

Financial HARTbeat

International Trade more room?
May 2nd 2025



Good Morning,

International trade appears to be losing some of its luster, with recent trends indicating a slowdown and increased volatility. However, a pivot back to the U.S. market in mid-April has yielded notable gains.

Artificial Intelligence continues to be a driving force in the tech sector. Microsoft's recent earnings report underscores this, with significant growth attributed to their AI tools and cloud services.

The short USD trade seems to be overstretched, suggesting a potential shift back to a more neutral stance globally

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

Chart of the Day: Lots of issues to cover prior to any reasonable budget issues...what will pass?

Key Issues to Watch as the Congressional Process Heats Up		
1 House vs. Senate Spending Cuts?	<ul style="list-style-type: none">House framework called for \$1.5-2 trillion in spending cuts over 10 years,Senate left a token placeholder of just \$4 billion in cuts	<ul style="list-style-type: none">Major fights ahead over Medicaid and SNAP cuts; framing to focus on "waste, fraud, and abuse"We think a realistic target for spending cuts is \$600B over 10 years, with likely backloading (see appendix for detail)
2 Tax Cuts Frontloaded or Spread Out?	<ul style="list-style-type: none">Frameworks only specify 10-year cumulative budget targets, giving Congress flexibility to modify timingE.g., Senate's \$1.5T in new tax cuts could mean \$150B per year for 10 years, or \$375B per year for 4 years	<ul style="list-style-type: none">White House pushing for heavily frontloaded package,Could raise deficit / bond market concerns assuming frontloaded cuts are likely to be extended in the futureWill also depend on the economy; more signs of weakness means more frontloading
3 Which New Tax Cuts Make It Through?	<ul style="list-style-type: none">Difficult to fit entire Trump tax cut agenda within budget constraint, unless heavily frontloading	<ul style="list-style-type: none">Must-do's include business tax extenders, SALT cap changes, and no tax on tips— after that will depend on degree of frontloading
4 Any Tax Increases Included?	<ul style="list-style-type: none">Including some tax increases would create more headroom to fit more of tax cut priorities, but politically difficult	<ul style="list-style-type: none">Higher rate on millionaires unlikely, but other populist ideas will continue to be floatedCould see some revenue raised by modifying (but not repealing) IRA credits

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Top News

Futures point to a higher open as investors cheered China's announcement that it is evaluating the possibility of starting trade negotiations with the U.S. Their tit-for-tat tariffs have kept investors on edge, with both sides unwilling to be seen backing down in a trade war that has roiled global markets and upended supply chains. Nearly two-thirds of the S&P 500 constituents have announced their results, with 76% posting earnings that have surpassed estimates, according to data from FactSet.

Job growth was stronger than expected in April despite worries over the impact of President Donald Trump's blanket tariffs against U.S. trading partners. Nonfarm payrolls increased to a seasonally adjusted 177,000 for the month, slightly below the downwardly revised 185,000 in March but above the Dow Jones estimate for 133,000, the Bureau of Labor Statistics reported Friday. The unemployment rate, however, held at 4.2%, as expected.

Oil prices fell on Friday as traders squared positions ahead of an OPEC+ meeting and amid some caution about a potential de-escalation of the trade dispute between China and the United States. European shares surged on Friday as signs of a potential de-escalation of trade tensions between the U.S. and China lifted risk sentiment while investors assess a flurry of corporate earnings and key economic data.

Euro zone prices rose more than expected last month and underlying price pressures accelerated, an unwelcome trend that is still not expected to prevent another interest rate cut to insulate the economy from the fallout of a global trade war. Inflation in the 20 nations sharing the euro currency held at 2.2%, coming above expectations for 2.1% in a Reuters poll of economists as the price growth in services and unprocessed foods offset the dip in energy costs.

Japan's Nikkei share average rose on Friday on optimism around progress on tariff talks and a weaker yen, setting the index to mark its longest rally in nearly two years. Japan's top economic negotiator Ryosei Akazawa held talks with his U.S. counterpart and said he aims to hold the third round of discussions again this month.

South Korea's factory activity contracted at the steepest pace in 31 months in April as demand plunged on U.S. President Donald Trump's sweeping tariffs, while firms turned most pessimistic since the pandemic, a private-sector survey showed on Friday. The survey result was in stark contrast to South



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Korea's upbeat trade data a day earlier, which outperformed market expectations on robust demand for semiconductors, though it also showed signs of tariffs starting to hurt the country's key auto sector.

Hong Kong's retail sales fell 3.5% by value in March from a year earlier, marking the 13th consecutive month of declines, government data showed on Friday.

The R-Word for Jobs: Resilient (Argus)

The job market remained healthy in April amid concerns it is poised to slow from tariffs, job cuts at government agencies, and falling business and consumer confidence. Employment conditions in the coming months are likely to determine whether the 0.3% drop in first-quarter GDP remains contained or becomes a recession. The Bureau of Labor Statistics (BLS) reported that the U.S. economy generated 177,000 nonfarm jobs in April, above our near-consensus forecast of 130,000. March's payrolls were revised lower by 43,000 and February by 15,000.

The April result and the revisions to past results raised the three-month average to 155,000 from 152,000. Nonfarm payrolls are one of the indicators that the National Bureau of Economic Research (NBER) says it watches closely in assessing whether the U.S. is in a recession. We believe the monthly increase in April payrolls and 1.2% growth on a year-over-year basis are encouraging. The BLS diffusion index indicated that more than half of 250 private industries are hiring. The April unemployment rate remained at 4.2%. Average hourly earnings increased six cents month to month and are 3.8% higher year over year, in line with our estimate. The average workweek remained at 34.3 hours.

Employment continued to trend up in healthcare, transportation and warehousing, financial activities, and social assistance. Employment showed little change in mining, quarrying, and oil and gas extraction; construction; manufacturing; wholesale trade; retail trade; information; professional and business services; leisure and hospitality; and other services. The manufacturing sector lost 1,000 jobs. Motor vehicles and parts were down 4,700. Healthcare added 51,000, while federal government employment fell by 9,000. After the report, stock futures rose, as did the yield on the 10-year Treasury.

Based on futures trading, the probability that the funds target will remain unchanged at next week's meeting remained above 90% and expectations for a June cut declined to 46% from 58%. lower by 43,000 and February by 15,000. The April result and the revisions to past results raised the three-month average



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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	2.70%	-0.4
CDA Prime	4.95%	0.0	CDA 10 year	3.10%	-0.3
CDA 3 month T-Bill	2.65%	0.0	CDA 20 year	3.38%	-0.8
CDA 6 month T-Bill	2.61%	0.0	CDA 30 year	3.45%	-0.8
CDA 1 Year	2.53%	0.0			
CDA 2 year	2.50%	-0.1			
US Key Rate	Last	Change bps	US Key Rate	Last	Change bps
US FED Funds	4.25-4.50%	0.0	US 5 year	3.82%	0.3
US Prime	7.50%	0.0	US 10 year	4.23%	-0.6
US 3 month T-Bill	4.20%	-0.2	US 30 year	4.72%	-1.4
US 6 month T-Bill	4.20%	-0.4	5YR Sovereign CDS	57.00	
US 1 Year	3.93%	0.2	10YR Sovereign CDS	59.95	
US 2 year	3.71%	1.0			
Preferred Shares Indicators			Last	Daily %	YTD
S&P Preferred Share Index			624.16	0.13%	-1.77%
BMO Laddered Preferred Shares (ETF)			10.75	1.22%	-1.83%

Source: LSEG



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Things are looking up! Have a great day!

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