

Financial HARTbeat

Budget \$78B Deficit
Nov 5th 2025



Good Morning,

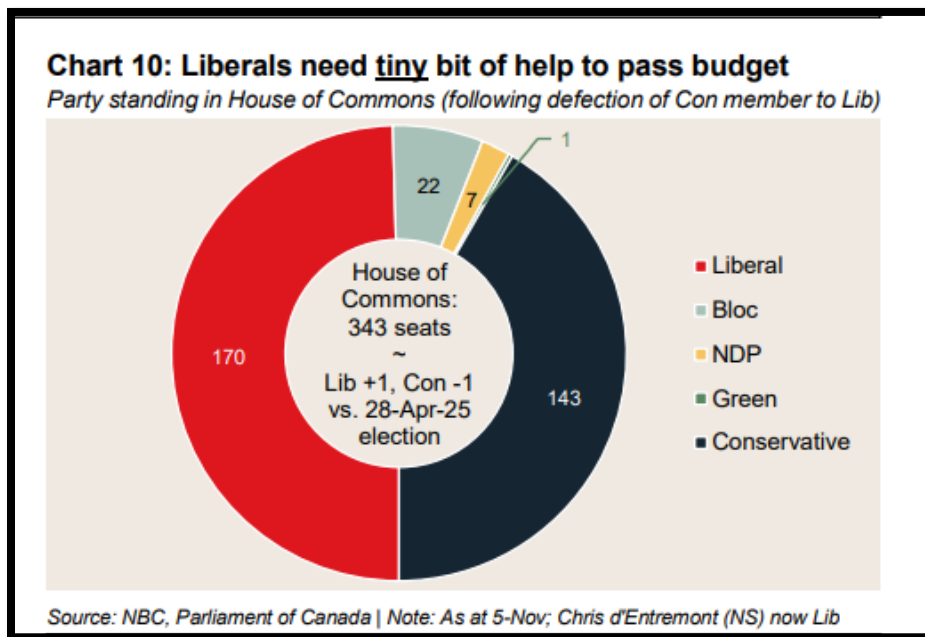
Deficit bigger and longer lasting...

Splitting operating cost and capital expenditures (goal to balance operating costs)...I like this idea..

Infrastructure, defence and housing spending ahead...

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

Chart of the Day: Will it pass? Highly likely...NDP just needs to abstain and it will pass.



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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Top News

Canadian stock futures stabilized this morning after the previous session's selloff, as higher commodity prices helped blunt a broader risk-averse mood. On Tuesday, the benchmark S&P/TSX composite index dropped 1.6% to a near six-week low, joining a global selloff, after CEOs of major U.S. banks warned of a potential 10% to 15% downturn, underscoring concerns over stretched valuations. Today, gold prices bounced back, jumping more than 1%, as the global risk aversion bolstered demand for the safe-haven asset. In a bid to combat tariffs and diversify trade, Prime Minister Mark Carney unveiled his first budget yesterday, the highlights were the spending of C\$280 billion over five years to build new infrastructure while cutting C\$60 billion in government spending and trimming about 40,000 jobs from the civil service in the next three years.

The big issue of the budget is its proposed deficit, which Carney and his finance minister, Francois-Philippe Champagne, estimated at C\$78 billion for the next fiscal year, or more than double last year's deficit. The deficit would drop to C\$57 billion by 2030. According to the Toronto Regional Real Estate Board data, the greater Toronto area home sales fell to a four-month low in October as an uncertain economic outlook discouraged buyers. Seasonally adjusted sales declined 2.3% last month. The board's home price index was up 0.2% month-over-month, after seasonal adjustment, to C\$976,600. That follows four straight months of declines. On a year-to-year basis, the price index fell 5%, while sales were down 9.5% and new listings rose 2.7%. In the U.S., overall sentiment stayed fragile as the ongoing U.S. government shutdown neared the record duration, delaying key data and clouding the Federal Reserve's interest-rate outlook. In the absence of a major jobs report, investors looked to the non-official ADP's National Employment Report for hints on the policy path. The report showed that U.S. private payrolls rebounded sharply in October, with private employment increased by 42,000 jobs last month after an upwardly revised 29,000 decline in September.

Economists polled by Reuters had forecast private employment rebounding by 28,000 jobs. In markets, stock index futures were mostly unchanged as investors retreated from AI-linked stocks for a second day on concerns over ballooning valuations.



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According to LSEG data, the benchmark S&P 500 index has recently traded at 23.3 times forward earnings, the highest since the start of the century and well above its 20-year average of 16. There was little reaction in stocks after democrats swept a trio of races in the first major elections since Donald Trump regained the presidency.

In New York City, Zohran Mamdani, a 34-year-old democratic socialist, won the mayoral race, capping a meteoric and unlikely rise from an anonymous state lawmaker to one of the country's most visible Democratic figures. In Virginia and New Jersey, moderate Democrats, won their elections for governor with commanding leads. Also on deck today, the Supreme Court hearing on the legality of U.S. President Donald Trump's tariffs.

Stocks Not Cheap, Not Overvalued (Argus)

We have different ways of looking at market valuations, and most are signaling that stocks are reasonably valued though not at bargain levels. Our Stock-Bond Barometer asset-allocation model is indicating that the two major portfolio asset classes are near parity on valuation. The model, our most comprehensive, takes into account real-time price levels, historical growth rates and forward-looking forecasts of short-term and long-term government and corporate fixed income yields, inflation, stock prices, GDP, and corporate earnings, among other factors. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading going back to 1960 is a modest premium for stocks, of 0.09 sigma, with a standard deviation of 1.05. So stocks normally sell for a slight premium compared to bonds. The current valuation level is a 0.31 sigma premium for stocks, not a discount but easily within the normal range. Other measures also show reasonable multiples for stocks. The forward P/E ratio for the S&P 500 is about 23, within the normal range of 15-24. On price/book, it is no surprise that stocks are priced at the high end of the historical range of 5.4-1.8, given that tech stocks, with low capital bases, are the biggest component of the market.

This theory holds on dividend yield as well, as the current S&P 500 dividend yield of 1.09% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 27% compared to the long-run average of 39% and the all-time low of 18% during 1999. On price/sales, the ratio of 3.3 is above the historical average of 1.8, but well below the 4.0 multiple at the peak of the dot-com bubble.



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As well, the gap between the S&P 500 earnings yield and the benchmark 10-year government bond yield is now 320 basis points, compared to the historical average of 400.

Lastly, the ratio of the S&P 500 price to an ounce of gold is 1.7, just below the midpoint of the historical range of 1-to-3. These measures suggest to us that the stock market 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	2.70%	-0.6
CDA Prime	4.45%	0.0	CDA 10 year	3.12%	-1.0
CDA 3 month T-Bill	2.23%	0.0	CDA 20 year	3.46%	0.0
CDA 6 month T-Bill	2.26%	-0.7	CDA 30 year	3.57%	0.0
CDA 1 Year	2.31%	-0.9			
CDA 2 year	2.40%	-1.3			
US Key Rate	Last	Change bps	US Key Rate	Last	Change bps
US FED Funds	3.75-4%	0.0	US 5 year	3.69%	-0.9
US Prime	7.00%	0.0	US 10 year	4.08%	-0.8
US 3 month T-Bill	3.79%	-1.0	US 30 year	4.67%	-0.3
US 6 month T-Bill	3.80%	-0.5	5YR Sovereign CDS	39.23	
US 1 Year	3.67%	-0.5	10YR Sovereign CDS	47.86	
US 2 year	3.57%	-1.2			
Preferred Shares Indicators	Last	Daily %	YTD		
S&P Preferred Share Index	691.06	-0.02%	8.76%		
BMO Laddered Preferred Shares (ETF)	12.1	-0.17%	10.50%		

Source: LSEG

Things are looking up! Have a great day!

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