Financial HARTbeat

FOMC uncomfortable again
March 28th 2025

Good Morning,

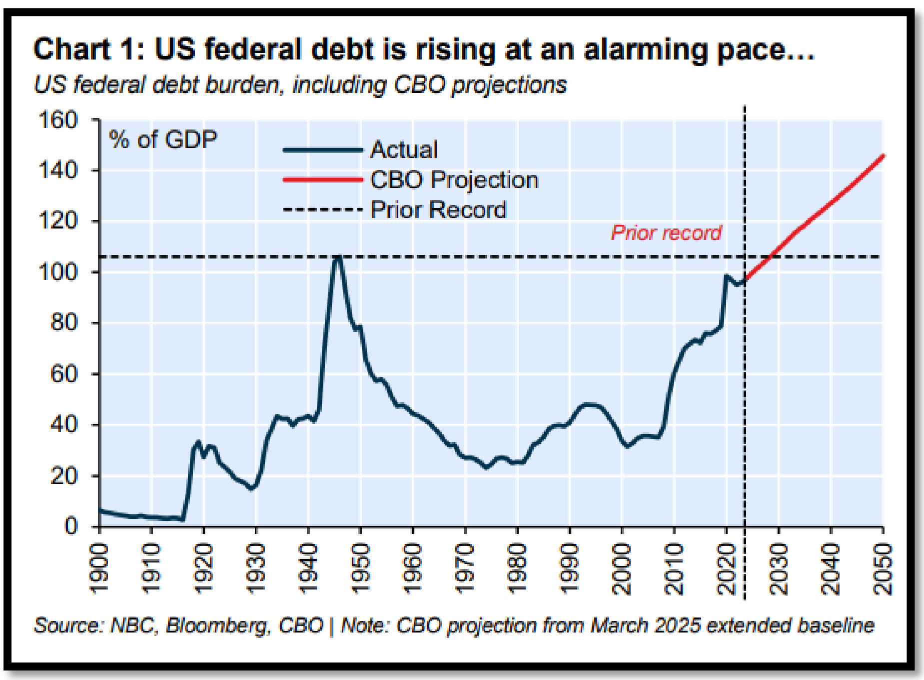
USD has traded surprising sideways these last few weeks versus CAD…interesting, this typically isn't the case in times of markets stress and strain…

JD Vance to visit Greenland today…while on the surfaces appears almost not a possibility of annexation..more attention is being put there…

Consumers continue to be cautious and is being noted in my consumer discretionary company quarterly calls….therefore when sentiment shifts…positive things happen..

Catch the playback of our Weekly Roundup click here..

Chart of the Day: Do you think this gets better or worse with a trade war?



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Top News

U.S. stock index futures are under pressure this morning as investors grappled with the prospect of more tariffs from President Donald Trump and kept a close eye on a pivotal inflation report. Trump's decision to forge ahead with a 25% tariff on auto imports - set to take effect next week - sent shockwaves through global markets, inciting backlash from lawmakers and industry leaders worldwide. Auto stocks bore the brunt of the selloff in the previous session. Attention is now firmly on a fresh round of tariffs the U.S. plans to unveil on April 2. Trump hinted that these measures might not be the straightforward tit-for-tat levies he has previously vowed to impose. Investors are also scrutinizing the U.S. Personal Consumption Expenditure data reported this morning.

The Commerce Department's report showed the Personal Consumption Expenditures Price index rose 2.5% in February on an annual basis, compared with expectations of a 2.5% increase. On a monthly basis, the index rose 0.3%, versus estimates of a 0.3% climb. Excluding volatile items such as food and energy, the index rose 2.8% on an annual basis in the previous month, compared with forecasts of a 2.7% increase (see chart). Traders expect the central bank to lower borrowing costs by 25 basis points for the first time this year in July.

Investors will also parse through speeches by Federal Reserve policymakers Michael Barr and Raphael Bostic later in the day.

Futures tied to Canada's main stock index fell this morning as investors avoided major bets, awaiting clarity on impending U.S. tariffs. Canada's Prime Minister Mark Carney said yesterday that he would respond with unspecified trade actions if Trump imposes the tariffs. Carney is expected to meet with premiers today to discuss Trump tariffs.

In commodities, oil prices were flat amid tariff-related demand concerns, but was still headed for a third weekly gain on supply concerns after the U.S. placed more pressure on Venezuelan and Iranian oil trade. Gold touched a record peak, as Trump's new tariffs prompted investors to flock to the safe-haven metal. Meanwhile, copper prices hit a nearly two-week low under similar tariff worries.

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Data this morning showed Canada's Gross Domestic Product grew by 0.4% on a monthly basis in January. Analysts had estimated the January growth to be at 0.3%, from an upwardly revised 0.3% growth in December. A flash estimate from Statscan showed growth in February was likely to be unchanged. Euro zone shares dipped this morning, at the end of a week marred by concerns over the global economic fallout of an intensifying trade war waged by U.S. President Donald Trump. A survey showed German consumer sentiment is broadly unchanged heading into April, with a focus on saving, highlighting uncertainty among households.

The consumer sentiment index, published by the GfK market research institute and the Nuremberg Institute for Market Decisions (NIM), inched up to -24.5 points from a slightly revised -24.6 points the month before. Analysts had expected sentiment to rise to -22.7 points.

China and Hong Kong stocks fell broadly today as investor sentiment cooled due to concerns that new U.S. tariffs could shake the global economy. Semiconductor and energy stocks dropped 2.1% and 1.5%, respectively, to lead the declines.

Japan's Nikkei average ended at a two-week low in a broad selloff, with automakers leading the losses, as concerns over the potential impact of U.S. President Donald Trump's trade tariffs weighed. A majority of stocks going ex-dividend resulted in a loss of around 300 points, strategists said.

Fed's Favorite Inflation Indicator Out Today (Argus)

The Fed's favorite inflation indicator, the PCE Price Index, will be released by the BEA this morning. The index differs from the better-known Consumer Price Index as its composition is changed more frequently and it is quicker to reflect real-time pricing fluctuations. In the January report, PCE inflation grew 2.5% year over year. The latest CPI report (February) had inflation rising 2.8%. Core PCE, which removes volatile food and energy prices, rose at a rate of 2.6% in the latest month. Our PCE forecasts call for steady-to-lower readings for February: 2.4% for the headline number and for 2.6% for the core reading, as lingering inflation in certain sticky-priced services remains a challenge. Overall, inflation in this cycle peaked in summer 2022 and has been on a fairly consistent downward trek since then. We track 20 inflation measures on a monthly basis. On average, they are indicating that prices are rising at a 3.15% rate year over year, essentially flat with a month ago. The numbers are volatile and are distorted by swings within the volatile Producer Price Inflation report.

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Focusing on core inflation - which we obtain by averaging Core CPI, market-based PCE Ex-Food & Energy, the five-year forward inflation expectation rate, the 10-year TIPs Break-even Interest Rate, and the core PCE Price Index - our reading is 2.60%, lower by five basis points month over month. Investors are expecting that the Fed's series of rate hikes ultimately will tame inflation, with the five-year forward expectation rate at 2.15%. Given inflation trends, we expect the Fed to remain on the sideline for the first half of 2025 and then implement two rate cuts in 2H24, with the ultimate goal of aligning the fed funds rate to approximately 100 basis points above the long-term inflation rate within the next 8-10 quarters.

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%	0.0	CDA 5 year	2.70%	-2.9
CDA Prime	4.95%	0.0	CDA 10 year	3.06%	-3.5
CDA 3 month T-Bill	2.64%	-3.5	CDA 20 year	3.27%	-3.5
CDA 6 month T-Bill	2.63%	-1.0	CDA 30 year	3.31%	-3.5
CDA 1 Year	2.58%	-1.0			
CDA 2 year	2.54%	-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%	-4.1
US Prime	7.50%	0.0	US 10 year	4.32%	-4.8
US 3 month T-Bill	4.20%	-0.4	US 30 year	4.68%	-5.3
US 6 month T-Bill	4.23%	-0.4	5YR Sovereign CDS	40.97	
US 1 Year	4.09%	-1.2	10YR Sovereign CDS	42.95	
US 2 year	3.98%	-2.0			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	639.96	-0.03%	0.71%
BMO Laddered Preferred Shares (ETF)	11.05	0.05%	0.91%

Source: LSEG

Things are looking up! Have a great day!

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