Financial HARTbeat

Canada Exempt?
April 3rd 2025

Good Morning,

Now what? I watched, listened and then tried to understand…more to come..

Have we reached peak tarrifism…not sure that is a word or term…However, lots of really negative sentiment and we likely wash out of this soon…

Gold/Commodities/Bonds to be interesting to watch from here..

Join us at 1pm today for the weekly roundup to hear more… Link here

Chart of the Day: Our economics team worked hard putting this together…interesting view..

U.S.: What's the formula for calculating reciprocal tariffs?
Sample of countries hit by reciprocal tariffs

	A	B	C	D	E
	U.S. Trade deficit ($billions)	U.S. imports ($billions)	Ratio column A/column B	Announced tariffs assumed to be charged to the U.S.*	U.S. Discounted reciprocal tariffs Column D*0.5
Cambodia	12.3	12.7	97%	97%	49%
Vietnam	123.5	136.6	90%	90%	45%
Thailand	45.6	63.3	72%	72%	36%
China	295.4	438.9	67%	67%	34%
Taiwan	73.9	116.3	64%	64%	32%
Indonesia	17.8	28.1	64%	64%	32%
Switzerland	38.4	63.4	61%	61%	31%
India	45.7	87.4	52%	52%	26%
South Korea	66.0	131.5	50%	50%	25%
Japan	68.5	148.2	46%	46%	23%
European Union	231.8	597.7	39%	39%	20%
Israel	7.4	22.2	33%	33%	17%

* Allegedly includes currency manipulation and broader trade distortions

NBC Economics and Strategy (data via U.S. government)

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Top News

After the U.S. market closed Wednesday, U.S. President Donald Trump declared a 10% baseline tax on imports from all countries and higher tariff rates on dozens of nations that run trade surpluses with the United States (see chart). The president held up a chart while speaking at the White House, showing the United States would charge a 34% tax on imports from China, a 20% tax on imports from the European Union, and 32% on Taiwan.

Trump earlier announced 25% tariffs on auto imports; levies against China, Canada and Mexico; and expanded tariffs on steel and aluminum. Trump has also put tariffs against countries that import oil from Venezuela and plans separate import taxes on pharmaceutical drugs, lumber, copper and computer chips. Shares tumbled in Europe and Asia and U.S. futures tumbled this morning following U.S. President Donald Trump's announcement of big increases in tariffs on imports of goods from around the world. The doubledigit tariff hikes sent shivers across world markets, as economists warned it raises the risk of recession.

In Asian trading, Tokyo's Nikkei 225 index dipped 4% briefly, with automakers and banks taking big hits. It closed down 2.8%. Mitsubishi UFJ Financial Group's shares plunged 7.2% as the potential impact of the 24% tariffs on the export-dependent Japanese economy dashed expectations that the central bank will keep raising interest rates. Sony Corp.'s stocks sank 4.8% and Toyota Motor Corp. gave up 5.2%. Japan's yen gained, with the U.S. dollar falling to 146.25 Japanese yen from 149.28 yen. The euro rose to $1.11 from $1.0855. In South Korea, which was hit with a 25% tariff, the benchmark Kospi fell 1.1%. Hong Kong's Hang Seng lost 1.7%, while the Shanghai Composite index edged 0.2% lower. In China, losses were partly blunted by expectations of further economic stimulus from Beijing to offset the impact of the higher tariffs. U.S. Treasury yields swung in the bond market, echoing the indecision seen in the stock market. The yield on the U.S. 10-year Treasury fell as low as 4.07% in the morning from 4.17% late Tuesday and from roughly 4.80% early this year. In other dealings early Thursday, U.S. benchmark crude shed more than $4 per barrel. Eight OPEC+ countries agreed to advance their plan for oil output hikes by increasing oil output by 411,000 barrels per day in May, an unexpected decision that prompted oil prices to extend earlier losses. Prime Minister Mark Carney held meetings throughout the day and after Trump's announcement yesterday. While Canada did not get additional tariffs, the duties imposed on several items last month are still in place, prompting Carney to say that he will respond with countermeasures.

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He is expected to meet with the premiers today. A source inside the Prime Minister's Office said that Carney may wait a day before responding. In economic news this morning, Canada's trade deficit for February was at C$1.52 billion, down from a 32-month high surplus of C$3.13 billion, Statistics Canada said. Analysts had forecast the trade surplus to be at C$3.55 billion. The U.S. trade deficit narrowed to $122.7 billion in February 2025 from a record high of $130.7 billion in January and compared to forecasts of a $123.5 billion shortfall. U.S. initial claims for state unemployment benefits dropped 6,000 to a seasonally adjusted 219,000 for the week ended March 29. Economists had forecast 225,000 claims for the latest week. Global outplacement firm Challenger, Gray & Christmas said that it had over the past two months tracked 280,253 planned layoffs of federal workers and contractors impacting 27 agencies. It said more than half of the 497,052 layoffs announced in the first quarter were in Washington D.C.

Stocks Back Near Fair Value (Argus)

Our stock/bond asset-allocation model, which we call the Stock Bond Barometer, is indicating that bonds are the asset class offering the most value at the current market juncture. But barely. The model is expressed in terms of standard deviations to the mean, or sigma. The mean going back to 1960 is a modest premium for stocks, of 0.09 sigma, with a standard deviation of 1.05. In other words, stocks normally sell for a slight premium valuation. The current valuation level now is a 0.17 sigma premium for stocks, down from a 0.5 two months ago in the wake of the equity sell-off. Other valuation measures also show reasonable (if not discount) multiples for stocks. The current forward P/E ratio for the S&P 500 is approximately 19, the midpoint of the normal range. The current S&P 500 dividend yield of 1.2% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 28% compared to the long-run average of 39%. Further, the gap between the S&P 500 earnings yield and the benchmark 10-year government bond yield is now 365 basis points, compared to the historical average of 400. We also look at S&P valuations in terms of sales and book value. On price/book, it is no surprise that stocks are priced at the high end of the historical range of 5-1.8, given that tech stocks, which have low capital bases, are the biggest component of the market.

On price/sales, the current ratio of 3.0 is above the historical average of 1.9 but well below the 4.0 multiple at the peak of the dot-com bubble, Lastly, the ratio of the S&P 500 price to an ounce of gold is now 1.8, below the midpoint of the historical range of 1-to-3. We expect the results from our model to continue to tilt more toward stocks, as inflation settles from the 2022 peak, interest rates head lower into 2026, and corporate earnings grow at a double-digit rate. Based in part on the output from our

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model, our recommended asset-allocation for growth accounts is 70% growth assets and 30% fixed income.

Bond Yields

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	2.56%	-1.2
CDA Prime	4.95%	0.0	CDA 10 year	2.93%	0.2
CDA 3 month T-Bill	2.62%	0.0	CDA 20 year	3.15%	0.3
CDA 6 month T-Bill	2.62%	2.0	CDA 30 year	3.19%	0.3
CDA 1 Year	2.50%	0.0			
CDA 2 year	2.44%	-0.8			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.82%	-13.5
US Prime	7.50%	0.0	US 10 year	4.08%	-11.4
US 3 month T-Bill	4.20%	-1.4	US 30 year	4.48%	-6.7
US 6 month T-Bill	4.22%	-1.7	5YR Sovereign CDS	41.00	
US 1 Year	4.00%	-4.9	10YR Sovereign CDS	44.01	
US 2 year	3.81%	-9.7			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			644.25	0.21%	1.39%
BMO Laddered Preferred Shares (ETF)			11.09	0.64%	1.28%

Source: LSEG

Things are looking up! Have a great day!

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