Financial HARTbeat

Buy, sell or hold?
April 7th 2025

Good Morning,

When events occur that cause stress and strain in the world there is nothing better than a weekend to give me a chance to step back…analyze what is happening, assess probabilities and then move forward…

Futures were ugly last night…still looking at day three into the correction…However, less selling certainly taking shape..

There are days, weeks, months, and even years you do nothing…2025 is not one of those years..

Catch the playback of our Weekly Roundup ***click here***..

Chart of the Day: What's bad is good for this metric…

		Bank of Canada	Federal Reserve	European Central Bank
Rates	President / Chair	Tiff Macklem	Jerome Powell	Christine Lagarde
	Policy rate	Overnight rate	Fed Funds rate	Deposit facility rate
	Current policy rate	2.75%	4.50%	2.50%
Next meeting	Next meeting date	April 16, 2025	May 7, 2025	April 17, 2025
	Market-implied policy rate*	2.63%	4.37%	2.28%
	Spread vs. current rate	-12 bp	-14 bp	-22 bp
	Probability of…			
	… hike	0%	0%	0%
	… hold	51%	46%	12%
	… cut	49%	54%	88%
Rate cuts	25bps cuts priced in over…			
	… next 3 months	1.1	1.3	1.6
	… next 6 months	-	3.0	2.5
	… next 12 months	-	4.7	-

*Derived from OIS (Bank of Canada, European Central Bank) and Fed Funds Futures (Federal Reserve).

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Top News

President Donald Trump's sweeping tariff plans hammered global financial markets again today, after he warned foreign governments they would have to pay "a lot of money" to lift the levies he now called "medicine". Trump showed no sign of relaxing his tariff policy on Monday, blasting China for hitting back with retaliatory tariffs and repeating a call for the U.S. Federal Reserve to cut interest rates.

Speaking to reporters on Sunday, Trump said he had spoken to leaders from Europe and Asia over the weekend, who hope to convince him to lower tariffs as high as 50% due to take effect this week, but added that "they want to talk but there's no talk unless they pay us a lot of money on a yearly basis".

Asian equity markets sank as stocks in mainland China and Hong Kong cratered and China's sovereign fund stepped in to try to stabilise the market. Shares in Taiwan plummeted almost 10%, the biggest one-day percentage fall on record.

European shares crashed to a 16-month-low and oil prices plummeted as investors feared the duties Trump announced last week could lead to higher prices, weaker demand and potentially a global recession. Goldman Sachs raised the odds of a U.S. recession to 45% in the next 12 months, joining other investment banks in revising their forecast. JPMorgan economists now estimate the tariffs pushing the U.S. economy into a 0.3% contraction, down from an earlier estimate of 1.3% growth of gross domestic product. As economic uncertainty deepened, the U.S. futures markets moved swiftly to price in almost five quarter-point interest rate cuts this year despite Federal Reserve Chair Jerome Powell indicating on Friday that the U.S. central bank officials "don't need to be in a hurry" until the economic direction becomes clearer.

Wall Street futures also fell on Monday and the benchmark S&P 500 was set to confirm a bear market as investors piled into government bonds on worries over the ramifications of U.S. President Donald Trump's sweeping tariff plans. Futures, however, cut losses sharply from earlier in the session, but investors are taking this more as a technical bounce after a very steep selloff, rather than the end of the correction.

In Canada, stock index futures also tumbled on Monday, as recession fears intensified. Traders now place 66% odds on a 25 basis-point rate cut at the Bank of Canada's next meeting on April 16. In commodities,

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gold prices held steady due to strong central bank demand and the potential for an early Fed rate cut, but gains were capped as some investors sold bullion to cover losses in other trades.

Base metal prices in China tumbled due to trade war fears, while London metals flipped to a decline after rising on arbitrage trading. Elsewhere, Ministers in the European Union, which has been divided on how strongly to punch back against Trump without risking more pain for their own companies and consumers, are meeting today as they seek to form a united front.

What to Expect in a Bear Market (Argus)

The stories of the legendary stock-market sell-offs are often reduced to two or three words. Black Tuesday. Dot-Com bubble. Subprime mortgages. Long-Term Capital. The Pandemic. We can now add "Trump Trade Wars" to this undistinguished list. The S&P 500 has not officially entered a bear market, which is defined as a 20% drop from the recent highs. But it is pretty close at -17%. The dust hasn't settled on the administration's tariff plans, though, let alone on the responses from around the globe, and investors have been inclined to sell first and ask questions later. If the S&P 500 does drop another 300 basis points, then U.S. investors will be entering their ninth bear market since the 1960s. How did those go? The average peak-totrough decline for the S&P 500 during the previous eight bear markets was 38% (compared to the current 17%). The market weakness on average lasted 16 months (compared to the current 1.5). We note that the past two bear markets have been shorter than normal, averaging eight months, and that the market pain hasn't been as severe, with average peak-to-trough declines of 29%. In the last bear market, the nation's economy didn't even enter a recession. That points to one positive in the current environment: the low unemployment rate of 4.2%. Another silver lining has been the decline in interest rates, with the 10-year Treasury yield falling from 4.8% in January to below 4.0% today. The Fed is in position to lower rates somewhat, but will want to be thoughtful in its approach in order to avoid even more market panic.

Our bearish case scenario for the year called for trouble from trade wars and a deflation of tech-stock valuations, with the unemployment rate ultimately headed back toward 5.0% and the market in a correction. That's where we are now.

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Bond Yields (big moves yesterday…10 bps on Canada 5 year)

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	2.46%	-4.2
CDA Prime	4.95%	0.0	CDA 10 year	2.87%	-1.5
CDA 3 month T-Bill	2.56%	-5.0	CDA 20 year	3.15%	0.5
CDA 6 month T-Bill	2.53%	-7.0	CDA 30 year	3.20%	0.7
CDA 1 Year	2.40%	-1.0			
CDA 2 year	2.31%	-5.3			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.67%	-3.7
US Prime	7.50%	0.0	US 10 year	3.99%	0.1
US 3 month T-Bill	4.15%	-2.1	US 30 year	4.45%	5.6
US 6 month T-Bill	4.08%	-6.1	5YR Sovereign CDS	41.96	
US 1 Year	3.79%	-7.5	10YR Sovereign CDS	44.93	
US 2 year	3.61%	-6.4			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			622.63	-3.03%	-2.01%
BMO Laddered Preferred Shares (ETF)			10.61	-3.63%	-3.11%

Source: LSEG

Things are looking up! Have a great day!

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