Financial HARTbeat

What a bounce?
April 10th 2025

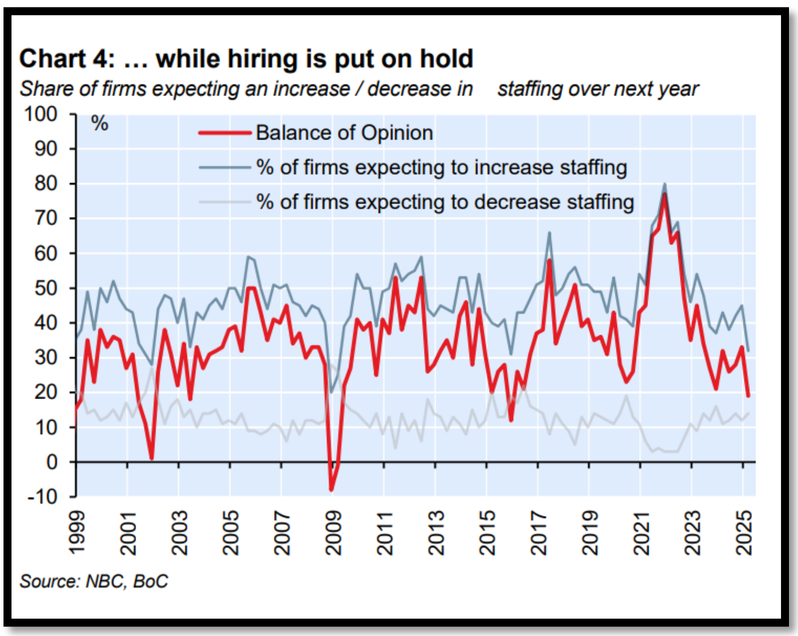
Good Morning,

Well it looks like we are going to need a new variable added to the market/economic dialect… "tweet risk"….one tweet and market rallies 10%....

Basis trade…for every good correction, crisis a new hedge fund blows up….why…leverage…many a global hedge fund trade a strategy that allows them to buy or sell in the futures markets and buy are sell in the cash market….what happens in periods of low volatility…the two converge and hedge funds pick up "basis" points…and the lower the volatility the higher the leverage allowed…sometimes 100x…when it moves against you…you get a margin call…(one of the big issues in the treasury market today)

Catch the playback of our Weekly Roundup <u>click here</u>..

Chart of the Day: Inflation came in light….this one will be important to watch..jobs



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Top News

U.S. stock index futures fell this morning after a blistering rally in the previous session following U.S. President Donald Trump's move to temporarily lower the heavy tariffs on dozens of countries, while raising the levies on China. The U-turn came less than 24 hours after steep new tariffs took effect on most trading partners, lifting the S&P 500 to its biggest single-day percentage gain since 2008 and one of the most important upswings in decades (see chart). The Nasdaq posted its biggest one-day jump since 2001. Trump announced a 90-day pause on many of his new reciprocal tariffs, but raised them to 125% on Chinese imports from 104%.

Beijing had slapped 84% tariffs on U.S. imports to match Trump's earlier levy. Despite Wednesday's surge, the S&P 500 and the Dow are about 4% below levels seen before the reciprocal tariffs were announced last week. U.S. stock index futures pared their early losses after a cooler-than-expected inflation reading bolstered expectations that the Federal Reserve would remain on track to cut interest rates this year. A Commerce Department report showed the consumer price index rose 2.4% in March on an annual basis, compared with expectations of a 2.6% rise. On a monthly basis, it slowed 0.1%. Separately, a Labor Department report showed the number of new Americans filing for unemployment benefits came in at 223,000, compared with estimates of 223,000. Traders see at least three 25-basis point cuts from the Fed this year, starting in June.

Futures tied to Canada's main stock index fell on Thursday, mirroring Wall Street peers, a day after U.S. President Donald Trump announced a 90-day pause on some tariffs for most trading partners. Trump's U-turn had led to Canada's main stock index seeing its biggest gain since 2020 yesterday. The White House, however, maintained a 10% blanket duty on almost all U.S. imports and the announcement does not appear to affect duties on autos, steel and aluminium that are already in place. The U.S. tariff pause also does not apply to duties paid by Canada and Mexico, because their goods are still subject to 25% fentanyl-related tariffs if they do not comply with the U.S.-Mexico-Canada trade agreement's rules of origin. Shares of Canadian gold miners could get support as bullion prices extended gains amid fears of a deepening U.S.-China trade war. Oil prices fell nearly 3% under similar concerns.

Meanwhile, copper and other base metals prices rebounded sharply. In economic data, the value of Canadian building permits grew by 2.9% in February from January, Statistics Canada said. Analysts had

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forecast a decrease of 0.5%. European shares surged, after U.S. President Donald Trump announced an immediate 90-day pause on reciprocal tariffs for most trading partners, prompting a massive relief rally after days-long market rout.

The European Union will put on hold for 90 days its first countermeasures against Trump's tariffs, European Commission President Ursula von der Leyen said in a statement on X.

China and Hong Kong shares ended higher today, as investors played down the latest U.S. tariff increase on Chinese imports and pinned their hopes on talks between the world's two largest economies as well as on market and policy support from state firms.

Japan's Nikkei share average jumped 9% as investors scooped up beaten-down stocks after U.S. President Donald Trump declared an immediate 90- day tariff pause for many countries.

Cutting 2025 GDP Growth to 1.3% (Argus)

We are reducing our 2025 estimate for GDP growth to 1.3% from 2.0%. Higher tariffs, lower spending by the federal government, and extreme market volatility may all weigh on consumer spending and business investment. We now expect GDP to grow 1.4% in 1Q25, 1.0% in 2Q, 1.4% in 3Q, and 1.4% in 4Q. Our 2026 growth estimate is 1.9%, down from 2.1%. We expect federal non-defense spending will decline through 1Q26 before settling at about 1% growth. This may pinch state and local spending and crimp employment at universities and government contractors. Unemployment is low at 4.2%. We expect consumer spending to grow, but at 1.4% compared with our previous estimate of 2.3%. Potentially higher inflation may reduce spending on durable and discretionary goods. Spending on services, such as rent and healthcare, historically is stable. But the stock market's volatility may curtail travel, recreation, and dining out. Indicators driven by a broad array of timely data point to 1Q growth, but the message is less emphatic and many of our concerns are not yet reflected in the numbers.

The Federal Reserve Bank of Atlanta's GDP Nowcast was estimating a 1Q GDP decline of 0.3% (adjusted for imports of gold) on April 9. The Federal Reserve Bank of New York's Staff Nowcast for 1Q called for 2.6% growth on April 4.

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The Weekly Economic Index tracked by the Federal Reserve Bank of Dallas is based on 10 daily and weekly indicators of consumer behavior, the labor market, and production. If, for example, an index value of 2% persisted for an entire quarter, the index would suggest that quarter's GDP would be 2% higher than a year ago. For the week ended March 29, the index was 2.28%, with a 13-week moving average of 2.40%. The Chicago Fed National Activity Index (CFNAI) looks at 85 indicators. The three-month moving average rose to 0.15 in February from 0.07 in January. This is above the threshold of -70 that would signal increasing recession risk.

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	2.76%	-6.3
CDA Prime	4.95%	0.0	CDA 10 year	3.15%	-5.7
CDA 3 month T-Bill	2.64%	-1.0	CDA 20 year	3.41%	-2.8
CDA 6 month T-Bill	2.65%	-1.5	CDA 30 year	3.46%	-2.5
CDA 1 Year	2.63%	-2.0			
CDA 2 year	2.59%	-5.2			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.99%	-10.7
US Prime	7.50%	0.0	US 10 year	4.32%	-8.0
US 3 month T-Bill	4.22%	-2.4	US 30 year	4.75%	-3.7
US 6 month T-Bill	4.19%	-2.7	5YR Sovereign CDS	54.94	
US 1 Year	4.00%	-7.3	10YR Sovereign CDS	57.39	
US 2 year	3.87%	-7.9			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			609.15	0.07%	-4.13%
BMO Laddered Preferred Shares (ETF)			10.33	0.00%	-5.66%

Source: LSEG

Things are looking up! Have a great day!

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