Financial HARTbeat

Yen again
Aug 4th 2026

Good Morning,

The Yen Had Become Too Weak
The Japanese yen fell to its weakest level in nearly 40 years against the U.S. dollar, driven by higher U.S. interest rates and years of yen-funded carry trades. A weaker yen increases Japan's import costs and raises the risk of financial instability.

The U.S. Stepped In to Protect Market Stability
Washington joined Japan in a rare, coordinated intervention because persistent yen weakness risked spilling into global markets. U.S. officials cited concerns about volatility in Asia, competitive currency devaluations, and broader financial market instability.

Treasury Market Risks Were a Major Concern
Japan is the largest foreign holder of U.S. Treasuries. If Japan had been forced to defend the yen alone, investors feared it could sell large amounts of Treasuries, putting upward pressure on U.S. yields and borrowing costs. Supporting the yen helps reduce that risk.

Catch the playback of our Weekly Roundup Click here

Also, catch the playback of our Annual Outlook Click here

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Chart of the Day: Maybe rates are going higher…if so I believe this will be a misstep and we likely get an economic reset..

		Bank of Canada	Federal Reserve	European Central Bank
Rates	President / Chair	Tiff Macklem	Kevin Warsh	Christine Lagarde
	Policy rate	Overnight rate	Fed Funds rate	Deposit facility rate
	Current policy rate	2.25%	3.75%	2.25%
Next meeting	Next meeting date	September 2, 2026	September 16, 2026	September 10, 2026
	Market-implied policy rate*	2.26%	3.91%	2.39%
	Spread vs. current rate	+1 bp	+16 bp	+14 bp
	Probability of…			
	… hike	3%	65%	54%
	… hold	97%	35%	46%
	… cut	0%	0%	0%
Rate cuts	25bps hikes (cuts) priced in...			
	... next 3 months	0.3	0.7	0.9
	... next 6 months	-	1.5	1.5
	... next 12 months	-	2.2	-

*Derived from OIS (Bank of Canada, European Central Bank) and Fed Funds Futures (Federal Reserve).

Top News

U.S. stock index futures rose this morning after strong forecasts from Palantir and ON Semiconductor reassured investors about AI-driven demand. Investors have been scrutinizing results from AI-linked companies this earnings season for signs that their billion-dollar investments are yielding returns. Strong results from AI leaders Microsoft and Amazon last week were a relief and have underpinned gains on Wall Street following a turbulent July. The benchmark S&P 500 index is about 21 points from hitting its first record high since June, while the blue-chip Dow Jones closed at a record high yesterday for the first time since July. Overall, this earnings season has so far been better than historical standards. Of the 304 companies in the S&P 500 that have reported second-quarter earnings as of Friday, 85.2% have beaten estimates, versus the long-term average of 67.5%.

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Elon Musk's SpaceX will release its first earnings report since its public debut after markets close. According to data from options analytics service ORATS, options are pricing a roughly 15% move in SpaceX shares in either direction, but with a bearish tilt. SpaceX's earnings will also clear the way for the potential sale of some 911.5 million shares owned by insiders, employees and early investors that had been locked up until August 6. Also in focus, the Middle East developments where contradictory statements cast doubt on a diplomatic solution. Meanwhile, an attack on a vessel near the Strait of Hormuz earlier today underscored doubts that the U.S.-Iran war was nearing a resolution.

In Canada, stock markets were also set to open higher after a long holiday weekend. Gold prices were steady as investors weighed mixed signals over the U.S. Federal Reserve's interest rate path, while copper prices advanced, supported by falling inventories.

On the economic front, Canada's trade surplus in June hit a four-year high of C$3.86 billion but according to Statistics Canada, the number largely reflected a weaker Canadian dollar rather than economic strength. In June, the average value of the Canadian dollar decreased by 1.7 U.S. cents compared with May, the largest monthly decline since October 2022. In Canadian dollar terms, exports rose by 0.4% and imports edged up by 0.2%. Exports were pushed up in part by a 16.5% jump in the value of shipments of metal and non-metallic mineral products, while imports were boosted by higher imports of processing units of the type used in data centers.

Although Ottawa is seeking to diversify trade in the face of President Donald Trump's tariffs, Canada remains heavily reliant on the U.S. market and in June, 69.5% of all exports flowed south of the border. Exports to the United States edged up by 0.3% while imports rose by 3.0%. As a result, Canada's trade surplus with the United States narrowed to C$9.98 from C$11.12 billion in May.

August a Challenge for Investors (Argus)

The dog days of summer may be perfect for a vacation at the beach (or in the mountains, as is the case with the Federal Reserve board), but investors don't always get to enjoy the month of August. Indeed, our analysis of monthly returns going back to 1980 indicates that the eighth month of the year is ahead of only one other month (September) in terms of average return. Yes, there have been some hits as the

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month has a "win percentage" of 57% and last year the S&P 500 rose 2.2%. But there have been some real misses, including 1981 (-6%), 1990 (-9.4%), 1998 (-14.6%), 2001 (-6.4%), and 2015 (-6.3%).

August generally is a quiet month on Wall Street. The second-quarter earnings reports are mostly finished by mid-month. The IPO market, relatively active this year in the wake of the SpaceX launch, often goes into a period of hibernation. Volume tends to be light, which is perfect for higher volatility. This August, nerves are likely to remain on edge as the Federal Reserve debates upcoming changes -- not just to policy, but also overall operations and emphases -- and the U.S. midterm elections kick into higher gear. We continue to stress a focus on quality (in the form of good earnings growth, blue-chip balance sheets, and experienced management teams) as the markets approach what typically has been a difficult two-month stretch. some real misses, including 1981 (-6%), 1990 (-9.4%), 1998 (-14.6%), 2001 (-6.4%), and 2015 (-6.3%).

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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	2.25%	0.0	CDA 5 year	3.19%	-8.4
CDA Prime	4.45%	0.0	CDA 10 year	3.58%	-8.4
CDA 3 month T-Bill	2.29%	0.1	CDA 20 year	3.86%	-7.2
CDA 6 month T-Bill	2.39%	1.4	CDA 30 year	3.98%	-7.2
CDA 1 Year	2.61%	-4.1			
CDA 2 year	2.85%	-7.5			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	3.5-3.75%	0.0	US 5 year	4.37%	-2.5
US Prime	6.75%	0.0	US 10 year	4.67%	-1.9
US 3 month T-Bill	3.74%	-1.0	US 30 year	5.22%	-0.8
US 6 month T-Bill	3.97%	-1.6	5YR Sovereign CDS	40.22	
US 1 Year	4.03%	-2.4	10YR Sovereign CDS	49.67	
US 2 year	4.22%	-3.1			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	720.41	0.00%	3.47%
BMO Laddered Preferred Shares (ETF)	13.03	0.00%	5.68%

Source: LSEG

Keep looking forward! Have a great day!

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