Financial HARTbeat

Economy in Flux..
June 10th 2025

Good Morning,

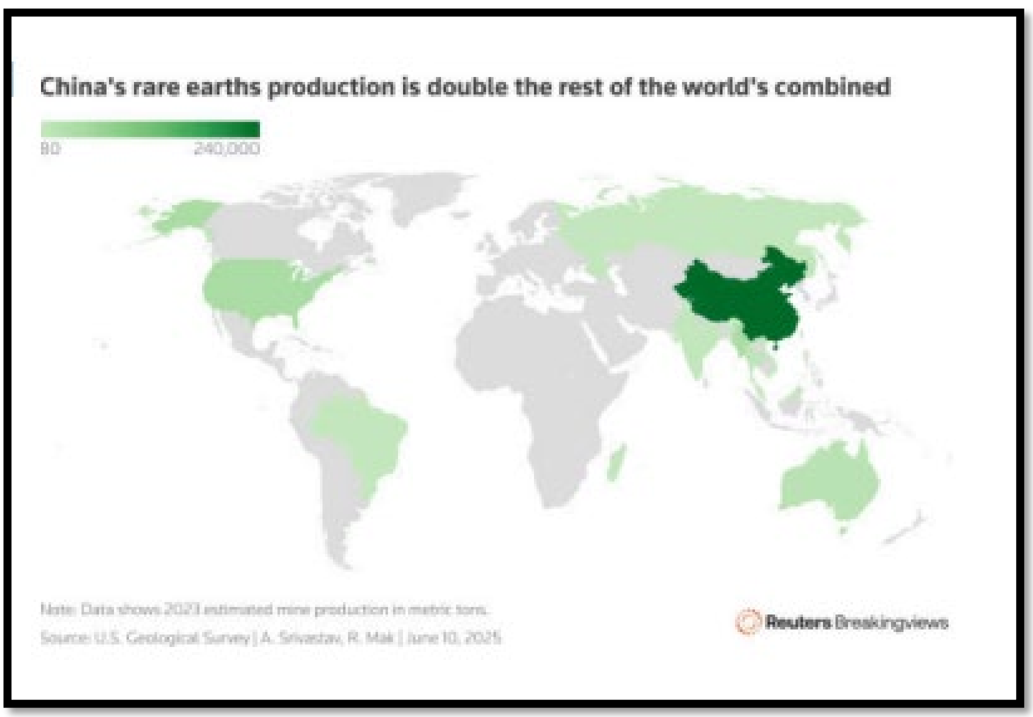
Economists are being put to the test this year…no data is safe or accurate these days, constantly revising their views and projections based on new incoming information…

CADUSD will be interesting to watch as it appears we might see some USD strength in an odd way from this point on..

Late cycle economic and economic uncertainty at all-time highs..

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

Chart of the Day: This is so important….who really holds the cards in technology..



Ben Hart
Senior Wealth Advisor & Portfolio Manager
› 613-760-3788
› ben.hart@nbc.ca

National Bank Financial - Wealth Management
50 O'Connor Street Suite 1602
Ottawa, ON K1P 6L2

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Top News

Global stocks and the U.S. dollar held steady today as trade talks between the United States and China continued into a second day, giving investors some reason to believe tensions between the world's two largest economies may be easing. U.S. Commerce Secretary Howard Lutnick said discussions between the two sides were going well, while President Donald Trump put a positive spin on the talks after Monday's session.

Any progress in the negotiations is likely to provide relief to markets given that Trump's often-shifting tariff announcements and swings in Sino-U.S. ties have undermined the two economies and disrupted supply chains. The current erratic U.S. trade policies and worries over Washington's growing debt pile have dented investor confidence in U.S. assets, in turn undermining the dollar, which has already fallen more than 8% this year.

Economists anticipate U.S. duties on Chinese goods to settle at around 40%, while most of them have said that the universal 10% levy on imports into the United States is here to stay. Meanwhile, a new poll by Reuters showed most economists expect that the U.S. Federal Reserve will keep interest rates on hold for at least another couple of months, as risks linger that inflation may resurge due to President Donald Trump's tariff policies.

With most trade negotiations incomplete as the July 9 deadline for a 90-day pause on tariffs announced in April approaches, forecasters have been reluctant to change their already fragile economic outlook. All but two of the 105 economists in the June 5-10 Reuters poll predicted the Federal Open Market Committee would keep the fed funds rate unchanged at its June 17-18 meeting in a 4.25%-4.50% range, where it has been since the start of the year. Around 55% of economists said the Fed would resume cutting next quarter, most likely in September. There was no clear consensus on where the rate would be by end-2025, but about 80% of economists predicted the fed funds rate in a 3.75%-4.00% range or higher. Trump called for a full percentage point reduction to 3.25%- 3.50% immediately on Friday. Traders expect the Fed to leave rates unchanged at its policy meeting next week. Just 44 bps worth of easing have been priced in by December.

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› ben.hart@nbc.ca

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On the economic front, U.S. small business confidence improved in May, likely because of a de-escalation in trade tensions between Washington and China, though uncertainty over the outlook mounted amid worries over the fate of President Donald Trump's tax-cut agenda. The National Federation of Independent Business said today its Small Business Optimism Index increased three points to 98.8 last month, rising for the first time since December. The survey's uncertainty index rose two points to 94, while the survey also confirmed the labor market was slowing.

In Canada, the main stock index futures rose this morning as higher oil prices boosted the energy sector. The Canadian dollar strengthened against the greenback and the yield on benchmark government debt slipped.

Bond Spreads Tick Wider (Argus)

Treasury bond yields have been rising in recent weeks as concerns have mounted over the White House's fiscal policies and the high level of federal debt. Corporate bond yields have headed higher as well, and at a faster rate than Treasury yields. As a consequence, spreads between corporate and Treasury bond yields have widened, though they remain tighter than historical averages. For example, the spread between AAA-rated corporate bonds and 10-year government bonds in May was 114 basis points (bps), up from 52 bps in December but still lower than the historical average of 122 bps. The gap between the government 10-year bond yield and a BAA-rated bond (still investment grade) in May was 189 basis points, below the historical average spread of 228 bps but wider by about 50 bps since the presidential election. We watch these spreads closely for several reasons. From an asset-allocation standpoint, tight corporate bond spreads signal that corporate bond prices are above historical fair value, and we may look to underweight the segment in our model portfolios.

From a broad market standpoint, the changes in the spreads offer clues to the bond market's view of corporate financial strength, which appears to be turning somewhat cautious given the widening spreads. Lately, bond investors are demanding higher interest payments to account for potential default risk. Indeed, bond rating company Moody's recently concluded that the average risk of default for U.S. public companies reached a post-global financial crisis high of 9.2% at the end of 2024 and is predicted to remain elevated throughout 2025.

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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	2.93%	-3.0
CDA Prime	4.95%	0.0	CDA 10 year	3.32%	-3.2
CDA 3 month T-Bill	2.69%	0.0	CDA 20 year	3.53%	-3.3
CDA 6 month T-Bill	2.69%	0.0	CDA 30 year	3.59%	-3.2
CDA 1 Year	2.67%	-1.0			
CDA 2 year	2.67%	-1.8			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	4.06%	-2.4
US Prime	7.50%	0.0	US 10 year	4.45%	-3.2
US 3 month T-Bill	4.25%	0.3	US 30 year	4.91%	-4.1
US 6 month T-Bill	4.31%	0.3	5YR Sovereign CDS	47.99	
US 1 Year	4.13%	-1.9	10YR Sovereign CDS	51.95	
US 2 year	3.99%	-1.2			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	652.99	0.01%	2.77%
BMO Laddered Preferred Shares (ETF)	11.37	0.04%	3.84%

Source: LSEG

Things are looking up! Have a great day!

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