

Financial HARTbeat

Plus ça change, plus c'est la même chose
Aug 5th 2025



Good Morning,

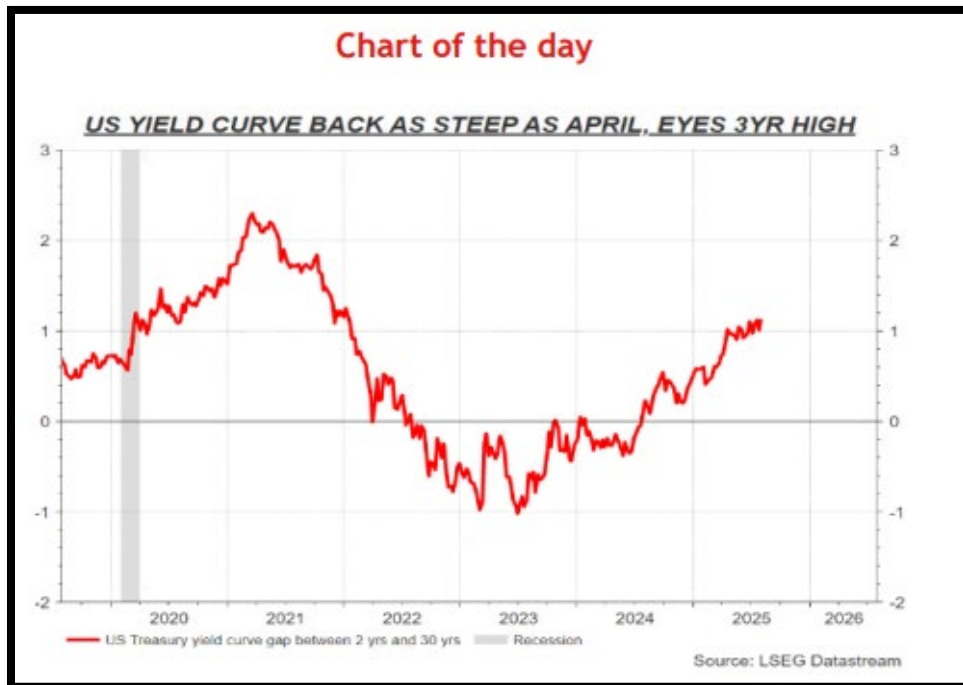
I went away for a week...don't think I missed much...

More tariff threats, more aggression, more legal battles, more you pay me more or else..

Central bank meetings were ho hum, yes we need to cut but worries about this that and the other thing...

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

Chart of the Day: Do we have a re-visit to April?



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Top News

Global stocks rose today after traders ramped up bets of a U.S. rate cut in September to almost 94%, following last week's soft U.S. nonfarm payrolls data. In Canada, ministers will start discussing trade with Mexican President Claudia Sheinbaum today. The discussion follows Canada and Mexico failing to come to a trade agreement with the United States before the August 1 deadline.

U.S. President Donald Trump put a 35% tariff on goods imported from Canada last week, higher than the previous 25% on all products not covered under the U.S.- Mexico-Canada trade agreement. Mexico secured a temporary reprieve. On the economic front, Canada's merchandise trade deficit widened in June to C\$5.9 billion as imports grew faster than exports due to a onetime high-value oil equipment import. The deficit observed in June is the second highest on record after the deficit dipped to its largest in history in April to C\$7.6 billion. Analysts polled by Reuters had predicted the trade deficit to widen to C\$6.3 billion in June from a downwardly revised C\$5.49 billion in May. Total imports were up 1.4% in June to C\$67.6 billion from a drop of 1.6% in the prior month, adding that excluding the one-time product import which was from the U.S. for an offshore oil project, total imports were down 1.9% in June. Canada's total exports grew 0.9% in June to C\$61.74 billion following an increase of 2% in May, its second consecutive increase. In volume terms, however, exports were down 0.4% in June. Exports to the U.S. in June, however, increased by 3.1% in June, due to crude oil shipments. But on a year-over-year basis, exports to the U.S. were still 12.5% lower when compared with the same period a year ago. After reaching a record high in May, exports to countries other than the United States were down 4.1% in June, representing the first decline since February.

The Canadian dollar slightly weakened further against the U.S. dollar after the data was released. In commodities, gold prices hovered near twoweek highs on growing expectations of a rate cut while copper rates eased. In the U.S., the trade deficit narrowed in June on a sharp drop in consumer goods imports, the latest evidence of the imprint on global commerce President Donald Trump is making with sweeping tariffs on imported goods. The overall trade gap narrowed 16.0% in June to \$60.2 billion. Days



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after reporting that the goods trade deficit tumbled 10.8% to its lowest since September 2023, the government said the full deficit including services also was its narrowest since September 2023.

The diminished trade deficit contributed heavily to the rebound in U.S. gross domestic product during the second quarter, reported last week, reversing a drag in the first quarter when imports had surged as consumers and businesses front-loaded purchases to beat the imposition of Trump's tariffs. The economy in the second quarter expanded at a 3.0% annualized rate after contracting at a 0.5% rate in the first three months of the year, but the headline figure masked underlying indications that activity was weakening.

Tariffs: A Fact of Economic Life (Argus)

The Trump administration, frustrated by a \$140 billion trade deficit with global partners, has kicked off a trade war. The goal is to reduce the imbalance over time while also protecting domestic industries, technologies, and jobs. Since then, financial markets have done a 360-degree turn, rebounding to all-time highs in June following a three-day S&P 500 drop of over 10% in early April (after "Liberation Day"). Bond yields initially surged on fears over inflation pass-through from tariffs, but have since moderated as investors believe the U.S. economy will slow.

According to the Yale Budget Lab, the average effective tariff rate was at 28% in May, but has since hovered around 17% (as several deals were made with major trading partners). Despite these historic levels, tariffs as a concept are not new. Historically, the U.S. economy has been layered with tariffs that averaged almost 4% on all goods. Trade wars often start with a narrow focus (say semiconductors), but then broaden as partners retaliate. The puts and takes are difficult to model, but we do have several key takeaways for 2H25. We expect a drag on GDP growth of less than 100 basis points, assuming that tariff revenue, \$126.5 billion so far, reduces the budget deficit and is invested productively. Meanwhile, inflation may rise 50-100 basis points through 2026, at which point prices should plateau but not fall back. The Fed likely will not react unless long-term expectations jump.

Turning to the dollar, the greenback has fallen about 8% in 2025, but should recover as other countries cut rates and uncertainty dissipates. The stronger dollar should offset potential inflation, but will make



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American exports more expensive. Finally, capital from investors should still flow to the most-efficient businesses, where ROC exceeds WACC. With the unemployment rate at 4.1% and inflation consistently at around 2%-3%, tariffs may not have the devastating impacts once feared.

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	2.95%	0.8
CDA Prime	4.95%	0.0	CDA 10 year	3.39%	0.6
CDA 3 month T-Bill	2.67%	0.0	CDA 20 year	3.65%	0.7
CDA 6 month T-Bill	2.71%	0.5	CDA 30 year	3.71%	0.7
CDA 1 Year	2.71%	0.0			
CDA 2 year	2.70%	0.3			
US Key Rate	Last	Change bps	US Key Rate	Last	Change bps
US FED Funds	4.25-4.50%	0.0	US 5 year	3.77%	2.5
US Prime	7.50%	0.0	US 10 year	4.22%	2.2
US 3 month T-Bill	4.16%	0.3	US 30 year	4.81%	1.8
US 6 month T-Bill	4.12%	-0.2	5YR Sovereign CDS	39.95	
US 1 Year	3.89%	4.3	10YR Sovereign CDS	47.87	
US 2 year	3.71%	2.7			
Preferred Shares Indicators			Last	Daily %	YTD
S&P Preferred Share Index			677.46	-0.07%	6.62%
BMO Laddered Preferred Shares (ETF)			11.81	-0.55%	7.85%

Source: LSEG

Things are looking up! Have a great day!

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