Financial HARTbeat

Over our skiis?
Aug 6th 2025

Good Morning,

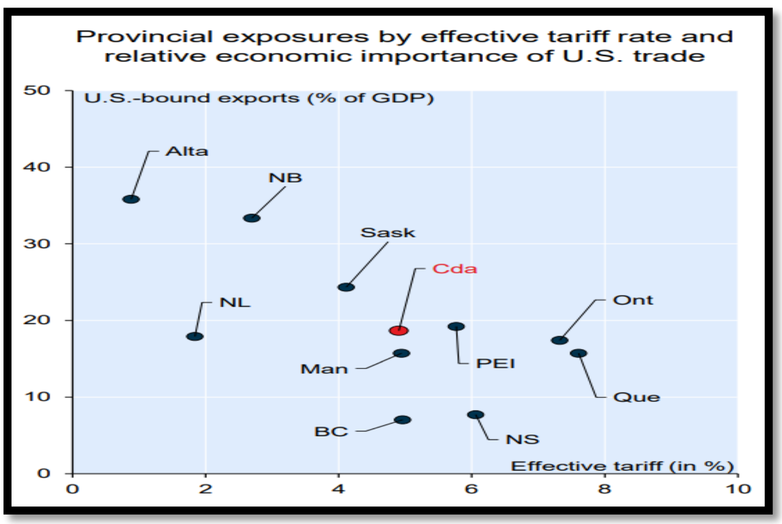
As valuations get stretched…"deals" get made, earnings released, and stocks do not react the upside…maybe market has gotten ahead of itself…

Yields have also backed off (bond prices higher) since Central banks met last week also a signal to pay attention..

If you have ever skied…when you get over your skiis you are leaning to far forward…you must correct this by leaning back…sometimes you overcorrect and fall over…sometimes you land it properly and settle into a better rhythm…this week I am doing my best to assess which one it might be..

Catch the playback of our Weekly Roundup [***Click here***]

Chart of the Day: While the impact might not be as huge as headlines….provincial disparady will be material…Ontario and Quebec most impacted by the Tarrifs…



NBC Economics and Strategy (data via Statistics Canada, U.S. Census Bureau, Bloomberg, USITC)

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Top News

Canadian stock index futures traded higher this morning, as investors bought the dip after Friday's sell-off and assessed more corporate earnings. Canadian ministers held a "productive" meeting with Mexican President Claudia Sheinbaum, as the two nations prepare to navigate U.S. President Donald Trump's shifting trade and tariff policies.

Meanwhile on the economic front, the greater Toronto Area home sales rose for a fourth straight month in July and prices edged lower. Seasonally adjusted sales increased 13% on a month-over-month basis to 5,744 units. That marked the biggest increase since October 2024, while it was the best home sales result for the month of July since 2021. The Toronto Regional Real Estate Board data also showed that the home price index fell 0.2% to C$979,000, which was the seventh decline in the last eight months. On a year-to-year basis, the price index was down 5.4%, while sales jumped 10.9% and new listings were up 5.7%.

In commodities, gold prices inched lower on a firm dollar, while copper rates were lifted amid Chile supply worries. Oil prices climbed as Trump continued to threaten India for buying Russian crude oil. On trade, for the time being, the existing U.S.-Mexico-Canada Agreement (USMCA) means Canada and Mexico have so far been less impacted by Trump's tariffs than many other economies. However, data shows that there are hundreds of small and medium companies in Canada that face a direct hit for not being USMCA compliant. According to government data, small and medium businesses represent almost 98% of all firms in Canada and account for over 50% of the economy. The Canadian steel, aluminum and auto sectors are also particularly hard hit as they face separate tariffs between 25% and 50%. Adding to the uncertainty, USMCA is up for renegotiation next year.

Data from the U.S. Census Bureau showed that about 92% of Canadian exports by value entered the U.S. tariff-free in June because they were exempt. However, that figure is skewed by oil and gas shipments, Canada's top export by far, since almost 99% of oil shipments entered the U.S. duty free in June. Without oil and gas, total tariff-free imports into the U.S. from Canada fell by six percentage points in June on a yearly basis to 89% from 95%. The amount of Canadian exports that are officially USMCA compliant jumped by 20 percentage points in April to 56%, but has remained nearly unchanged since then. The oil sector, which accounts for close to a third of Canada's exports to the United States, quickly adapted, with

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USMCA compliance rising to 84% in June from 25% in the same period a year ago. But outside of the oil and gas sector, compliance has only moved three percentage points to 45% in June from 42% the same month last year, suggesting that companies are struggling to meet USMCA rules to evade tariffs.

The Bank of Canada assumes that over the next two years 95% of Canadian goods exports are likely to be USMCA compliant, though lawyers and export consultants say the increase in compliance from the current level will not be quick. In the U.S., Wall Street was poised for a steady start today, as ongoing optimism about Federal Reserve interest rate cuts kept markets afloat.

The Immigration Effect on Jobs (Argus)

President Trump's immigration agenda centers on stricter enforcement, expanded deportations, and cuts to legal immigration. Pitched as protecting American jobs, the implications for the labor market and inflation are nuanced. The current labor force is 170.3 million, according to the St. Louis Fed. The force has grown at an annual rate of 0.8% on average since 2000, an increase of about 1 million workers each year. Immigration has been a big part of that growth, accounting for over 70% of prime-age labor force growth since 2017, per the CBO. That trend looks to be headed the other direction, as the Trump administration set a target for thousands of deportations per day. Not all of the deportees are in the labor force, but the emphasis on immigration will almost certainly mean tighter labor supply, upward wage pressure, and stickier inflation -- especially in low-wage, labor-reliant sectors like construction (14% unauthorized workers), food service (10%), and agriculture (43%). For companies already grappling with services inflation running above 3.5% year over year, higher wages threaten to embed costs.

We draw five takeaways: 1) Labor scarcity could trim 0.2-0.3 percentage points from GDP annually; 2) Persistent wage pressure may force the Fed to stay restrictive longer; 3) Labor-heavy industries could see margin compression; 4) Immigration policy will shape sector-level winners -- automation, defense, logistics; 5) Political risk is now economic risk.

At target rates, deportation could result in a reduction in the labor force of around 1 million by early 2026, as well as a 40 basis point decrease in the labor-force participation rate. The unemployment rate stands at 4.1%, due in part to labor-force contraction, which prevents the rate from spiking. Immigration

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constraints may prove a headwind to disinflation and productivity, reinforcing the importance of stock picks with pricing power, cost flexibility, and real earnings growth.

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	2.96%	1.5
CDA Prime	4.95%	0.0	CDA 10 year	3.40%	2.3
CDA 3 month T-Bill	2.67%	0.0	CDA 20 year	3.67%	2.8
CDA 6 month T-Bill	2.70%	0.3	CDA 30 year	3.74%	2.8
CDA 1 Year	2.70%	0.0			
CDA 2 year	2.71%	1.1			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.79%	3.0
US Prime	7.50%	0.0	US 10 year	4.23%	3.6
US 3 month T-Bill	4.16%	0.0	US 30 year	4.81%	3.9
US 6 month T-Bill	4.13%	-0.2	5YR Sovereign CDS	39.95	
US 1 Year	3.93%	1.1	10YR Sovereign CDS	47.88	
US 2 year	3.73%	1.8			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	678.55	0.03%	6.79%
BMO Laddered Preferred Shares (ETF)	11.84	0.25%	8.13%

Source: LSEG

Things are looking up! Have a great day!

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