Financial HARTbeat

Disinflation?
May 16th 2025

Good Morning,

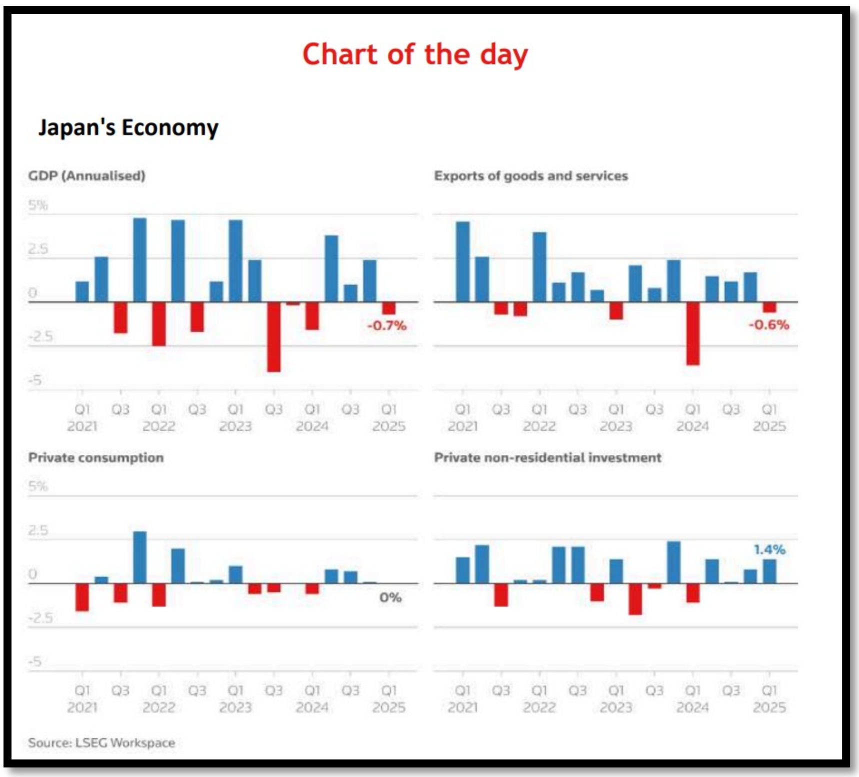
Norway Fund…one of the largest asset managers in the world, pausing hiring to focus on AI…

China/Taiwan tensions seem to be heating up again..

Inflation numbers coming in lighter then expected…should give central bankers a sigh of relief.

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

Chart of the Day: Japan showing negative now…this is worth watching..



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

U.S. stock index futures rise this morning, positioning Wall Street to lock in a bullish week fueled by a U.S.-China tariff truce and tamer inflation data, while traders focused on a crucial vote on President Donald Trump's sweeping tax legislation. House Budget Committee Chairman Jodey Arrington cautioned that today's planned vote on the tax bill might be delayed due to opposition to the measure. On the economic front, single-family housing starts, which account for the bulk of homebuilding, dropped 2.1% to a seasonally adjusted annual rate of 927,000 units last month, the Commerce Department's Census Bureau said. Permits for future construction of single-family housing declined 5.1% to a rate of 922,000 units in March.

University of Michigan's preliminary consumer sentiment reading for May is due at 10:00 a.m. ET. Focus will also be on comments from Federal Reserve policymakers, with at least two officials including Richmond Fed President Thomas Barkin slated to speak throughout the day. Most megacap and growth stocks swung higher in premarket trading, with Tesla leading gains.

Big Tech was one of the biggest drivers on Wall Street this week. The information technology sector is heading towards an 8% gain, a weekly jump echoing the surge seen when traders first seized on clear signals the White House is ready to dial back its trade hostilities with Beijing. Futures for Canada's main stock index edged higher this morning, as recent de-escalation of the global trade war and softer U.S. inflation data supported risk appetite. In commodities, oil prices extended declines, but are heading for a second consecutive weekly gain due to easing U.S.-China trade tensions.

Gold prices dropped and are poised for their steepest weekly decline in six months, while copper prices edged lower but are set for a weekly rise. European shares hit a seven-week high this morning lifted by healthcare stocks and strong results from Cartier-owner Richemont, set to end the week higher as a U.S.-China truce supported sentiment. Europe's luxury index rose 2%, with Richemont rising 6.5%.

The luxury group reported a slightly stronger-than-forecast 7% rise in quarterly sales. The region is closely monitoring developments from the RussiaUkraine peace talks, a day after Russian President Vladimir Putin declined to meet face-to-face with Ukraine's Volodymyr Zelenskiy. Peace talks between the two warring are expected to take place in Turkey today. On the data front, French unemployment rate came

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at 7.1% for the first quarter. Italian EU-harmonised consumer prices rose 2.0% year-on-year in April, revising down preliminary data.

The preliminary estimate had pointed to a 2.1% year-on-year rise. Investors awaited euro zone trade balance figures for March as well as Italy's inflation rate, due later in the day. Chinese and Hong Kong stocks dropped, as market sentiment came under pressure from renewed U.S.-China tech tensions and a disappointing earnings report from Alibaba. Both markets ended the week positively, with the Hang Seng Index posting a fifth consecutive weekly gain.

On the geopolitical front, the U.S. Commerce Department is considering placing more Chinese companies, including ChangXin Memory, on its restricted export list, a person familiar with the matter told Reuters.

Japanese shares recouped early losses to end flat, as stronger-than-expected domestic earnings prompted investors to overlook a stronger yen and pour more money into stocks. Real gross domestic product (GDP) contracted an annualised 0.7% in January-March, preliminary government data showed, much bigger than a median market forecast for a 0.2% drop (see chart)

Lower Inflation Trend Resumes (Argus)

Two important inflation reports -- the Consumer Price Index and the Producer Price Index -- were released earlier this week and both signaled that pricing pressures are again easing. For now. Both reports indicated that overall pricing pressures remain well below the peak rates in the summer of 2022. But both also confirmed that inflation remains above the Fed's target of 2.0%, and that it may take a while to get to that level. Let's first take a deeper dive into the Consumer Price Index. The news here was good, as the annualized headline number ticked lower from the previous month (2.3% versus 2.4% and 3.0% three months ago). According to the latest CPI report, the core inflation rate (ex-food and energy) was steady at 2.8%. Once again, the most encouraging data was related to Transportation Services and Shelter costs. In these sticky categories, year-over-year inflation rates have declined meaningfully. Gas prices are also sharply lower year over year, which should please consumers. The other inflation report was the Producer Price Index.

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The PPI measures pricing trends farther up the supply chain, at the manufacturing level. Here, the news was also generally positive. For example, the PPI final demand annual rate through April was 2.4%, compared to 2.7% a month ago and 3.7% in January. Based on the fundamentals, we expect pricing pressures to continue easing as the housing market cools due to high mortgage rates, and the price of oil stays below $90 per barrel (current price is $61). But that low price of oil reflects a new wild card that has entered the forecasting picture: Trump's trade wars. His tariffs -- should they ever go into effect -- will almost certainly raise prices, sending the inflation rate higher again. That will put new pressure on the Federal Reserve, which we think -- again, based on the fundamentals -- should be in position to lower rates in the second half of the year.

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	2.82%	-2.9
CDA Prime	4.95%	0.0	CDA 10 year	3.22%	-4.0
CDA 3 month T-Bill	2.62%	-0.5	CDA 20 year	3.46%	-3.6
CDA 6 month T-Bill	2.58%	-1.5	CDA 30 year	3.54%	-3.4
CDA 1 Year	2.55%	-1.5			
CDA 2 year	2.57%	-2.5			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	4.14%	-2.5
US Prime	7.50%	0.0	US 10 year	4.51%	-1.6
US 3 month T-Bill	4.28%	-0.8	US 30 year	4.96%	-0.8
US 6 month T-Bill	4.26%	-0.3	5YR Sovereign CDS	54.02	
US 1 Year	4.12%	-1.4	10YR Sovereign CDS	57.02	
US 2 year	4.02%	-2.9			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			640.66	0.03%	0.82%
BMO Laddered Preferred Shares (ETF)			11.07	0.27%	1.10%

Source: LSEG

Things are looking up! Have a great day!

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