Financial HARTbeat

March 13 2025

Good Morning,

Bank of Canada delivered their 25 bps cuts as expected…

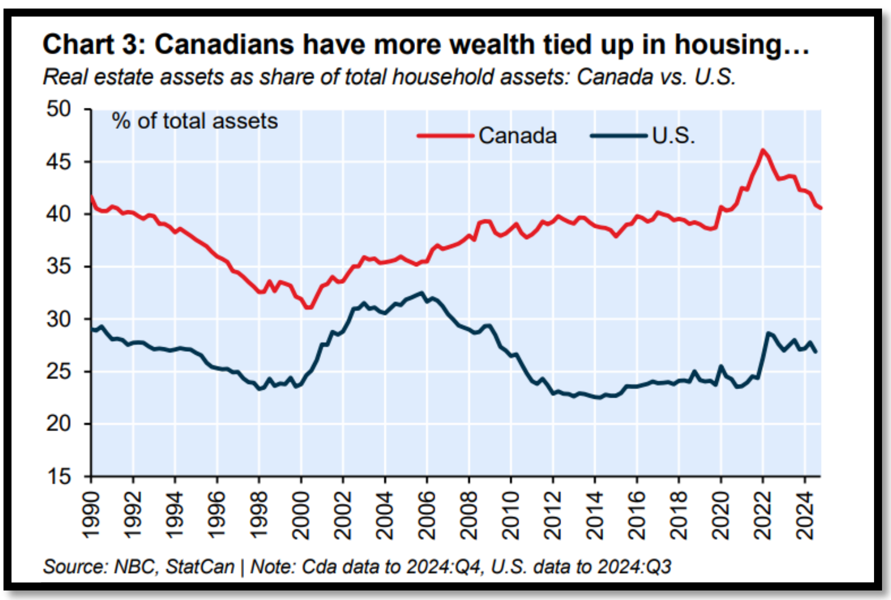
US Travelling to Russia to work on ceasefire..

Stock market flat after a move higher in risk assets yesterday…

Join us at 1pm today for the weekly roundup to hear more…

[Link here]

Chart of the Day: What Canadians so sensitive to BOC rates…



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Top News

Foreign ministers of leading Western democracies meet in Canada today after seven weeks of rising tensions between U.S. allies and President Donald Trump over his upending of foreign policy on Ukraine and imposing of tariffs.

The Group of Seven ministers from Britain, Canada, France, Germany, Italy, Japan and the United States, along with the EU, meet in the remote tourist town of La Malbaie, in Quebec for two days of meetings. On top of the agenda for Washington's partners is getting a debriefing on U.S. Secretary of State Marco Rubio's talks this week with Kyiv in Saudi Arabia, where Ukraine said it was ready to support a 30- day ceasefire deal. But in the run-up to the first G7 meeting, Washington has sought to impose red lines on language around Ukraine and opposed a separate declaration on curbing Russia's so-called shadow fleet, a murky shipping network that eludes sanctions, as it did not want comments that could harm efforts to bring Russia and Ukraine to the table. Markets are finding it hard to catch a break as we go from tit-for-tat trade wars one day to a potential U.S. government shutdown.

If the government funding bill in the U.S. Senate goes through, the bill will keep the U.S. government operational through September 30. The Republican led House passed the bill earlier in the week, but Senate Democrats are pushing for a short-term extension to allow for more comprehensive budget negotiations. In his latest tariff threat, the U.S. president said he would impose additional penalties on

European Union imports if the EU enacted retaliatory tariffs on U.S. goods next month. Although markets had a slight relief yesterday as the cooling in consumer inflation offered a temporary breather, it was insufficient to offset Wall Street's heavy losses this week. In fact, even though yesterday's data showed a smaller-than-expected increase in consumer prices in February, the data also contained unfavorable details of some components that go into the calculation of the Personal Consumption Expenditures (PCE) price indexes, which are tracked by the Federal Reserve for its 2% inflation target.

Today, data showed that U.S. producer prices were unexpectedly unchanged in February, but the cooling trend is unlikely to be sustained as tariffs on imports are expected to raise prices of goods in the coming months. The Labor Department's Bureau of Labor Statistics said that the unchanged reading in the producer price index for final demand last month followed an upwardly revised 0.6% increase in January. Economists polled by Reuters had forecasted the PPI rising 0.3% after a previously reported 0.4% increase

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in January. In the 12 months through February, the PPI climbed 3.2% after rising 3.7% in January. For now, however, the moderation in price pressures should give the Federal Reserve cover to keep its benchmark overnight interest rate unchanged next Wednesday, having reduced it by 100 basis points since September. Financial markets expect the U.S. central bank to resume cutting borrowing costs in June after it paused its easing cycle in January.

In Canda, futures tied to the main stock index declined today as investors assessed the implications of an intensifying trade war with the United States. In commodities, gold prices were trading near record-high levels due to demand for safe-haven assets, while oil prices eased after surging in the previous session on a larger-than expected draw in U.S. gasoline stocks.

Fear Index Pops Higher (Argus)

After a mostly calm first six weeks of the year -- when the major benchmark indices were up almost 5% and the VIX Volatility Index dipped below 15 -- the closely-watched "fear index" recently soared beyond 27 and the S&P 500 has plummeted 8%. Are investors headed for a market correction or even a visit from the bear? Not necessarily. But just because equities appeared to be solidly in a bull market, that doesn't mean there aren't risks to investing. Indeed, in our 2025 Market Outlook, we noted that investor complacency was high, the tariffs and trade wars could slow the economy, and that stock valuations were susceptible in the event of a sell-off in the Information Technology sector. That was our bearish case. Our base case called for another year of growth in the U.S. economy (and no recession), declining interest rates, and double-digit EPS growth. Each of the planks in the platform is currently in place. So assuming that the Trump Administration gets its economic growth plans on track, there's reason to expect equity prices can recover. Back to the market, the current fear index reading is around 25, which is well above the 10-year average of 20 and nearly one standard deviation (sigma = 7.5) above normal. This reading compares to the average VIX of 24 during the most-recent bear market and 35 during the financial crisis of 2008- 2009.

During the long bull market in the 2010s, the VIX averaged 18 and even touched lows below 10 in 2017. We continue to think that the S&P 500 is in the early/mid-stage of a bull market that dates to October 2022. And while the path for equities won't be straight up, we suggest investors favor growth stocks in their portfolios at the current market and economic juncture.

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Bond Yields

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%	-25.0	CDA 5 year	2.73%	1.2
CDA Prime	4.95%	-25.0	CDA 10 year	3.09%	1.5
CDA 3 month T-Bill	2.66%	0.5	CDA 20 year	3.24%	1.3
CDA 6 month T-Bill	2.67%	0.5	CDA 30 year	3.34%	1.3
CDA 1 Year	2.63%	1.5			
CDA 2 year	2.60%	0.7			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	4.25-4.50%	0.0	US 5 year	4.08%	0.7
US Prime	7.50%	0.0	US 10 year	4.33%	1.6
US 3 month T-Bill	4.20%	-0.3	US 30 year	4.65%	2.4
US 6 month T-Bill	4.24%	0.0	5YR Sovereign CDS	40.51	
US 1 Year	4.08%	0.5	10YR Sovereign CDS	43.47	
US 2 year	3.99%	-0.2			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			639.06	-0.02%	0.57%
BMO Laddered Preferred Shares (ETF)			10.95	-0.23%	0.00%

Source: LSEG

Things are looking up! Have a great day!

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