Financial HARTbeat

Trump helping Ukraine?
May 6th 2025

Good Morning,

Could it be true US actions actually having a positive knock on effect for Ukraine…US trade war with China benefits Ukraine…lower Oil prices…negative effect on Russia positive on Ukraine…

Carney meets Trump today in Washington…this is a good step and hopefully some positive initial ideas come out of this discussion..

Waymo partners with Magna for its new self-driving plant they are building in Arizona..

Catch the playback of our Weekly Roundup ***click here***..

Chart of the Day: FOMC tomorrow….looks like nothing to see here..

		Bank of Canada	Federal Reserve	European Central Bank
Rates	President / Chair	Tiff Macklem	Jerome Powell	Christine Lagarde
	Policy rate	Overnight rate	Fed Funds rate	Deposit facility rate
	Current policy rate	2.75%	4.50%	2.25%
Next meeting	Next meeting date	June 4, 2025	May 7, 2025	June 5, 2025
	Market-implied policy rate*	2.61%	4.50%	2.00%
	Spread vs. current rate	-14 bp	-0 bp	-25 bp
	Probability of…			
	… hike	0%	0%	0%
	… hold	45%	98%	0%
	… cut	55%	2%	100%
Rate cuts	25bps cuts priced in over...			
	... next 3 months	1.0	1.0	1.5
	... next 6 months	-	2.4	2.3
	... next 12 months	-	4.1	-

*Derived from OIS (Bank of Canada, European Central Bank) and Fed Funds Futures (Federal Reserve).

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Top News

U.S. stock index futures fell this morning after President Donald Trump's plans to announce pharma tariffs over the next two weeks, which renewed fears about the economic outlook and further dampened investor sentiment. This latest development follows Trump's announcement about imposing a 100% tariff on all movies produced outside the U.S., but issued few details about the timing of the proposed levy and how it would be enforced for an industry whose biggest-budget films are often produced across several continents.

Slapping levies on an industry like film would mark a major extension of tariffs as a policy tool into services, for which the U.S. runs a sizable trade surplus. And like the auto, pharmaceutical and chip industries before it, Trump's declaration threatens to put another business in a tariff-induced state of limbo. The Trump administration suggested last week that potential deals with trading partners were underway, but markets have seen no concrete results on that front.

The tariff-driven uncertainty has led consumers, businesses and even the U.S. Federal Reserve to adopt a wait-and-see mode as they struggle to navigate the tariffs and gauge their impact. The Fed starts its two-day meeting today, with the central bank widely expected to stay put on interest rates but comments from policymakers will be scrutinized for any clues hinting at their stance on monetary policy easing this year. According to data compiled by LSEG, traders see about 79 basis points of policy easing by the end of 2025, with the first cut coming only in July.

Data released this morning showed that the U.S. trade deficit jumped 14.0% to a record high $140.5 billion from a revised $123.2 billion in February. President Donald Trump's sweeping tariffs, including raising duties on Chinese imports to a staggering 145%, fueled a rush by businesses to bring in merchandise to avoid higher costs. Imports soared 4.4% to an all-time high $419.0 billion in March. Exports climbed 0.2% to $278.5 billion, also a record high.

The government reported last week that the trade deficit cut a record 4.83 percentage points from GDP last quarter, resulting in the economy contracting at a 0.3% annualized rate, the first decline since the first quarter of 2022. Economists expect the flood of imports to ebb by May, which could help GDP to rebound in the second quarter.

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In Canada, the main stock index edged also lower today. In commodities, gold prices rose to a two-week high, while Copper prices edged higher, buoyed by signs of U.S.-China trade talks. On the economic front, Canada's trade deficit narrowed to C$506 million in March, beating expectations as imports fell at a faster rate than the drop in exports. Imports of goods dropped 1.5% in March, while exports to the United States also dropped by 6.6% but was almost compensated by an increase in exports to the rest of the world.

Elsewhere, Germany's parliament will hold a second vote today on backing Friedrich Merz as chancellor after the veteran conservative failed to secure enough support in a first round, throwing politics in Europe's largest economy into disarray.

Our Stock/Bond Barometer (Argus)

Asset-allocation model is indicating that the two major portfolio asset classes are near parity on valuation. The model, which goes back to 1960, takes into account real-time price levels, historical growth rates and forecasts of short- and long-term government and corporate fixed-income yields, inflation, stock prices, GDP, and corporate earnings, among other factors. The output is expressed in standard deviations to the mean, or sigma. The mean reading going back to 1960is a 0.09 sigma premium for stocks, with a standard deviation of 1.05. In other words, stocks normally sell for a slight premium. The current valuation level now is a 0.05 sigma premium for stocks, down from 0.50 two months ago. Other valuation measures also show reasonable (if not discount) multiples for stocks. The forward P/E ratio for the S&P 500 is approximately 19, the midpoint of the normal range of 15-24.

The S&P 500 dividend yield of 1.2% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 30% 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 371 basis points, compared to the historical average of 400. On price/book, it is no surprise that stocks are priced at the high end of the historical range of 5.0-1.8, given that IT stocks, which have low capital bases, are the biggest component of the market.

On price/sales, the current ratio of 2.7 is above the historical average of 1.9, but 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 1.7, just below the midpoint of the historical range of 1-3. We expect results from our valuation model to continue

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to tilt toward stocks, as inflation calms, interest rates head lower into 2026, and corporate earnings grow at a double-digit rate.

Our recommended asset allocation for growth accounts is 70% growth assets and 30% fixed income. is a 0.09 sigma premium for stocks, with a standard deviation of 1.05. In other words, stocks normally sell for a slight premium. The current valuation level now is a 0.05 sigma premium for stocks, down from 0.50 two months ago. Other valuation measures also show reasonable (if not discount) multiples for stocks. The forward P/E ratio for the S&P 500 is approximately 19, the midpoint of the normal range of 15-24. The S&P 500 dividend yield of 1.2% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 30% 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 371 basis points, compared to the historical average of 400.

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We expect results from our valuation model to continue to tilt toward stocks, as inflation calms, interest rates head lower into 2026, and corporate earnings grow at a double-digit rate. Our 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	2.79%	0.7
CDA Prime	4.95%	0.0	CDA 10 year	3.20%	1.3
CDA 3 month T-Bill	2.66%	-0.1	CDA 20 year	3.47%	1.3
CDA 6 month T-Bill	2.63%	0.0	CDA 30 year	3.53%	1.3
CDA 1 Year	2.57%	-0.5			
CDA 2 year	2.56%	-0.5			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	3.93%	-1.4
US Prime	7.50%	0.0	US 10 year	4.34%	-0.4
US 3 month T-Bill	4.22%	0.3	US 30 year	4.84%	1.0
US 6 month T-Bill	4.23%	-0.2	5YR Sovereign CDS	57.00	
US 1 Year	4.01%	-2.2	10YR Sovereign CDS	59.95	
US 2 year	3.81%	-3.1			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			626.21	0.01%	-1.45%
BMO Laddered Preferred Shares (ETF)			10.76	0.09%	-1.74%

Source: LSEG

Things are looking up! Have a great day!

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