# Financial HARTbeat

Reverse Carry Trade
July 23rd 2026

Good Morning,

**A Hidden Source of Global Liquidity:** For years, investors borrowed cheap Japanese yen and invested in higher-yielding assets such as U.S. stocks and bonds. This trade has helped support asset prices globally.

**Why Markets Are Watching Japan:** If Japanese interest rates rise or the yen strengthens, investors may unwind these positions by selling stocks, bonds, and other risk assets to repay yen borrowings. This can amplify market volatility.

**Potential Impact on Portfolios:** A significant unwinding of the yen carry trade could tighten global liquidity, pressure equity markets—particularly technology stocks—and increase short-term market swings even if economic fundamentals remain sound.

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**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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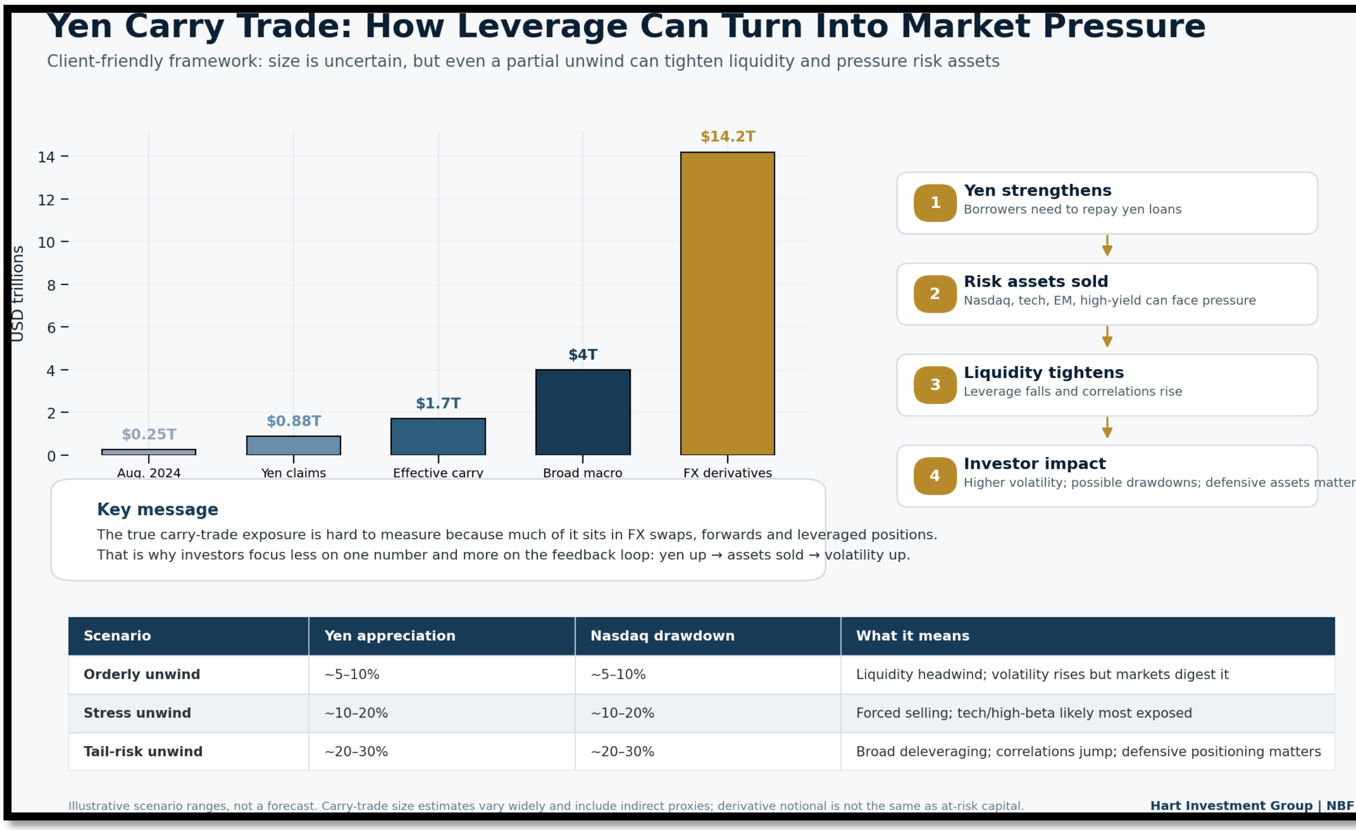
**Chart of the Day: what could happen is BOJ decides to increase rates dramatically…**




| Scenario | Yen appreciation | Nasdaq drawdown | What it means |
|---|---|---|---|
| Orderly unwind | ~5–10% | ~5–10% | Liquidity headwind; volatility rises but markets digest it |
| Stress unwind | ~10–20% | ~10–20% | Forced selling; tech/high-beta likely most exposed |
| Tail-risk unwind | ~20–30% | ~20–30% | Broad deleveraging; correlations jump; defensive positioning matters |

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**Top News**

U.S. stock index futures edge higher this morning after a tech-led selloff in the previous session, as investors weigh fresh earnings, escalating Middle East tensions and a new tariff announcement from the Trump administration. Intel added to the week's key earnings reports, forecasting quarterly profit and revenue above Wall Street estimates and outlining plans to increase spending over the next two years. Its shares rise more than 3% in premarket trading. The broader semiconductor sector, however, remains under pressure.

The S&P 500 and the Nasdaq posted their steepest one-day declines in a month yesterday as concerns mounted over the AI trade. Results from Alphabet and Tesla heightened investor unease about rising capital spending and cash burn among major technology companies.

Meanwhile, the Trump administration imposed new tariffs of 10% and 12.5% on goods from 60 trading partners, including Europe and China, citing lax enforcement of forced-labor bans. The move came as a temporary 10% global tariff expired. Geopolitical risks also remain in focus after President Donald Trump threatened "major military punishment" for Iran and its Houthi allies, following attacks by Yemeni fighters on two Saudi oil tankers in the Red Sea.

The Federal Reserve is due to meet next week, with markets pricing in a roughly one-in-three chance of a rate hike, up from 12% a week earlier. Investors will parse the preliminary July PMI (purchasing managers' index) data at 9:45 a.m. ET for an updated reading on U.S. manufacturing and services activity.

Futures tracking Canada's blue-chip stocks index also edge higher this morning, after tech and consumer discretionary shares led the index lower in the previous session. Oil prices slip, but are still on track for weekly gains over concerns about disrupted energy flows in the Red Sea and fears of further escalation in the U.S.-Israeli war on Iran.

Gold prices edge up marginally as inflation concerns strengthen the case for higher interest rates ahead of a Federal Reserve policy meeting next week. In data, Producer Price Inflation in Canada decreased to

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1.20 percent in May from 1.60 percent in April of 2026. European shares recover after registering their steepest one-day loss in two weeks in the previous session, as investors drew comfort from some corporate earnings and assess the impact higher oil prices could have on monetary policy.

The S&P Global Flash Euro zone Composite PMI Output Index rose to 51.9 in July from June's 50.0, its highest reading in five months and far above an expectation for a modest rise to 50.3.

China and Hong Kong stocks pared some of their weekly gains, as higher oil prices fuelled inflation fears and dampened investor sentiment. Hong Kong benchmark Hang Seng dropped 1%.

Japan's Nikkei share average fell 2.73% as a sharp decline in Google parent Alphabet's shares spurred concerns about heavy AI spending. The Nikkei has lost nearly 8% so far this month. South Korean KOSPI closed down 5.7%, reversing gains for the week on concerns that heavy AI spending by major U.S. technology companies may not deliver returns fast enough to sustain demand for memory chips.

**Flight to Quality for Dollar (Argus)**

Trends in the U.S. dollar, the world's dominant currency, offer nuanced clues about the confidence that investors have in the U.S. economy and financial system. The USD generally has been in high demand since the start of the pandemic, and at the beginning of 2025 was 21% above its long-run average. Why? When global uncertainty increases, investors seek a safe haven for assets. That hot dollar trend had started to unwind a bit: in 2025, the greenback declined 5% on a global, trade-weighted basis. There were several factors, including economic uncertainty and tariff policies, the swelling U.S. federal debt, a recovery in the European economy, and simple value investing, as currency traders sought bargains. In recent months, all of the dollar angst has moved to the back burner and the greenback is ascendant again in response to the war in Iran, which triggered another safe-haven run. This latest rally reaffirms our view that the dollar is nowhere near at risk of losing its status as the global currency of choice. The dollar is now about 15% (more than one standard deviation) above its 20-year average value.

It has weathered inflation scares, elections, and the recent U.S. government shutdown. The greenback is supported by a $27 trillion market, the Federal Reserve, and the country's time-tested political/economic

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system of democratic capitalism. Of note, alternative currencies have their flaws as well. We view the state of the dollar as one of the main checks and balances to the U.S.'s status as the leader of the global economy. Still, we would be concerned if the greenback were to plunge 20% in a short time, as occurred after the S&P downgrade of U.S. debt in 2011. A U.S. dollar back at 2011 levels would almost certainly mean higher interest rates, a potential drag on the economy, and intense pressure on major market indices.

**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 | 3.24% | -2.8 |
| CDA Prime | 4.45% | 0.0 | CDA 10 year | 3.62% | -2.4 |
| CDA 3 month T-Bill | 2.28% | 0.0 | CDA 20 year | 3.88% | -2.2 |
| CDA 6 month T-Bill | 2.42% | -1.0 | CDA 30 year | 4.00% | -1.9 |
| CDA 1 Year | 2.68% | -2.5 | | | |
| CDA 2 year | 2.93% | -2.5 | | | |
| **US Key Rate** | **Last** | **Change bps** | **US Key Rate** | **Last** | **Change bps** |
| US FED Funds | 3.5-3.75% | 0.0 | US 5 year | 4.43% | -2.8 |
| US Prime | 6.75% | 0.0 | US 10 year | 4.68% | -2.4 |
| US 3 month T-Bill | 3.80% | -0.6 | US 30 year | 5.15% | -1.7 |
| US 6 month T-Bill | 4.04% | -2.0 | 5YR Sovereign CDS | 42.24 | |
| US 1 Year | 4.12% | -1.7 | 10YR Sovereign CDS | 51.96 | |
| US 2 year | 4.33% | -2.7 | | | |

| Preferred Shares Indicators | Last | Daily % | YTD |
|---|---|---|---|
| S&P Preferred Share Index | 719.54 | -0.02% | 3.35% |
| BMO Laddered Preferred Shares (ETF) | 13.07 | -0.11% | 6.00% |

Source: LSEG

Keep looking forward! Have a great day!

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