

Financial HARTbeat

French politics
Aug 27th 2025

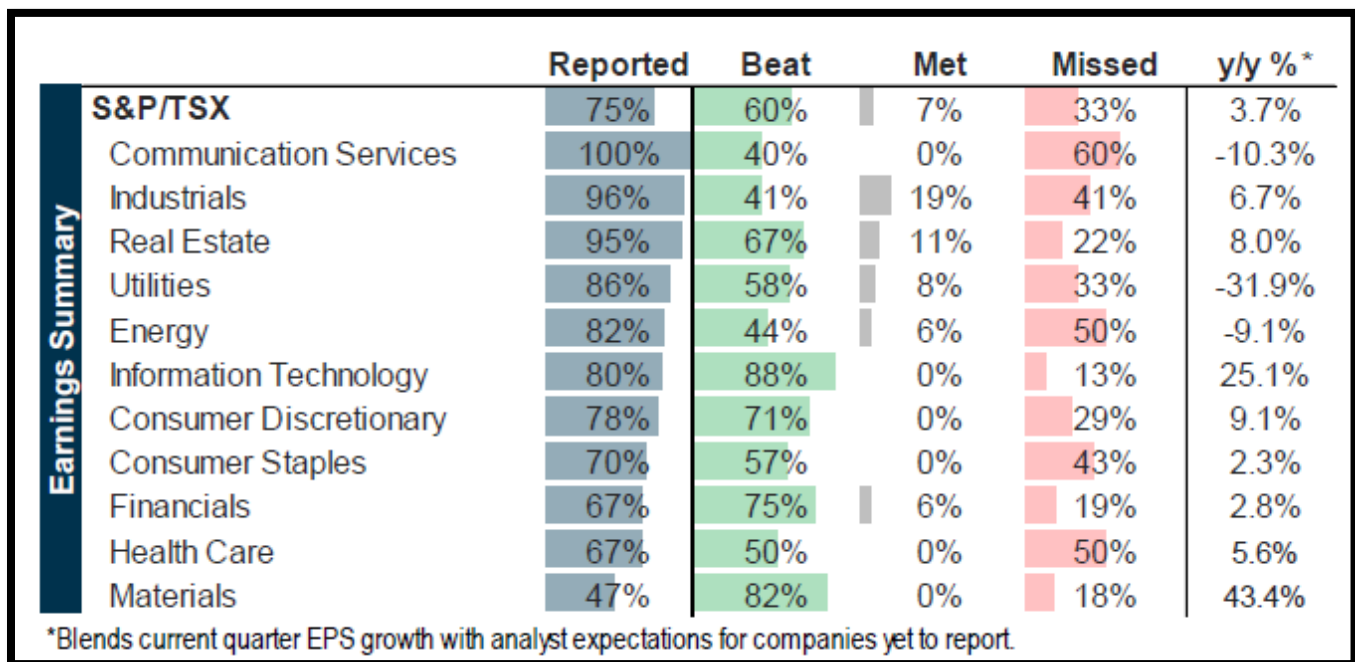


Good Morning,

French politics continue to be a mess and has weakened the Euro again...spread and France bonds have widened and risk assets in the country weakened...seems odds of a very divergent outcome in the country likely...nothing in the middle only far right and far left....

Catch the playback of our Weekly Roundup [Click here](#)

Chart of the Day: Earnings...Energy, Communications, Consumer Staples and Health care worth watching next quarter...



CIO Office (data via Refinitiv)



Ben Hart

Senior Wealth Advisor & Portfolio Manager
› 613-760-3788
› ben.hart@nbc.ca

**National Bank Financial -
Wealth Management**
50 O'Connor Street Suite 1602
Ottawa, ON K1P 6L2



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Top News

U.S. stock index futures were flat on Wednesday as investors stepped aside in anticipation of AI leader Nvidia's earnings release, after today's closing bell, that will set the tone for near-term risk appetite and whether the sky-high valuation for AI darlings is justified. Nvidia crossed the US\$4-trillion market capitalization mark in July to become the world's largest company as investors continued to bet on the global demand for AI infrastructure. The company's results come at a time when traders have been worried the tech sector - that makes up nearly 50% of the S&P 500 - might be overvalued. Valuations of the benchmark index are well above long-term averages, according to data compiled by LSEG. Data showed options traders are pricing in about a US\$260 billion swing in Nvidia's market value after the firm reports earnings, where its business in China will be watched after an unusual profit sharing deal with the Trump administration.

The U.S. dollar recovered on Wednesday even as investors remained nervous about attacks on Federal Reserve independence. President Donald Trump said he is weighing up who might replace Federal Reserve Governor Lisa Cook, whom he said he had fired, amid confusion whether he has the power to do so. Cook is filing a legal injunction to stay in position.

He may appoint his economic advisor Stephen Miran or former World Bank Group President David Malpass to replace Cook, according to Wall Street Journal, citing people familiar with the matter. The political tensions surrounding the Fed has seen two-year U.S. Treasury yields plunge to near four-month lows and the yield curve steepened to its widest in more than three years, as expectations for near-term rate cuts have risen. Traders are currently pricing in an 84% chance of the Fed moving in September and expecting more than 100 bps of easing by June 2026, according to data compiled by LSEG.

With a light economic calendar today, investors will look to a speeches from Richmond Fed President Thomas Barkin and Federal Reserve Bank of New York President John Williams later in the day. Their comments will be scrutinized for their perspectives on monetary policy.

On the trade front, President Trump imposed a crushing 50% tariff on Indian goods starting today, upending a decades-long effort to forge closer ties between Washington and New Delhi, in order to



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punish the country for buying Russian oil. On Tuesday, the U.S. Department of Commerce issued affirmative determinations of anti-dumping and countervailing duties against 10 countries, including Canada, after investigations into corrosion-resistant steel products. The International Trade Commission will now make its own determination of injury to the domestic steel industry, the department said.

Futures tracking Canada's TSX Composite Index edged higher on Wednesday as investors assessed strong earnings reports from Royal Bank of Canada, National Bank of Canada and Dollarama. Meanwhile, U.S. listed shares of Canada Goose Holdings jumped in premarket after a report from CNBC said its controlling shareholder Bain Capital has received bids to take the luxury goods maker private at a valuation of about US\$1.4 billion.

Profit Margins Widening (Argus)

Earnings season is winding down, as the retailers wrap up their reports. The overall growth rate is set to land in the low-teens range, which is above our forecast for 7%-8% growth. Yes, earnings typically beat expectations. But let's take a closer look. There are three drivers to EPS growth: higher sales, a wider operating margin, and a reduced share count. A decline in shares outstanding, which is the result of corporate share buybacks, is the lowest-quality driver of EPS growth.

Higher sales -- as customers demand and pay for more products and services -- is the highest quality, especially when those sales are driven by an increase in volume. (Second-quarter revenue growth has been about 6%, or about 40 basis points above long-term U.S. GDP growth, which is healthy.) Margin management is in the middle. Consistently wider margins are often a sign of a good management team, which should, over time, be able to grow revenues faster than it grows costs. That's a bit of a tall order in periods of high inflation, which raises the prices of Cost of Goods Sold, and of high interest rates, which result in higher financing costs.

What's more, there's a cap to margins as they don't rise indefinitely. (That is one of those statistics for which the concept "reversion to the mean" is relevant.) In the first quarter, the S&P 500 operating margin widened by approximately 80 basis points year over year to 11.8%, and we estimate it will come in higher than 12.0% for 2Q. As such, there's still room before margins peak at around 13.5%-14.0%. That trend



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fits into our outlook for a modest widening in the S&P 500 operating margin in 2025, taking into account an expected negative drag from tariffs, and for EPS growth in the 10% range for the year.

Bond Yields (bps (basis points) negative means prices up and positive means prices down)

Figure 1: Key Interest Rates (Canada & U.S.)

Canadian Key Rate	Last	Change bps	Canadian Key Rate	Last	Change bps
CDA o/n	2.75%	0.0	CDA 5 year	2.97%	0.7
CDA Prime	4.95%	0.0	CDA 10 year	3.47%	0.2
CDA 3 month T-Bill	2.67%	0.0	CDA 20 year	3.80%	0.3
CDA 6 month T-Bill	2.68%	0.5	CDA 30 year	3.89%	0.2
CDA 1 Year	2.68%	0.5			
CDA 2 year	2.71%	0.5			
US Key Rate	Last	Change bps	US Key Rate	Last	Change bps
US FED Funds	4.25-4.50%	0.0	US 5 year	3.74%	0.5
US Prime	7.50%	0.0	US 10 year	4.27%	0.9
US 3 month T-Bill	4.10%	0.8	US 30 year	4.93%	1.7
US 6 month T-Bill	4.03%	0.8	5YR Sovereign CDS	39.45	
US 1 Year	3.88%	0.8	10YR Sovereign CDS	47.35	
US 2 year	3.65%	0.5			
Preferred Shares Indicators			Last	Daily %	YTD
S&P Preferred Share Index			676.26	0.06%	6.43%
BMO Laddered Preferred Shares (ETF)			11.86	0.46%	8.31%

Source: LSEG

Things are looking up! Have a great day!

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