

# Financial HARTbeat

Higher Yields attract attention?  
May 27<sup>th</sup> 2025



Good Morning,




Typically, as US bond yields start to edge towards that 5% on the 10 year bond it attracts more buyers. Which in turn increases the need for USD and drives USD higher....this is an atypical year...

PCE deflator number out of the US will be important this week...the US Consumer is showing signs of slowing spending as first quarter was front loaded...will US housing help? Likely not as US mortgage rates creep north of 7%...

Core Inflation vs Inflation in Canada....as most read headline I have had a lot of questions this week as likelihood of mortgage rate cut in Canada dropped dramatically this week..that is because "core" came in at 3.2% but CPI came in at 1.7%..BOC watches "core" ...

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

## Chart of the Day: Rate expectations....

	 <b>Bank of Canada</b>	 <b>Federal Reserve</b>	 <b>European Central Bank</b>
<b>Rates</b>			
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%
<b>Next meeting</b>			
Next meeting date	June 4, 2025	June 18, 2025	June 5, 2025
Market-implied policy rate*	2.68%	4.49%	2.00%
Spread vs. current rate	-7 bp	-1 bp	-25 bp
Probability of...			
... hike	0%	0%	0%
... hold	73%	96%	0%
... cut	27%	4%	100%
<b>Rate cuts</b>			
25bps cuts priced in over...			
... next 3 months	0.7	0.3	1.3
... next 6 months	-	1.3	2.0
... next 12 months	-	3.2	-

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



### 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

A Reuters poll showed that Canada's main stock index is set to largely consolidate its recent gains through the rest of 2025 and could be at risk of another correction as the domestic economy shows signs of a slowdown due to U.S. tariffs. The S&P/TSX Composite index has rebounded nearly 16% from its lowest closing level in April to post a record closing high on Monday at 26,073.13.

Since the start of the year, the index has gained 5.4%, outperforming major U.S. indexes such as the S&P 500 Index due to its heavy weighting in mining shares as safe-haven demand lifted the price of gold to record highs. The median prediction of 21 equity strategists and portfolio managers in the May 15-27 poll was for the S&P/TSX Composite index to edge 0.7% higher to 26,250 by yearend, slightly less than the 26,500-mark expected in the February poll.

Seven out of 13 analysts who answered a separate question said corporate earnings would be lower in 2025 compared with 2024 while eight out of 13 said a correction was likely or highly likely over the coming three months.

This morning, Canadian stock index futures surged, tracking gains in global equities, as investors embraced U.S. President Donald Trump's decision over the weekend to delay his proposed tariffs on imports from the European Union. With debt issuance running high in Canada, some analysts and investors worry the budget could reveal a surprise increase in government spending for the current fiscal year, resulting in increased bond issuance that needs to be absorbed by the market in a shorter space of time. Bond maturities are historically high as some of the additional debt load accumulated during the pandemic comes due, while deficit spending remains elevated and the government began last year purchasing mortgage related bonds to help lower the cost of housing. The estimate comes to C\$628 billion, according to Reuters calculations. That would exceed 2020-21 debt issuance of C\$593 billion and mean an even greater increase in the net supply of debt after much of the pandemic-era debt was purchased by the Bank of Canada to support the economy. In the U.S., stock index futures also surged today, as traders returned after the Memorial Day break.



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Long-dated U.S. Treasury yields dipped, with the one on the 30-year note set for its biggest one-day fall since mid-April, mimicking a steep price rally in longer-term Japanese debt. In economic data, the May consumer confidence report is due shortly after markets open today. In the meantime, data release earlier this morning showed that new orders for key U.S.-manufactured capital goods fell in April, suggesting business spending on equipment weakened at the start of the second quarter.

Non-defense capital goods orders excluding aircraft, a closely watched proxy for business spending plans, tumbled 1.3% last month after an upwardly revised 0.3% gain in March. Economists polled by Reuters had forecast these so-called core capital goods orders dipping 0.1% after a previously reported 0.2% drop in March.

## Investing in the Cloud (Argus)

Cloud computing has transformed the technology landscape over the past decade. Created almost accidentally as a means of organizing customer invoices, cloud has grown from the management of outsourced technology hardware resources to encompass tasks up to and including software development, big data analytics, and artificial intelligence (AI). Indeed, following the availability of ChatGPT in November 2022, awareness of generative AI hit the business community like an electric shock, and has completely upended IT spending plans for the rest of the decade. Given that delivery of AI will mainly occur within a hybrid cloud environment, emergence of AI-as-a-Service represents a difficult-to-quantify, but undoubtedly positive driver of cloud service revenues in the coming years.

The leading providers of cloud services tend to be large technology and communication services companies that provide many goods and services distinct from or adjacent to their cloud businesses. These companies include Amazon.com, Microsoft, Alphabet, and others in the United States, along with Alibaba, Baidu, Tencent, and others in China.

Collectively, participants in the cloud eco-system grew revenue at a high-teens compound annual rate from 2016 to 2024. In our view, the positive long-term tailwinds from enterprise digital and cloud transformation are powerful enough to offset any near-term economic or tariff uncertainty. We expect rising device demand and enterprise IT spending, both domestically and internationally, to drive cloud investment in 2025-26 and beyond.



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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	2.89%	-4.0
CDA Prime	4.95%	0.0	CDA 10 year	3.28%	-4.6
CDA 3 month T-Bill	2.66%	1.5	CDA 20 year	3.52%	-4.8
CDA 6 month T-Bill	2.63%	0.0	CDA 30 year	3.58%	-4.8
CDA 1 Year	2.62%	0.0			
CDA 2 year	2.66%	-2.2			
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%	-1.6
US Prime	7.50%	0.0	US 10 year	4.48%	-3.6
US 3 month T-Bill	4.25%	0.5	US 30 year	4.98%	-5.4
US 6 month T-Bill	4.32%	0.8	5YR Sovereign CDS	53.00	
US 1 Year	4.15%	0.2	10YR Sovereign CDS	55.95	
US 2 year	3.98%	-0.4			
Preferred Shares Indicators			Last	Daily %	YTD
S&P Preferred Share Index			643.17	0.08%	1.22%
BMO Laddered Preferred Shares (ETF)			11.18	0.72%	2.10%

Source: LSEG

Things are looking up! Have a great day!

Ben



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