular figure in Canada, and both Liberals and Conservatives have pledged a tough stance against Trump. There is however explicit interest to enter trade negotiations as opposed to seeing a US-Canada trade barriers as a sustainable measure.

Carney has led the tariff response in the past month as Prime Minister, which has included C\$60bn of retaliatory duties. Liberals plan a C\$5bn Trade Diversification Corridors fund to increase interprovincial trade. The Conservatives proposal is to renegotiate the USMCA early, hoping to halt reciprocal US-Canada tariffs during the negotiations.

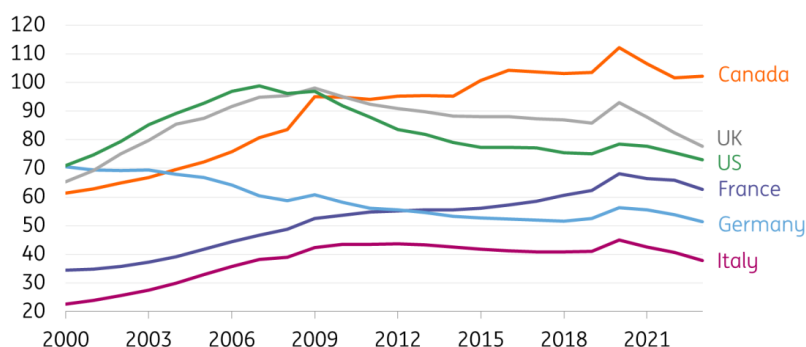
Macro considerations

Whoever wins the elections, the challenges ahead for the Canadian economy are huge. 76% of Canadian exports go to the US, equivalent to 20% of Canadian GDP, highlighting the country's vulnerability to a chaotic and uncertain trading relationship with its neighbour. Even a modest drop in exports to the US would be enough to trigger a recession. Unemployment is already rising, admittedly due to labour supply exceeding demand rather than outright job losses, but given the concerns over the outlook for economic activity we run the risk of a marked pick-up in lay-offs in the months ahead.

For a country that has such high levels of personal debt that is a deeply worrying situation and could exacerbate the pain and lead to an even steeper slowdown in spending. This leads us to conclude that the risks are skewed towards the Bank of Canada cutting rates harder and faster than we are currently projecting.

Fortunately Canada's fiscal position is in relatively healthy shape and that offer scope for additional support from government in the event of a major economic downturn.

Household debt as % of GDP



Source: IMF, ING

Market baseline likely a Liberal win, volatility expected

We think the impact on Canadian assets from this election will be quickly overshadowed by the volatility borrowed by US markets. That said, markets are attaching a greater-than-usual implied volatility premium (i.e. size of market impact) to the Canadian dollar for this election. As shown in the table below, one-week CAD implied volatility was rarely trading much above one-week historical volatility five days before previous Canadian general elections. That ratio is now 1.3, considerably higher than most other developed currencies.

Markets expect higher volatility than usual for this election

Ratio of 1-week implied to historical volatility
5 days before Canadian general election day (vs USD)

	CAD	EUR	JPY	CHF	AUD
Apr 2025	1.31	1.08	1.14	1.05	1.27
Sep 2021	0.98	0.90	1.07	0.88	0.97
Oct 2019	0.75	0.91	0.86	1.02	0.91
Oct 2015	0.98	0.98	1.51	0.87	0.94
May 2011	1.02	1.39	1.25	1.29	1.21
Oct 2008	1.02	1.00	0.95	1.14	0.66

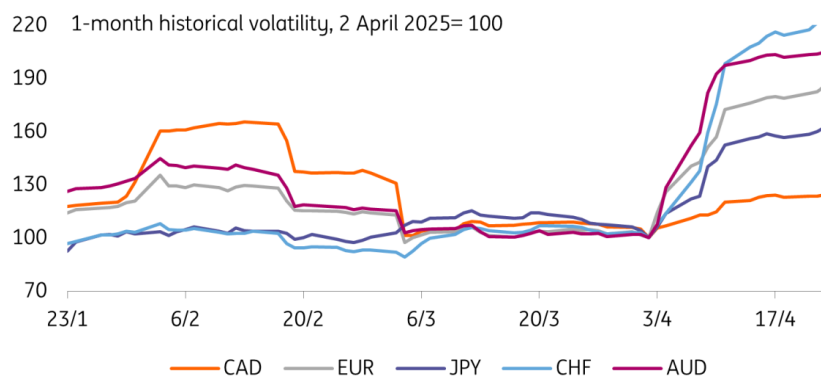
Source: ING, Refinitiv

The market's baseline is probably a reflection of polls and betting market odds, which currently imply a 85-95% probability of Liberals winning. Political betting website Kalshi.com (which predicted the latest US election better than polls) applies a 65% probability of a Liberal majority, 18% of a Liberal minority and 9% of a Conservative minority. Polls collated by CBC give 80%, 15% and 4% probabilities for those scenarios, respectively. We can safely assume the market's baseline scenario is a majority win by the Liberals.

Liberal vs Conservative impact on FX

The Canadian dollar is back to following the USD more closely after Canada got exempted from 'Liberation Day' tariffs. Despite existing trade barriers between the US and Canada, markets have re-established the rationale that Canadian growth is a close function of US growth, and outflows from US assets are more likely to land in Europe than in neighbouring Canada. The consequence of this relinking of North-American currencies is that USD/CAD observed volatility has been significantly lower compared to other major currencies since 2 April.

CAD volatility has not spiked after 'Liberation Day'



Source: ING, Refinitiv

As shown in the previous chart, market expectations are for an increase in CAD volatility around the election results. The directional impact will be determined by expected implications for US-Canada trade relationships, Canada's fiscal position and what this all means for the Bank of Canada.

A Conservative win would be a surprise for markets, and we think CAD would rally on the view that Trump may be more lenient in trade negotiations towards another conservative leader. Carney's short tenure as Prime Minister so far has brought diplomatic interests closer to Europe, which may be perceived as an obstacle for trade negotiations with the US.

In terms of fiscal plans, the impact may be perceived more in the bond market, and spill over into FX only in case of major bond volatility. While it is true that Liberals plan a wider deficit, markets may deem the Conservatives' spending cuts (and by extension, the smaller deficit projections) as too optimistic. While larger tax cuts by the Conservatives can lift CAD by limiting the Bank of Canada's ability to cut rates, the risks of an adverse Canadian bond reaction could offset the benefits for the loonie.

Summary

To sum up, we think that a Liberal majority win is largely priced in and will have a limited short-term impact on CAD. The implications for the longer term depend more on the US administration than on the new Canadian government, which should remain open to renegotiating trade agreements with the US regardless of the election result. A Liberal minority government (likely with the NDP and/or the Greens) should trigger some CAD weakness as the government would be seen less stable. We think that should be moderate in size though.

Should the Conservatives surprisingly win the election, we expect a rally in CAD on hopes of an earlier de-escalation in Canada-US trade tensions, although there is an outside risk of negative spillover from excessive volatility in Canadian bonds.

Our USD/CAD projections currently embed a Liberal majority government as a baseline assumption. We expect the pair to trade at 1.39 at the end of 2Q, face some upside pressure in 3Q before starting a more structural downtrend from 4Q.

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