Financial HARTbeat

Now markets adapt?
April 11th 2025

Good Morning,

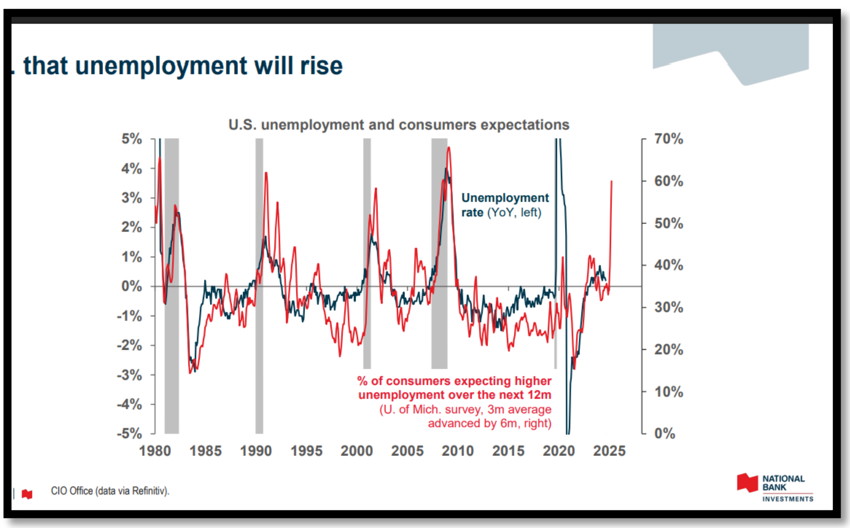
The markets have experienced a significant shock, but the system is not broken. It is important to remember that all corrections occur as a result of a shock. While each instance is different, the reaction pattern remains the same: correct, rally, correct, rally, capitulate, then work to form a base before normalcy returns.

A common question I receive is: What should we watch for? Key indicators include headlines about central banks' concerns regarding financial plumbing, the financial system impacting non-financial firms, and signs of systemic stress.

Additionally, while inflation is a prominent concern, it is likely that the opposite trend is emerging, with global inflation rates coming in lower than expected.

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

Chart of the Day: One chart FOMC is staring at…inflation coming down, unemployment risk increases, this gives them room to cut.



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Top News

U.S. stock index futures are higher this morning following earnings from big banks including JPMorgan, while markets also assessed the latest escalation in the trade war with China increasing its tariffs on U.S. imports to 125%.

JPMorgan Chase, Wells Fargo and Morgan Stanley gained before the bell after the banks reported higher profits, kicking off the quarterly earnings season. Stocks have been on a roller-coaster ride in response to tariff announcements in the past few days.

The yield on the 10-year note was at 4.42%, hovering near its February highs. At least three Fed officials, including New York Fed President John Williams, are scheduled to speak throughout the day. Traders currently expect more than 90 basis points of interest rate cuts by the Federal Reserve this year, starting in June. On the data front, U.S. producer prices increased 2.7% year-on-year in March 2025, following a 3.2% rise in February and falling short of market consensus of 3.3%. It was the smallest increase in producer prices since last September.

Futures linked to Canada's main stock index edged higher this morning, as a tumultuous week dominated by escalating tensions over U.S.-China trade kept investors on the edge, with attention turning to the upcoming earnings season. Canadian Prime Minister Mark Carney is set to convene a meeting with his top cabinet colleagues later in the day to discuss the threat posed by U.S. tariffs. Shares of Canadian gold miners could get support as the safe-haven metal surpassed the key $3,200 mark for the first time, spurred by a weaker U.S. dollar and economic concerns.

Oil prices are stable, but on track for their second weekly loss in a row. Canada's main stock index surrendered much of its relief rally gains on Thursday, setting the stage for a third consecutive week of losses — the longest in nearly 10 months. European stocks edged lower this morning, capping a volatile week marked by abrupt U.S. tariff shifts that deepened fears over the economic fallout of a trade war.

The European Central Bank is particularly concerned about financial stress spreading from non-bank financial firms, such as hedge funds, to regular lenders in periods of market stress, ECB supervisor Sharon

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Donnery said. Focus will shit to ECB's policy meeting next Thursday, where money markets are about near certain of a quarter-point rate cut.

Hong Kong and China stocks reversed earlier declines and narrowed the week's losses, as a chip share rally and potential state buying shielded against more losses from the escalating trade war with the U.S. The U.S. President Trump paused most of his "reciprocal" tariffs on Wednesday, though he has singled out China with eyepopping duties of 145% on its goods. Beijing on Friday also increased its tariffs on U.S. imports to 125%, raising the stakes in a trade war that threatens to up-end global supply chains. Hong Kong's bounce was following a move in mainland A shares that was widely believed to involve buying by Chinese state funds known as the "national team".

Japan's Nikkei share average slumped nearly 5% today in a brutal end to a volatile week as investors worried about the economic fallout from the rapidly escalating U.S.-China trade war as well as a strong yen that has been lifted by safe-haven flows.

An Important Earnings Season Commences (Argus)

The 1Q25 EPS season is under way, launched, as usual by the earnings reports from the big banks. Next week, the floodgates will open with Consumer, Healthcare, and Industrial companies all releasing their quarterly results. Information Technology and Energy companies generally report later in the EPS period, and then the retailers wrap things up by late May. Consensus EPS estimates for 1Q25 growth range from low-single-digits to high-single-digits. This follows 17% growth in 4Q24 EPS and 9% growth in 3Q24, according to LSEG I/B/E/S. Leading sectors for 1Q25 are expected to be Healthcare (+38% EPS growth year over year) and Information Technology (+16%). Growth from the so-called Magnificent 7 is expected to outpace overall growth, as the group's earnings are forecast to grow 18%. On the downside, earnings from the Energy sector are expected to decline 15% and Materials 7%. Drilling down, revenue is expected to increase 4%, led by IT (+11%) and Healthcare (+4%). The balance of earnings growth will come from margin improvement and share buybacks. For 2025, our full-year earnings estimate is $276, implying low double-digit growth from 2024 level.

Remember, companies generally exceed earnings expectations. Last quarter, three quarters of companies exceeded consensus expectations, compared to the historical average of 67%. Some

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complain that the U.S. SEC, by forcing companies to report quarterly profits, places too much emphasis on short-term results. But the system generates the most-transparent market in the world, as companies not only report results, but management teams also discuss those results and the outlook ahead. That's important today, when there is so much uncertainty over the direction of the global economy.

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	2.80%	-3.6
CDA Prime	4.95%	0.0	CDA 10 year	3.21%	-2.8
CDA 3 month T-Bill	2.64%	0.0	CDA 20 year	3.49%	-2.2
CDA 6 month T-Bill	2.64%	-1.0	CDA 30 year	3.53%	-2.4
CDA 1 Year	2.61%	-2.5			
CDA 2 year	2.59%	-4.3			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	4.06%	2.6
US Prime	7.50%	0.0	US 10 year	4.43%	3.9
US 3 month T-Bill	4.21%	-1.7	US 30 year	4.88%	2.7
US 6 month T-Bill	4.16%	-1.0	5YR Sovereign CDS	52.50	
US 1 Year	3.95%	-3.6	10YR Sovereign CDS	55.41	
US 2 year	3.84%	-0.4			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			596.22	-2.12%	-6.17%
BMO Laddered Preferred Shares (ETF)			10.15	-1.74%	-7.31%

Source: LSEG

Things are looking up! Have a great day!

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