Financial HARTbeat

BOC Day!
June 4th 2025

Good Morning,

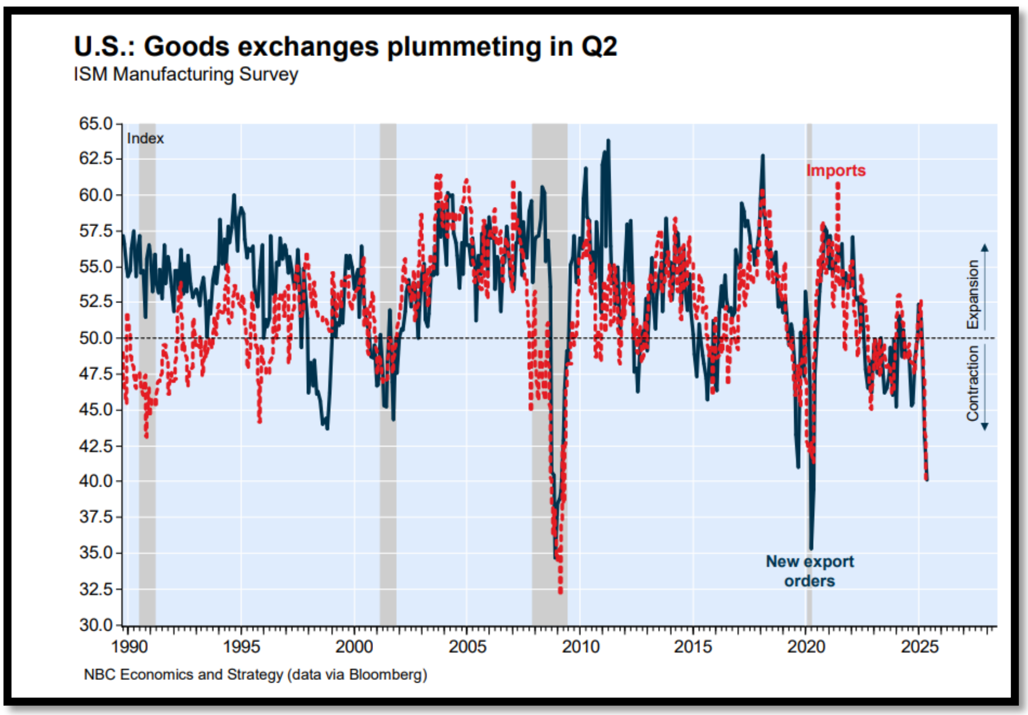
Bank of Canada day today…because core CPI rose last week looks very unlikely the BOC cuts today…However, the BOC is one of the few centrals banks that does surprise on occasion…

Jamie Dimon worried about the Bond market….think this is his way of signaling to the world and to US leaders that this is what he is saying behind the scenes as well..

German government suggesting tax break for German Corporations…the DAX loves this news..

Catch the playback of our Weekly Roundup ***Click here***

Chart of the Day: Economic data continues to the downside…lagging, leading or inconsequential?



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Top News

According to a majority of economists in a Reuters poll, the Bank of Canada (BoC) is expected to hold interest rates at 2.75% today, with rising core measures of inflation and better-than-expected gross domestic product growth in the first quarter seen favoring policymakers towards a pause. Economists are expecting that the central bank will likely adopt a wait-and-see approach as the impact of tariffs imposed by U.S. President Donald Trump plays out on the Canadian economy. They, nevertheless, still see at least two more rate cuts this year.

Canada's annual inflation rate fell to 1.7% in April due to a drop in energy prices, but closely tracked core measures of inflation rose above the bank's target range of 1% to 3% in the same month. In addition, GDP growth also surprised in the first quarter, taking away some incentive to cut rates. Data showed last week that first-quarter gross domestic product grew by 2.2% on an annualized basis driven by exports to the U.S., helping shrink expectations of a rate cut. Currency swap markets show the odds for no rate cut today now stand at close to 78%.

However, there are more and more signs that tariff impacts are starting to take a toll on the economy, prompting some economists to call for a cut. Domestic consumption was practically absent in the first quarter, an advance estimate of April GDP was not encouraging as was the unemployment rate, which rose to 6.9% in April, the highest since November. Also potentially weighing on the Canadian economy, Trump signed an executive proclamation that activates starting today a hike in the tariffs on imported steel and aluminium to 50% from the 25% rate introduced in March. The increase applies to all trading partners except Britain, the only country so far to strike a preliminary trade agreement with the U.S. during a 90-day pause on a wider array of Trump tariffs.

Washington doubled its tariffs on steel and aluminium imports, the same day the U.S. administration expects trading partners to make "best offers" to avoid other punishing import levies from taking effect in early July. Canada is especially exposed to the aluminium levies since it exports to the U.S. roughly twice as much as the rest of the top 10 exporters' volumes combined. The increase in the levies jolted the market for both metals this week, especially for aluminium, which has seen price premiums more than double this year, but with little capacity to increase domestic production and the U.S. getting about

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half of its aluminium from foreign sources, U.S. import volumes are likely to be unaffected unless the price increases undercut demand.

In markets, U.S. stock index futures nudged higher today as Hewlett Packard Enterprise's results fanned AI optimism and some tech shares gained, while investors awaited fresh data to better gauge the economic fallout of President Donald Trump's tariffs. In Canada, futures tied to Canada's main stock index also rose this morning as oil prices held steady, while gold and copper prices edged higher.

Bond Valuation Improves (Argus)

Our Stock-Bond Barometer asset-allocation model indicates that the two major portfolio asset classes are near parity on valuation. The model goes back to 1960 and considers real-time prices, historical growth rates, forecasts of short and long-term government and corporate fixed-income yields, inflation, stock prices, GDP, corporate earnings, and other factors. The output is expressed in standard deviations to the mean, or sigma. The mean reading is a modest premium for stocks, of 0.09 sigma, with a standard deviation of 1.05. The current valuation level is a 0.31 sigma premium for stocks, up from 0.05 last month and reflecting a strong May for stocks. Other valuation measures show reasonable multiples for stocks. The forward P/E ratio for the S&P 500 is about 19, the midpoint of the normal range. The S&P 500 dividend yield of 1.29% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 29% 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 319 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, given that IT stocks, which have low capital bases, are the biggest component of the market. On price/sales, the current ratio of 2.9 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 1.8, just below the midpoint of the historical range. We expect our valuation model will tilt more toward stocks as inflation settles, interest rates head lower, and corporate earnings grow at a double-digit rate. Our current recommended asset-allocation for growth accounts is 70% growth assets and 30% fixed income.

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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	2.75%	0.0	CDA 5 year	2.90%	1.6
CDA Prime	4.95%	0.0	CDA 10 year	3.30%	2.0
CDA 3 month T-Bill	2.65%	0.0	CDA 20 year	3.51%	1.9
CDA 6 month T-Bill	2.64%	0.5	CDA 30 year	3.57%	1.9
CDA 1 Year	2.62%	0.5			
CDA 2 year	2.63%	0.2			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	4.03%	0.0
US Prime	7.50%	0.0	US 10 year	4.45%	-0.6
US 3 month T-Bill	4.25%	0.2	US 30 year	4.97%	-1.2
US 6 month T-Bill	4.30%	0.5	5YR Sovereign CDS	49.98	
US 1 Year	4.13%	0.0	10YR Sovereign CDS	53.93	
US 2 year	3.96%	0.2			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	651.38	0.03%	2.51%
BMO Laddered Preferred Shares (ETF)	11.35	0.27%	3.65%

Source: LSEG

Things are looking up! Have a great day!

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