Financial HARTbeat

Yields higher..
Sept 2nd 2026

Good Morning,

Higher yields = tighter financial conditions

- Governments, companies, and consumers all face higher borrowing costs.
- Mortgage rates, business loans, and financing costs rise, which tends to slow economic growth and cool inflation.
- Equity valuations often come under pressure because future earnings are discounted at a higher rate.

The bond market is sending a warning signal

- When long-term yields rise despite slowing economic data, investors are often demanding more compensation for inflation risk, fiscal deficits, debt issuance, or geopolitical uncertainty.
- In other words, markets may be questioning future inflation, government finances, or both.

Winners and losers emerge

- **Winners:** savers, insurers, money market funds, new bond buyers.
- **Losers:** heavily indebted governments, REITs, highly leveraged companies, homebuyers, and long-duration growth stocks.
- Higher yields effectively transfer value from borrowers to lenders.

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Also, catch the playback of our Annual Outlook ***Click here***

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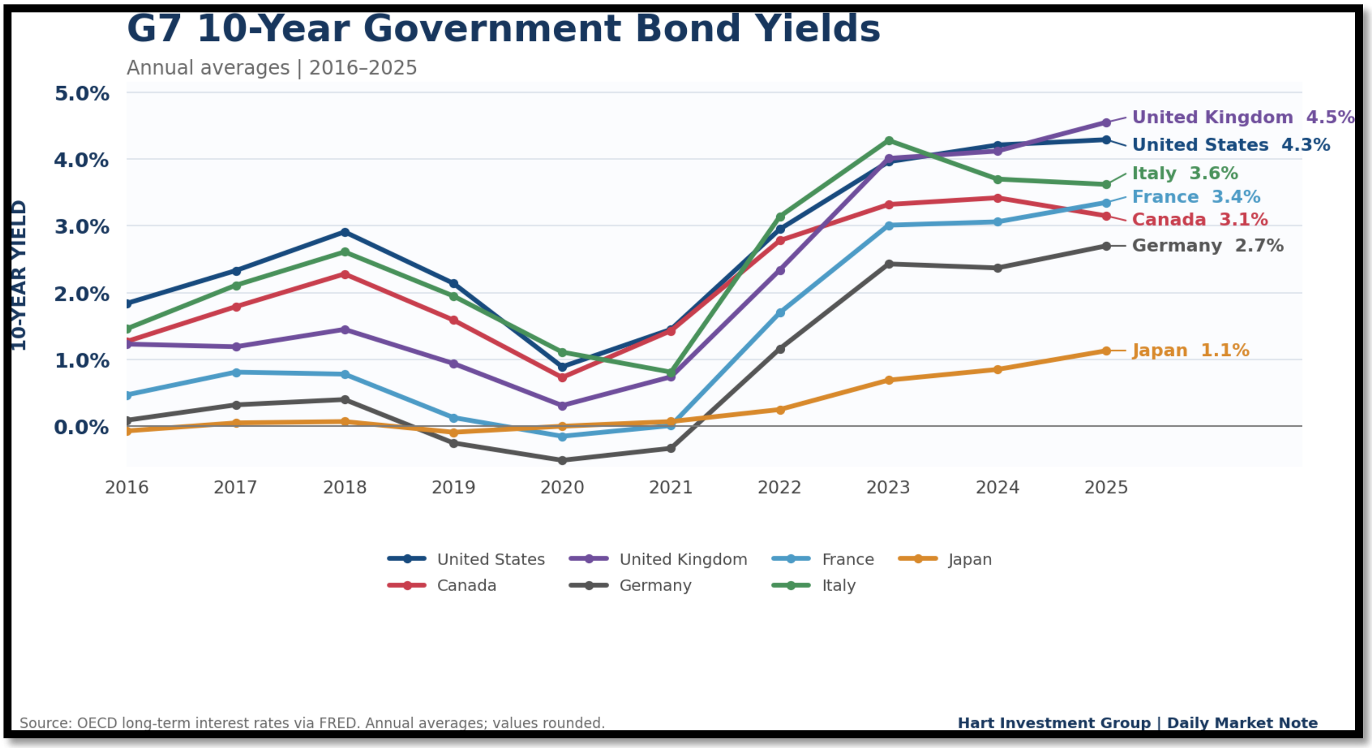
Chart of the Day: Yields continue to track higher….Central planners worried..



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Top News

U.S. futures were relatively unchanged on Wednesday as bond yields marched higher, with traders worried about the impact of rising oil prices on inflation. Futures tracking Canada's blue-chip stocks were muted on Wednesday, as markets grappled with fresh strikes in the Iran war and rising yields ahead of the Bank of Canada's interest-rate decision.

The U.S. 10-year Treasury note yield hit a high of 4.814% on the day, a level not seen since November 2023. Yields in the U.K., Germany and France also rose. In Japan, the 10-year government yield traded around multi decade highs. Yields have been rising on fears inflation could increase due to higher oil prices.

Private U.S. companies added jobs at a slightly slower-than-expected pace in August, with gains concentrated heavily in health care and a few other industries, ADP reported Wednesday. The payrolls processing firm said firms added 38,000 workers, fewer than the upwardly revised 46,000 in July and below the Dow Jones consensus estimate for 47,000.

Oil prices fell on Wednesday after climbing to more than one-month highs earlier in the session, with traders weighing the risk of supply disruptions following overnight strikes by the U.S. and Iran against signs that crude supplies continue to reach the market.

Gold prices fell to their lowest in more than three weeks on Wednesday, pressured by a stronger dollar as the biggest exchange of fire between the U.S. and Iran since July threatened to fuel global inflation. European shares slipped to a one-month low on Wednesday, pressured by a global bond rout as escalating tensions in the Middle East stoked worries about energy-induced inflation.

Europe is seen as especially vulnerable to the months-long conflict given its reliance on energy imports, but strong earnings during the latest reporting season were a relief to investors and cushioned some of the STOXX's losses on signs that companies were coping better-than-expected.

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China stocks declined while Hong Kong shares were flat on Wednesday as a global bond selloff and rising oil prices took a toll on investor sentiment. Online fast-fashion retailer Shein's weak performance in Hong Kong also dragged down sentiment. It declined 5% further after a lacklustre debut in the previous session following a long-awaited initial public offering.

South Korea's consumer inflation quickened in August due to low-base effects from the previous comparable period a year ago, data showed on Wednesday, but was lower than expectations. The consumer price index (CPI) rose 3.1% in August from a year earlier, after climbing 2.8% in July, according to the Ministry of Data and Statistics.

Japanese shares ended lower on Wednesday as renewed U.S. attacks on Iran pushed oil prices higher, stoking fears of an economic slowdown, while rising bond yields pressured growth stocks. Technology investor SoftBank Group fell 6.42%, and chip-related Tokyo Electron and Advantest lost 3.4% and 2.52%, respectively.

Stock Valuations Reasonable, But Not Cheap (Argus)

We have several different ways of looking at market valuations, and most are signaling that stocks are reasonably valued, though hardly at bargain-basement levels. Our primary stock/bond asset-allocation model is our Stock/Bond Barometer. This market measure goes back to 1960 and takes into account real-time price levels, historical growth rates, and forward-looking forecasts of numerous factors. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model is a modest premium for stocks, of 0.18 sigma, with a standard deviation of 1.06. The current valuation level now is a 0.83 sigma premium for stocks, which is not low but is within the normal range. Other valuation measures show reasonable multiples for stocks. The current forward P/E ratio for the S&P 500 is 20, within the range of 15-24, as earnings estimates continue to rise. On price/book, dividend yield, and price/sales ratios, it is no surprise that stocks are priced at the high end of the historical ranges, given that tech stocks, which have low capital bases and generally low yields, are the biggest component of the market.

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We check other ratios as well. For example, the gap between the S&P 500 earnings yield and the real 10-year government bond yield is now 345 basis points, in line with the historical average and well below the nosebleed valuation levels of 200 basis points back in the "dot-com" bubble days. On the Fed's stock valuation model, the earnings yield is above the 10-year Treasury bond, signaling value for stocks. Lastly, the ratio of the S&P 500 price to an ounce of gold is 1.7, within the normal range of 1-3. These valuation measures suggest to us that the stock market -- which is up almost 10% year-to-date -- is not in danger of entering bubble territory at this juncture.

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	3.34%	-1.7
CDA Prime	4.45%	0.0	CDA 10 year	3.74%	-1.3
CDA 3 month T-Bill	2.28%	-0.3	CDA 20 year	4.01%	-1.2
CDA 6 month T-Bill	2.38%	0.0	CDA 30 year	4.13%	-1.2
CDA 1 Year	2.70%	1.0			
CDA 2 year	3.01%	-1.3			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	3.5-3.75%	0.0	US 5 year	4.54%	-2.1
US Prime	6.75%	0.0	US 10 year	4.78%	-1.6
US 3 month T-Bill	3.79%	0.3	US 30 year	5.25%	-1.4
US 6 month T-Bill	4.03%	-0.6	5YR Sovereign CDS	36.49	
US 1 Year	4.17%	-1.3	10YR Sovereign CDS	45.46	
US 2 year	4.38%	-1.9			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	715.74	-0.01%	2.80%
BMO Laddered Preferred Shares (ETF)	13.06	-0.08%	5.92%

Source: LSEG

Keep looking forward! Have a great day!
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