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International transactions in securities during recent Canada-U.S. trade developments



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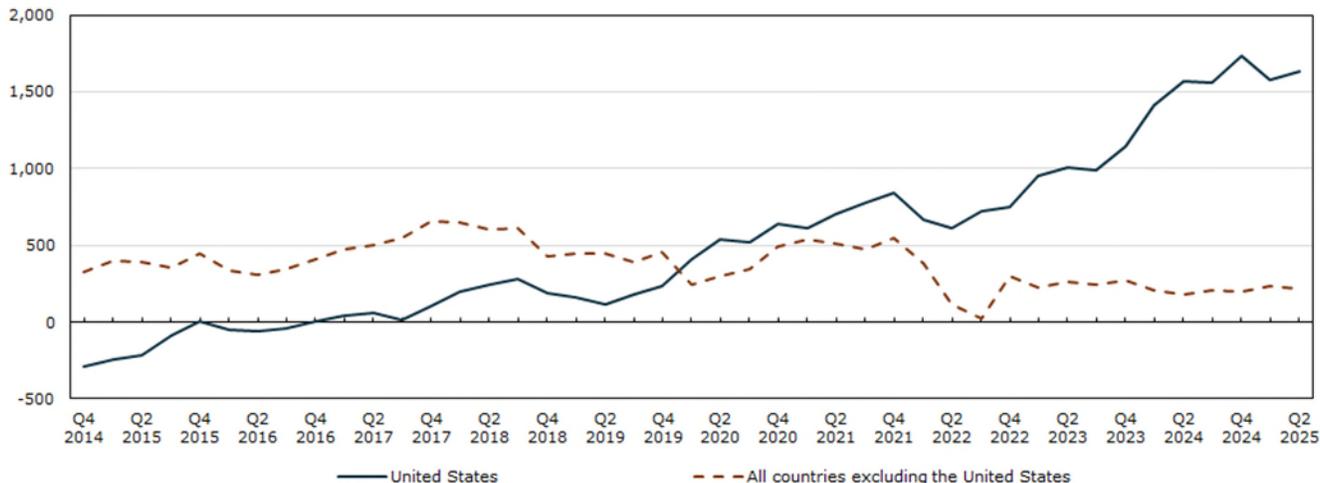
Canada's net international investment position (IIP) provides a statistical framework for evaluating the degree of financial integration between Canada and other countries. The value of Canada's net IIP depends on the relative weight of two offsetting factors: (1) the claims that Canadian investors have on financial assets located outside of Canada, via their cumulative holdings of direct investment, portfolio investment, official international reserves, and other financial investments, and (2) Canada's liabilities to foreign investors via their cumulative investments in financial assets in Canada. Over the last decade, the value of Canada's international financial assets has grown at a faster pace than its international liabilities, mainly due to fluctuations in equity prices that led to upward revaluations of Canada's foreign assets, particularly those in the United States, coupled with the depreciation in Canada's exchange rate. For over a decade, Canada has maintained a net asset position—with the value of the country's international financial assets exceeding its international liabilities. Canada's net asset position just prior to the COVID-19 pandemic stood at \$691 billion, about one-third of which reflected net claims on foreign financial assets in the United States. Since then, Canada's asset position has expanded almost threefold to \$1.86 trillion, with net claims on U.S. financial assets accounting for *all* of the cumulative growth in Canada's net financial position with the world (Chart 1).

These asset positions underscore the strong reliance of Canadian investors on U.S. asset markets as the former expanded their global footprint. In the second quarter of 2025, 58.9% of Canada's foreign financial assets were in the United States, while U.S. investors accounted for 52.5% of Canada's international liabilities. Portfolio investments in U.S. securities—which include outlays on equities and investment fund shares, bonds, and money market instruments—currently account for about one-half of the total financial assets that Canadian investors hold in the United States.¹ And the growth in Canada's net position in these portfolio assets, fueled by robust returns in U.S. equity markets, accounts for over two-thirds of the overall increase in Canada's net asset position with the United States since late 2019. The deep position that Canadian investors have taken in U.S. security markets has had a pronounced impact of Canada's net financial position with the world.

1. By comparison, foreign direct investment accounts for about one-third of Canada's U.S.-based financial assets.

Chart 1
Canada's international investment position, by region

billions of dollars



Source: Statistics Canada table 36-10-0485-01.

Canada's international transactions in securities include two basic types of investment transactions: (1) the net acquisitions of foreign securities by Canadian investors, and (2) the net acquisitions of Canadian securities by foreign investors.² Both exhibited distinct trends as trade tensions escalated during the first half of 2025, with Canadian investors increasing their exposure to the U.S. securities and foreign investors reducing their exposure to Canadian portfolio assets. As Lovely (2025) noted, "Canadian investors have loaded up on U.S. securities at an entirely unprecedented pace", while "foreign investors have cooled on Canada". As a result, Canada's international transactions in securities generated sizable net outflows of funds during the first half of 2025. A summary of these portfolio transactions is provided below, along with a brief overview of more recent developments during the summer months.

Portfolio investment in the U.S. ramped up as trade tensions escalated

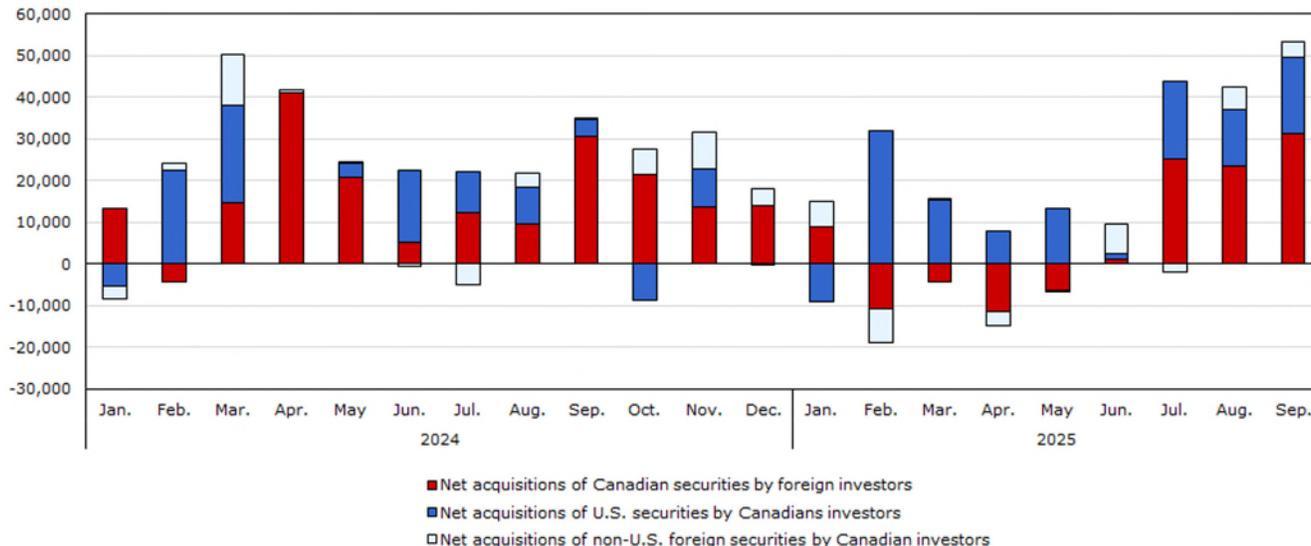
As the trade conflict intensified in early 2025, Canadian investors increased their exposure to U.S. portfolio assets. Canadian investors added \$61.0 billion in U.S. securities in the first half of 2025 as net acquisitions rose from February to June. Over three-quarters of these acquisitions occurred in February and March when Canadian households, businesses and governments were grappling with high levels of uncertainty over Canada's economic relationship with the United States (Chart 2)³. During the first six months of the year, Canadian investors added \$38.1 billion in U.S. equities and investment fund shares and \$22.3 billion in U.S. corporate and government bonds. By comparison, Canada's net investment in non-U.S. foreign securities was only \$1.3 billion, with bond purchases offsetting divestments in money market instruments and equities.

2. Net acquisitions in this context refer to purchases minus sales in a particular period. Positive net acquisitions denote investments while negative net acquisitions denote divestments.

3. Purchases of equities and investment fund shares accounted for almost three-quarters of the net acquisitions of U.S. securities by Canadian investors during February and March.

Chart 2
International transactions in securities

millions of dollars



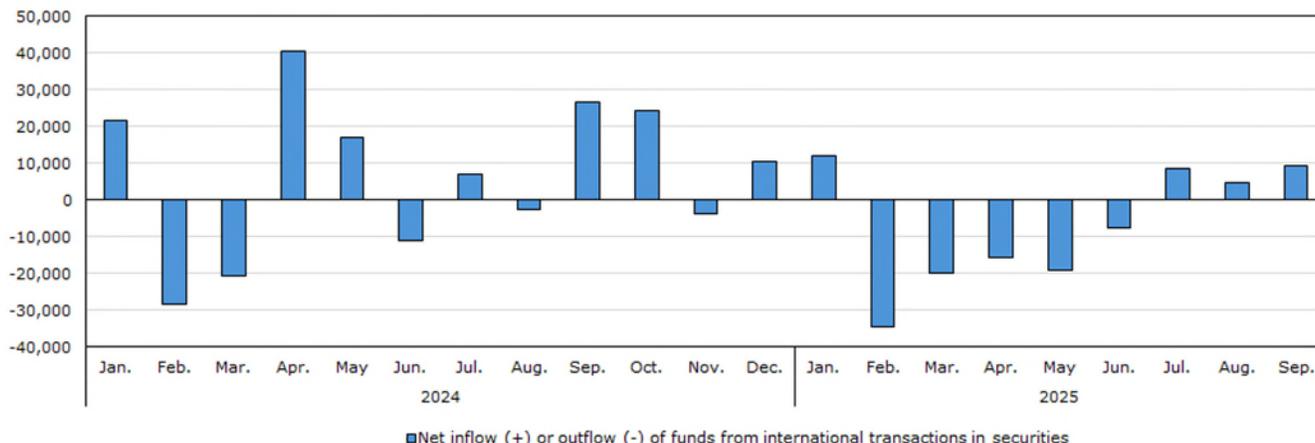
Notes: For each of the transaction categories noted, positive values denote a net investment and negative values denote a net divestment, respectively.
Source: Statistics Canada, table 36-10-0028-01.

While Canadian investors were acquiring U.S. portfolio assets, foreign investors were reducing their exposure to Canadian securities. Foreign acquisitions of Canadian securities pulled back steadily from February to May, resulting in a net decrease of \$22.4 billion during the first half of the year. This reflected net divestments in Canadian equities and investment funds shares (-\$43.6 billion) and money market instruments (-\$20.8 billion), which was partly offset by purchases of Canadian bonds (\$42.0 billion). The net divestment of Canadian securities in the second quarter (-\$16.5 billion) was the largest since the fourth quarter of 2007.

Together, the acquisition of foreign securities by Canadian investors and the divestment in Canadian securities by foreign investors generated a net outflow of funds from the Canadian economy totalling \$84.7 billion during the first half of 2025 (Chart 3). By comparison, these cross-border transactions generated a net inflow of \$80.6 billion in 2024.

Chart 3
Net flow of funds from international transactions in securities

millions of dollars



Notes: The net flow of funds is calculated as the net acquisition of Canadian securities by foreign investors minus the net acquisition of foreign securities by Canadian investors. Postive values denotes inflows and negative values denote outflows.
Source: Statistics Canada, table 36-10-0028-01.

Foreign purchases of Canadian securities rebounded in the summer months

Canadian investors continued to increase their exposure to U.S. portfolio assets during July and August, adding \$31.9 billion in equities and investment fund shares, government and corporate bonds, and money market instruments. As well, foreign investors rekindled their demand for Canadian securities during the summer months with net purchases totalling \$49.0 billion, more than offsetting the cumulative divestment of \$22.4 billion in the first half of the year. About two-thirds of the net acquisitions of Canadian securities by foreign investors during July and August reflected bond purchases. After posting net outflows totalling \$96.6 billion from February to June, Canada’s international transactions in securities generated a net inflow of funds totalling \$13.5 billion during the summer months.

The trend observed over the summer months continued in September, with both Canadian purchases of U.S. securities and foreign investment in Canadian securities accelerating. In a context where trade tensions persist and global stock markets remain strong, it will be interesting to see if cross-border portfolio investments continue on this path.

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Lovely, W. (2025). Buy Canadian? Except where it really matters perhaps. Mark View: Economics and Strategy. Vol. IX, No. 72. July 21, 2025. National Bank of Canada Financial Markets.