Financial HARTbeat

The Debt spiral?
June 25th 2025

Good Morning,

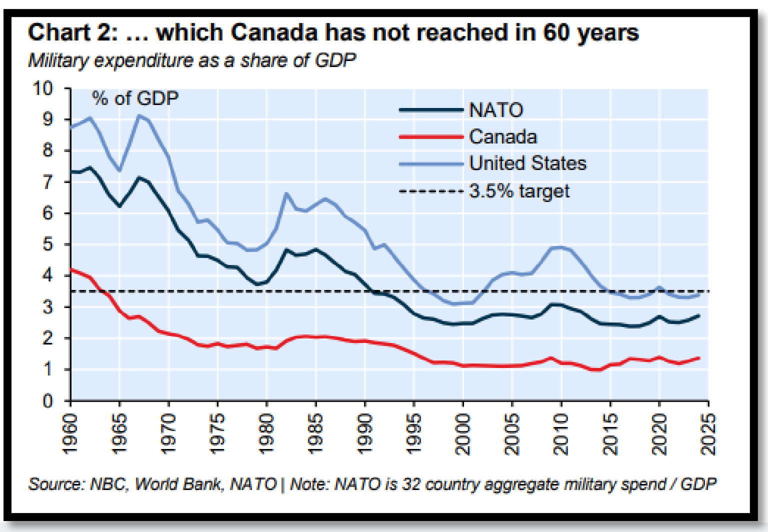
One question my kids often ask is: “Why are taxes so high, and can’t the government just print more money when it runs out?” I usually leave the first part for another day. As for the second—well, in many ways, that’s exactly what happens. Governments often rely on monetary expansion, and this trend may continue unless something fundamentally changes.

Could the tide be shifting? Interestingly, some of the countries with the lowest debt levels are emerging markets—like Iran—which have limited access to capital markets. In contrast, developed economies face significant challenges in reducing debt without extraordinary measures, such as a debt jubilee or a major structural shift.

As such, the debt cycle appears likely to persist, and it’s important to factor this into long-term investment decisions.

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

Chart of the Day: Wait what? 5% of GDP on defense spending….that whole department just jumped for joy…



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Top News

U.S. stock futures were trading slightly higher today, as a ceasefire between Israel and Iran appeared to be holding despite some isolated violations. Investors remained optimistic that the truce brokered by U.S. President Donald Trump a day earlier between the two countries would last. U.S. President Donald Trump reveled in the swift end to the war, saying he now expected a relationship with Tehran that would preclude rebuilding its nuclear program despite uncertainty over damage inflicted by U.S. strikes, while Iran's president apparently suggested that the war could lead to reforms at home.

Trump, speaking in The Hague where he attended a NATO summit today, said his decision to join Israel's attacks by targeting Iranian nuclear sites with huge bunker-busting bombs had ended the war, calling it "a victory for everybody". He shrugged off an initial assessment by the U.S. Defense Intelligence Agency that Iran's path to building a nuclear weapon may have been set back only by months, saying the findings were "inconclusive" and he believed the sites had been destroyed. He was confident Tehran would not try to rebuild its nuclear sites and would instead pursue a diplomatic path towards reconciliation, he said.

Investors will also look for any hints on the central bank's monetary policy path on the second day of Powell's congressional testimony, scheduled at 10:00 a.m. ET today. This comes a day after Powell emphasized the Fed's wait-and-watch approach to interest rates as tariff-led price pressures kick in. However, he also said a lower-than-expected inflation reading or weakness in the labor market would push the central bank to cut sooner.

Meanwhile, a surprise deterioration in U.S. consumer confidence yesterday kept the door open for an immediate rate cut in July. According to CME Group's Fed Watch tool, money market moves show traders are pricing in about 60 basis points of rate cuts by the end of 2025, with a 70% chance of a 25-bps rate cut in September. On the economic front, the U.S. balance of payments gap as a share of annual economic output hit its widest point in almost 20 years during the first quarter. Rather ominously, the last time it was this large was the eve of one of the biggest financial crashes in history.

The U.S. Commerce Department said that the current account deficit, which measures the flow of goods, services and net interest flows, jumped 44% to an all-time high of $450 billion. That's 6% of GDP, the highest since 2006. In Canada, futures for the main stock index nudged lower, a day after climbing to

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record highs. Oil prices rose more than 1% with markets watching the stability of the ceasefire. Safe haven gold steadied after dropping yesterday.

In company news, Parkland Corp shareholders agreed to a $9.1 billion acquisition by U.S.- based Sunoco, which will create America's largest independent fuel distributor.

Three Signals from Dividend Growth (Argus)

Since 1988, the dividends of companies in the S&P 500 have grown on average 6% per year, faster than long-term GDP growth and a testament to the fundamental soundness. But rates have varied sharply over the years, and from year to year. At times, the dividend growth rate has been zero or negative, for example, during the "dot-com" implosion in the early 2000s; the bear market of 2008-09; and the COVID-19 pandemic period. At the other end of the spectrum, the average dividend growth rate has been 10% or above in 12 of the past 36 years. More recently, dividend growth accelerated to 9% in 2018-19, which was a good period for stocks as trade wars calmed, and the Federal Reserve took a dovish stance on interest rates. But dividend growth slowed sharply in 2020 due to the pandemic, and growth has been in the 5%-6% range in the past two years. At this stage of the economic and market cycles, Argus recommends that investors focus on dividend growth instead of dividend yield. Even during the pandemic and the ensuing periods of supply-chain snags and high inflation, our analysts noted that a number of high-quality, well-managed companies were regularly able to raise their dividends at double-digit rates. This was a part of their value proposition to investors.

We think this type of consistent -- and accelerated -- dividend growth gives three important signals: a company's balance sheet is strong enough to pay a dividend; management is mindful of shareholder returns, which include dividends; and management is telling investors that the near-term outlook for the company is promising.

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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	2.88%	1.8
CDA Prime	4.95%	0.0	CDA 10 year	3.30%	2.4
CDA 3 month T-Bill	2.68%	-0.5	CDA 20 year	3.55%	2.7
CDA 6 month T-Bill	2.68%	0.5	CDA 30 year	3.62%	3.0
CDA 1 Year	2.65%	1.5			
CDA 2 year	2.63%	1.6			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.87%	0.9
US Prime	7.50%	0.0	US 10 year	4.30%	1.1
US 3 month T-Bill	4.20%	0.3	US 30 year	4.85%	1.4
US 6 month T-Bill	4.26%	0.5	5YR Sovereign CDS	44.48	
US 1 Year	4.02%	1.5	10YR Sovereign CDS	47.97	
US 2 year	3.80%	1.3			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			656.02	0.06%	3.24%
BMO Laddered Preferred Shares (ETF)			11.52	0.48%	5.21%

Source: LSEG

Things are looking up! Have a great day!

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