Financial HARTbeat

Tarrif 2.0!
March 4 2025

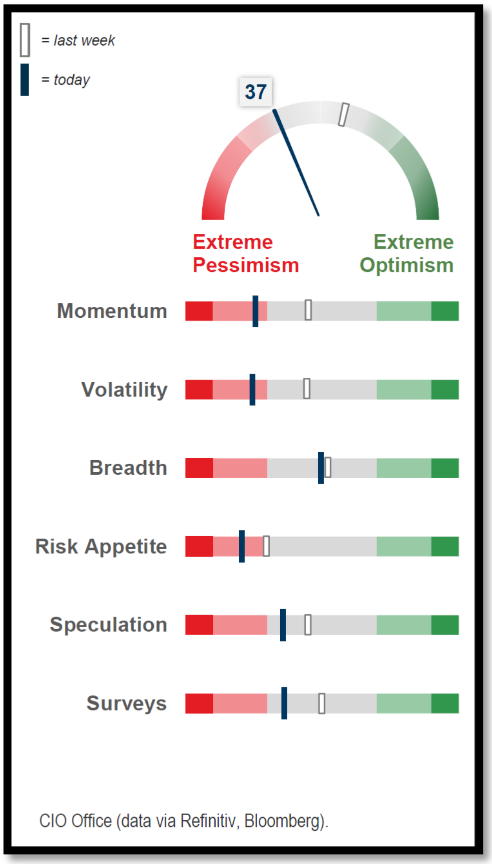
Good Morning,

Tariffs look like they will be proceeding yet again….

Canada will adapt…BC fast tracking infrastructure projects…

Provincial barriers coming down..

Chart of the Day: Always love this as a counter indicator…



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Top News

U.S. President Donald Trump's new 25% tariffs on imports from Mexico and Canada took effect today, along with a doubling of duties on Chinese goods to 20%, launching new trade conflicts with the top three U.S. trading partners. The tariff actions, which could upend nearly $2.2 trillion in two-way annual U.S. trade started hours after Trump declared that all three countries had failed to do enough to stem the flow of the deadly fentanyl opioid and its precursor chemicals into the U.S.

China responded immediately, announcing additional tariffs of 10%- 15% on a wide range of U.S. agricultural products including certain meats, grains, cotton, fruit, vegetables and dairy products. It also put in place a series of new export restrictions for designated U.S. entities. U.S. farmers were hard hit by Trump's first-term trade wars, which cost them about $27 billion in lost export sales and conceded share of the Chinese market to Brazil. Canada and Mexico, which have enjoyed a virtually tariff-free trading relationship with the U.S. for three decades, were poised to also immediately retaliate.

Canadian Prime Minister Justin Trudeau announced he would respond with 25% tariffs on C$30 billion worth of U.S. imports, and another C$125 billion if Trump's tariffs were still in place in 21 days. He said previously that Canada would target American beer, wine, bourbon, home appliances and Florida orange juice.

Ontario Premier Doug Ford told NBC that he was ready to cut off shipments of nickel and transmission of electricity from his province to the U.S. Canadian Chamber of Commerce CEO Candace Laing said in a statement that "Today's reckless decision by the U.S. administration is forcing Canada and the U.S. toward recessions, job losses and economic disaster". Even before Trump's tariffs announcement, U.S. data on Monday showed factory gate prices jumped to a nearly three-year high, suggesting that a new wave of tariffs could soon undercut production.

Paul Ashworth, chief North America economist at Capital Economics said the 25% tariff on Canada will hit exports, investment and consumption, resulting in a 2.5% to 3.0% decline in Canada's GDP. Trump's confirmation that the tariffs would proceed sent financial markets reeling with global stocks tumbling and safe-haven bonds rallying. Both the Canadian dollar and Mexican peso fell against the U.S. dollar.

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Wall Street's main indexes were also set to extend recent losses today, as investors stayed clear of riskier assets. The CBOE market volatility index edged up after hitting a two month high at 24.31 in the previous session. Investors are pricing in that the surcharges will fan inflation pressures, dampen demand and eat into corporate profits at a time when recent data has resurfaced expectations of a stalling economy.

Morgan Stanley estimates that tariffs on imports from Mexico, Canada and China through 2026 could reduce earnings for the S&P 500 by 5% to 7%. Executives are also holding back on investments and expenditures as they wait for more clarity on Trump's upcoming policies. Analysts say April 1 will be the date when the president is likely to announce his full-fledged global trade policy.

Interest rate futures point to the Federal Reserve delivering at least three 25 basis points interest rate cuts by December, up from about two on Monday, as traders bet on the likelihood that slowing growth could nudge the central bank to lower borrowing costs. On the corporate front, Tesla fell more than 3% after data showed that the automaker's China-made electric vehicles sales fell 49.2% in February.

Previewing Friday's Jobs Report (Argus)

Friday, we expect the Bureau of Labor Statistics (BLS) to report that U.S employment is steady and growing, albeit amid numerous concerns. We believe it is too soon to count out the resilient job market, particularly with healthcare generating about 50,000 jobs a month and poised to grow. Our forecast is for February non-farm payrolls to rise by 150,000. The job market has weathered Fed tightening, labor strikes, and natural disasters. Yet there are two new concerns we are monitoring because there is less slack in the labor market to absorb disruptions. The ratio of job openings to unemployed workers has declined from more than 2.0-times when the Fed started tightening in Mach 2022 to 1.1-times at the end of 2024. The first concern is that falling sentiment, particularly among small business owners, might result in hiring being placed on hold even if it doesn't trigger layoffs. A second fear is related to the elimination of government jobs and the potential for cascading job losses at private contractors, which might impede GDP. There is a line item for "Initial Claims Filed in Federal Programs" in the Unemployment Claims report, which comes out on Thursdays. Federal claims thus far have been low, but are likely to rise, particularly after many workers who accepted a separation offer stop getting paid in September. We will also be monitoring initial claims in Washington D.C., Maryland, and Virginia. Total weekly jobless claims averaging over 300,000 would be a flag. We expect the unemployment rate in February to remain low at 4.1%. Consensus is 4.0%.

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We expect average hours worked ticked up to 34.2 and that growth in average hourly earnings declined to 4.0%. Fed officials expect the unemployment rate to be 4.3% in 2025, 2026, and 2027 based on median estimates made in December. Payroll gains averaged 166,000 in 2024, down from 216,000 in 2023. We believe 150,000 is a reasonable baseline at the beginning of 2025, declining to 115,000, or potentially below 100,000, later in the year.

Bond Rates

Figure 1: Key Interest Rates (Canada & U.S.)

Canadian Key Rate	Last	Change bps	Canadian Key Rate	Last	Change bps
CDA o/n	3.00%	0.0	CDA 5 year	2.54%	0.6
CDA Prime	5.20%	0.0	CDA 10 year	2.83%	-0.1
CDA 3 month T-Bill	2.79%	0.0	CDA 20 year	3.01%	1.2
CDA 6 month T-Bill	2.71%	0.0	CDA 30 year	3.08%	1.2
CDA 1 Year	2.61%	0.0			
CDA 2 year	2.46%	-1.4			

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%	-5.5
US Prime	7.50%	0.0	US 10 year	4.14%	-3.6
US 3 month T-Bill	4.19%	-0.7	US 30 year	4.46%	-0.5
US 6 month T-Bill	4.25%	-4.2	5YR Sovereign CDS	38.00	
US 1 Year	4.04%	-4.6	10YR Sovereign CDS	41.00	
US 2 year	3.91%	-7.2			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	646.37	-0.12%	1.72%
BMO Laddered Preferred Shares (ETF)	11.08	-0.45%	1.19%

Source: LSEG

Catch the playback of our Weekly Roundup [here]

Things are looking up! Have a great day!

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