



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

Inconvenient Truths: Debts, and Tariffs

We're focusing on Trump's tariffs. What's at stake. What are markets saying?

Monthly Equity Monitor (February/March 2025) - Will geopolitics derail the bull market? NBC Economics and Strategy

Feb 24, 2025

<https://nbf.bluematrix.com/links2/pdf/4adbbb81-f1d8-4bee-8397-b954053b9aaa>

Five reference points in the fog of a tariff war '- NBI CIO Quick Takes Feb 3, 2025

<https://www.nbinvestments.ca/content/dam/bni/publication/cio-office/quick-take.pdf>

Inconvenient Truths

The US Great Depression was amplified by legislated Govt austerity. The lesson was to permit national central governments to run deficits to act as a 'shock absorber' during a national emergency. If the overall debt vs. the economic potential is modest, or the proportion of Govt revenues consumed paying the interest is modest vs. the longer-term trend, deficit financing makes sense. To clarify, if spending outpaces revenues, the result is a deficit. 'Deficit' means borrowing money to pay the interest on the borrowed money. Politicians must resist spending 'someone else's' money. It's so very tempting to declare a National Emergency, offer nice tax-breaks or government program entitlements to win votes. Deficit? Schmesh-ifit. Kick the can down the road.

President Bush's 'Weapons of Mass Destruction' Iraq invasion, 2008-2016 Obama program spending, 2016-2020 Trump 1.0 tax cuts, and 2020-2024 Biden COVID-19/Climate Emergency spending spree all ballooned deficits and debt. Low inflation and falling interest rates hid the

risk. We worried about inflation spoiling the party. The can has become a boulder. Debt interest payments are now the largest US Federal Govt budget cost.

Congressional Budget Office: <https://www.cbo.gov/topics/budget>

‘Any Way You Look at It, Interest Costs on the National Debt Will Soon Be at an All-Time High’ - Peter G Petersen Institute Jan 22, 2025

<https://www.pgpf.org/article/any-way-you-look-at-it-interest-costs-on-the-national-debt-will-soon-be-at-an-all-time-high/>

Something must be done.

Donald Trump’s election platform promised de-regulation, Govt cost cutting plus ‘beautiful’ tax cuts. Appointed DOGE Tsar Elon Musk’s chainsaw approach has led to chaos, confusion and questionable ‘savings’ figures. A floated proposal to provide a DOGE ‘dividend’ hasn’t helped.

Trump, Musk float idea of \$5,000 ‘DOGE dividend’ checks - CNBC

<https://www.cnn.com/2025/02/27/trump-musk-promote-idea-of-5000-doge-dividend-checks.html>

Until (if) cost cutting achieves a budgetary surplus, cost reductions aren’t ‘savings’. Cost cuts mean borrowing less. To have a positive effect, the released revenues must be applied against debt. Paying a portion of reduced costs to taxpayers increases those costs yet again, let alone being misleading.

The politics of cost cutting is tough. Lower Govt spending means a smaller military, less government services, fewer programs, and layoffs. Meanwhile lower debt won’t immediately improve voters’ experience. Having granted unaffordable tax-cuts and entitlements politicians face voter anger when attempting to remove them. Additional cuts AND additional revenue are required. Where to find the money?

The Trump Administration appears to believe tariffs force ‘someone else’ to pay US Federal Govt debt payments. While tariffs would indeed provide an immediate boost to US Fed Government revenues, the fall-on effect is rising costs to consumers. If domestic demand vs supply for the imported good is inelastic (think crude oil) domestic prices rise by the tariff. If the domestic supply can respond, the tariff reduces domestic competition from imports meaning domestic suppliers can, and will, increase their prices. Either way, there’s that inflation thing again. The lower your income, the more rising prices hurt. Tariffs are a regressive tax. Supply shocks plus rising prices can lead to ‘Stagflation’. Not good. William McKinley, who Trump appears to admire, removed tariffs.

Trump’s tariffs appear to have a hazy connection to economic results. Example: Tying 25% tariffs on Canadian goods to illicit fentanyl imports.



The facts on fentanyl and the northern border. Globe & Mail Feb 27, 2025

Trump’s White House is using misleading data about drug seizures and their links to Canada, a Globe investigation finds

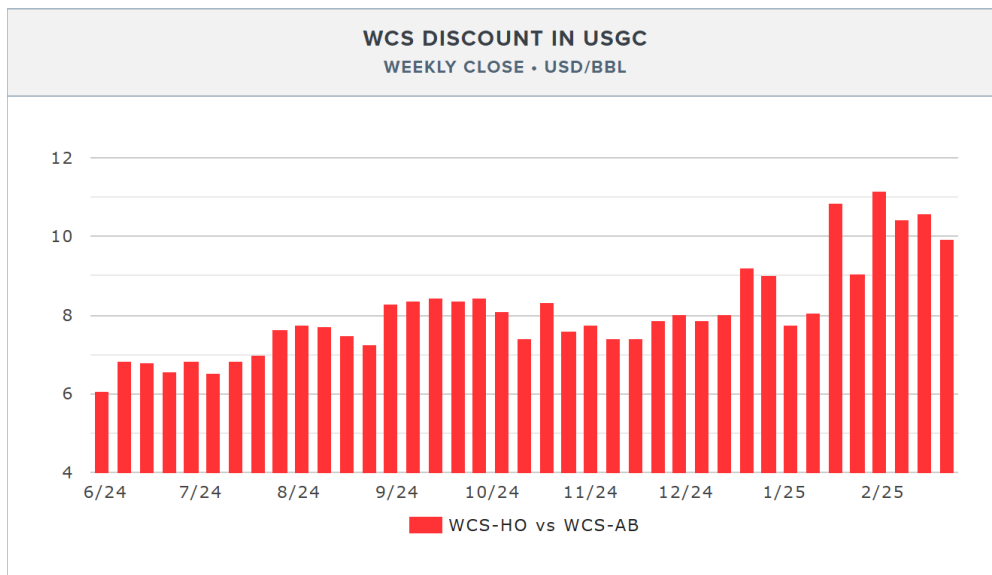
[White House using misleading fentanyl data to justify tariffs - The Globe and Mail](#)

Fentanyl abuse probably qualifies as a ‘national emergency’. Blaming Canada does not. A tariff will have zero effect on fentanyl, but it might make good politics. Are the on-again/off-again tariffs mistaken revenue notions, political theater, or both?

What do markets think?

Energy is Canada’s largest export to the US. If the US is about to impose 25% tariffs on Canadian crude oil exports to the US, surely the Canadian crude prices would decline? West Texas Intermediate (WTI-USA) is a proxy for North American crude oil prices. Alberta crude oil is now predominantly *Western Canadian Select* (WCS) heavy crude oil. Due to differences in content vs WTI, and transport distance/access to US refineries, WCS trades at a discount to WTI. A widening WCS discount would reflect markets pricing in falling demand for Alberta crude. The US President has claimed 25% tariffs on US imports from Canada. Will energy be included? If excluded will Canadian governments force a tariff on exports? It’s a mess that surely would see WCS fall in price vs WTI.

Higher on the following chart means deeper discount The discount has deepened over the past 12 months.



Source: OilSandsMagazine.Com Feb/2025

Putting the recent higher WCS discount into perspective...



WCS Historical & Forward Prices

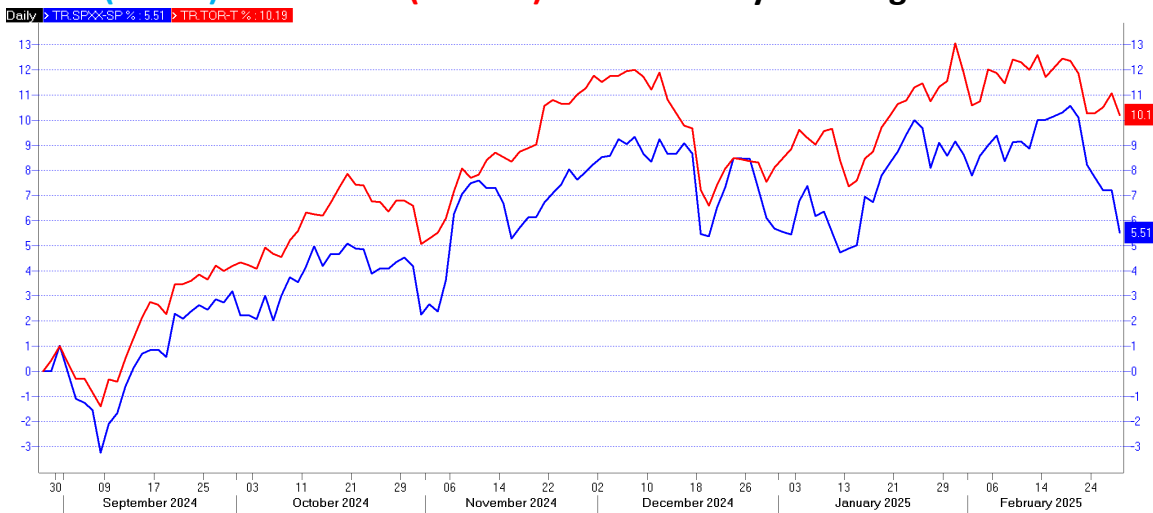


Source: NBC *as of Mar-25 Settlement Month

The discount is at the narrower end of the past 10-year range. Oil traders appear to be largely ignoring the Trump Tariff threats, instead pricing increased US consumption of Canadian crude oil.

If Canada's wider economy is about to be 'punished' by Trump's tariff dreams, Canadian stocks prices and bond yields should be deviating from US ones.

S&P500 (+5.5%) vs TSX 300 (+10.2%) local currency %-change - 6 months

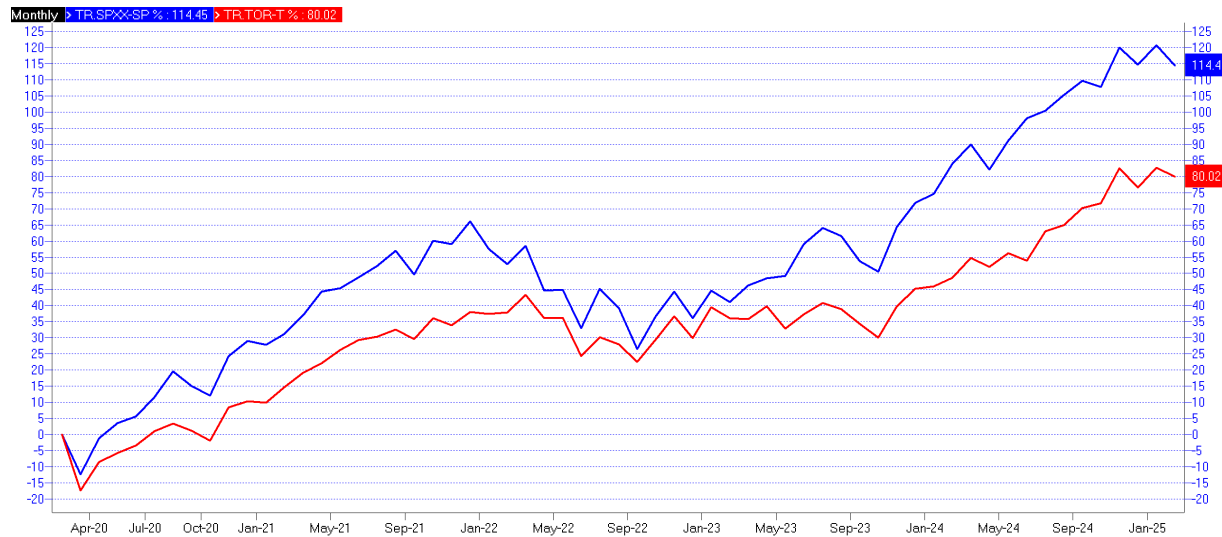


Source: Refinitiv, NBF, Hilberry

Lately, Canadian equities have fared better than US ones. One reason is the lower Canadian relative values. Here's the same chart over the last 5 years.



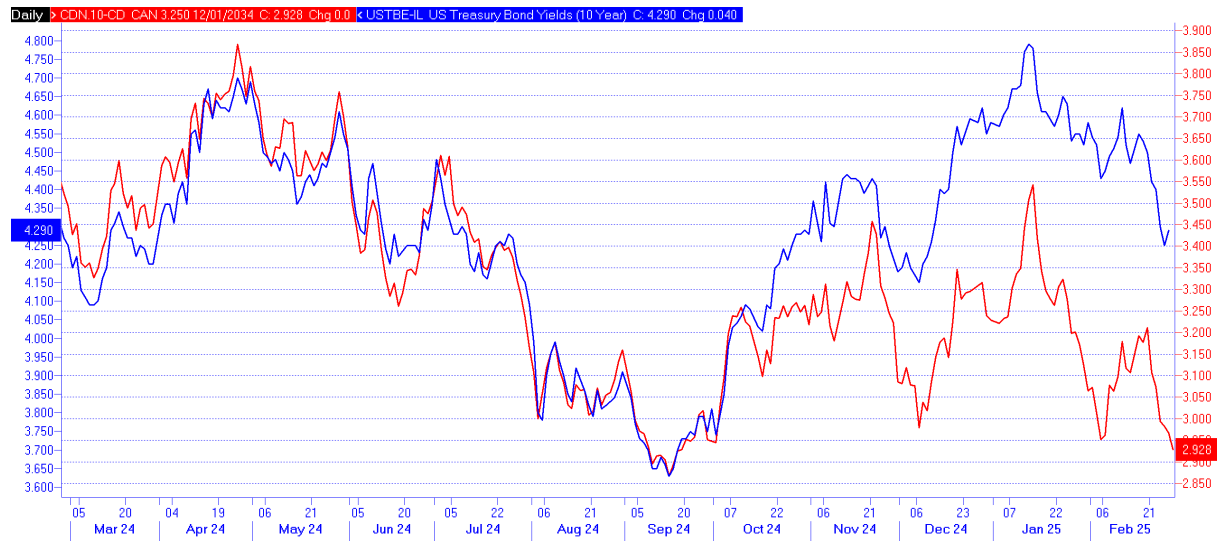
S&P500 (+114.5%) vs TSX 300 (+80.0%) local currency %-change – 5 years



Source: Refinitiv, NBF, Hilberry

A declining Loonie added 8%, taking the S&P's Total return to +123% for a 54% excess return over Canadian stocks. Broadly Canadian stocks are not pricing in significant tariff troubles. Neither index is pricing in much recession risk. What about bond yields?

10-yr yields: US Fed Govt (blue-4.29%) vs Canada 10-yr (red-2.98%) 12 mos

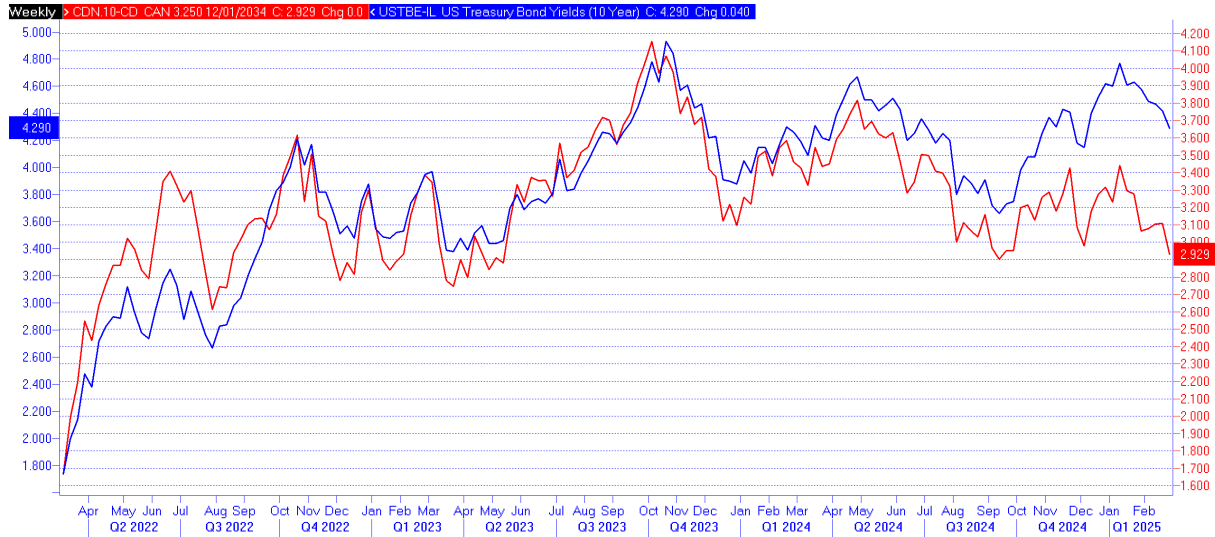


Source: Refinitiv, NBF, Hilberry

Neither set of yields are pricing in a rising risk of repayment. Both sets are pricing in falling inflation. Canada yields are pricing in a slower economy than the US. Either bond yields don't believe the Trump tariffs will stick, or they believe they'll prove hot air. Here's the same yield set over the past 3 years:



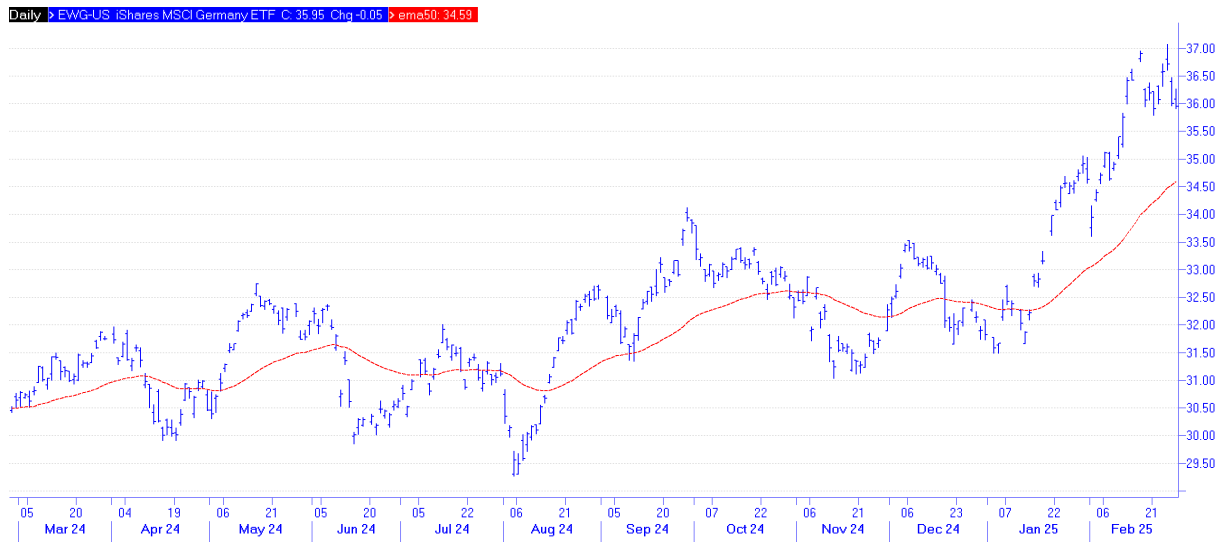
10-yr yields: US Fed Govt (blue-4.29%) vs Canada 10-yr (red-2.98%) 3 years.



Source: Refinitiv, NBF, Hilberry

Canadian yields have fallen since late 2023. These declines outpace the US, partially explaining the Loonie’s weakness. What about European equities?

iShares Germany Fund ETF (EWG-NYSE-\$35.96)

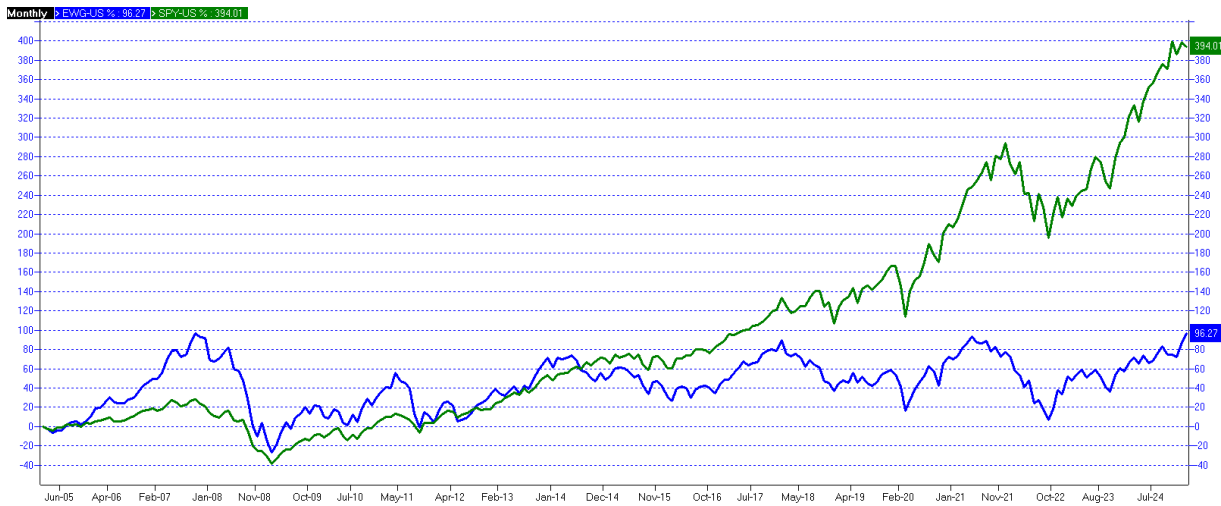


Source: Refinitiv, NBF, Hilberry

Germany’s stock market has been on fire lately. EURO investors aren’t pricing for disaster. It’s about time.

iShares Germany ETF (EWG-96%) vs S&P500 ETF (SPY-393%) % chg 10 years





Source: Refinitiv, NBF, Hilberry

Over the past 10 years, compared to Germany, Canada's TSX returns have been stellar. Recently German stocks have spiked HIGHER. Are investors pricing in a sea-change in European attitudes towards regulation, energy and defense (we're not convinced yet). German stocks are not pricing in tariff stress.

Trump and Zelensky news conference canceled after heated meeting

On Friday all eyes were on Washington as Ukrainian President Vladimir Zelensky visited President Trump. A meeting in the Oval Office descended into a shouting match on public television.

<https://www.cnn.com/politics/live-news/trump-zelensky-news-02-28-25/index.html>

While the Trump team's behavior is....surprising... Trump's repeated past support for Vladimir Putin made the outcome predictable.

US sides with Russia in UN resolutions on Ukraine BBC Feb 24, 2025

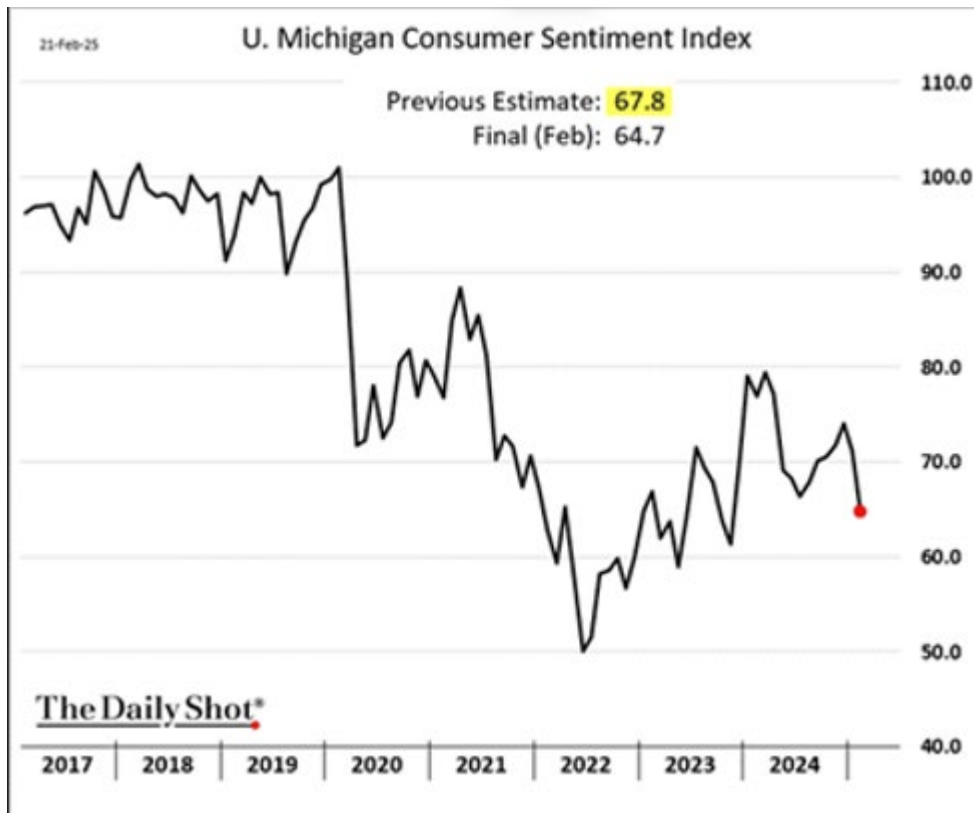
Ukraine's former minister of economy, Tymofiy Mylovanov, said the choice to side with Russia was deliberate. "This is no longer just rhetoric or political theatre," he said.

<https://www.bbc.com/news/articles/c7435pnle0go>

Markets took the Zelensky meeting in stride.

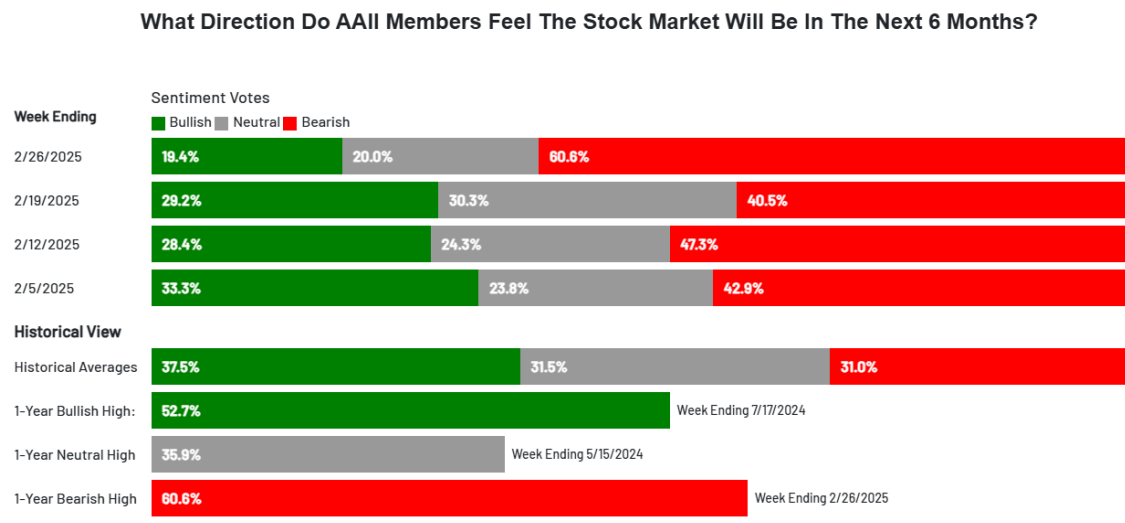
Recognize Extremes.

While markets appear sanguine, US Consumers are nervous. The University of Michigan’s updated US consumer sentiment index showed further deterioration in the latter half of February



Source: WSJ Daily Shot Feb 24, 2025_University of Michigan

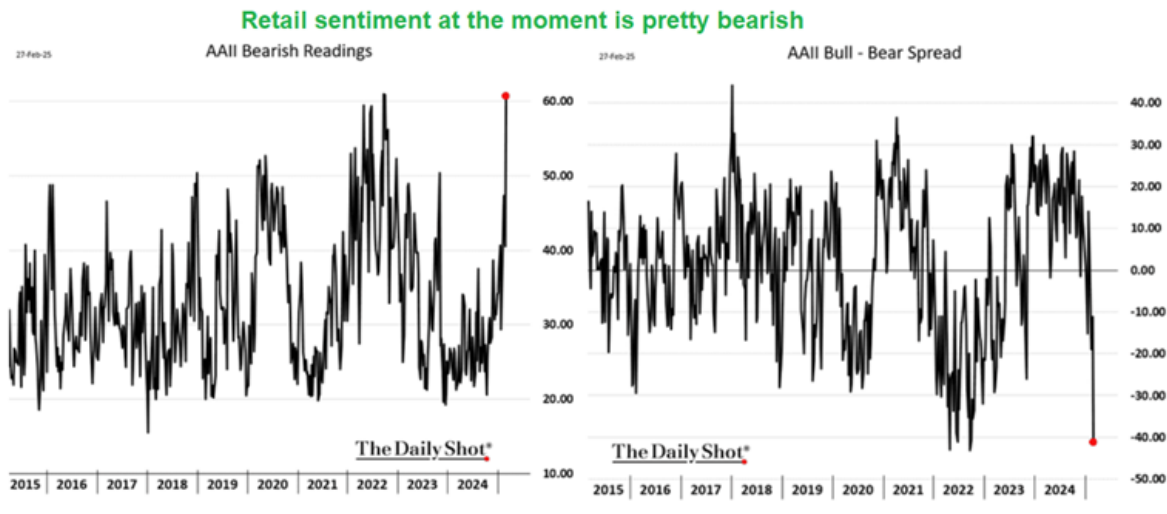
US retail investors are nervous. Bearish readings are now over 60.3%



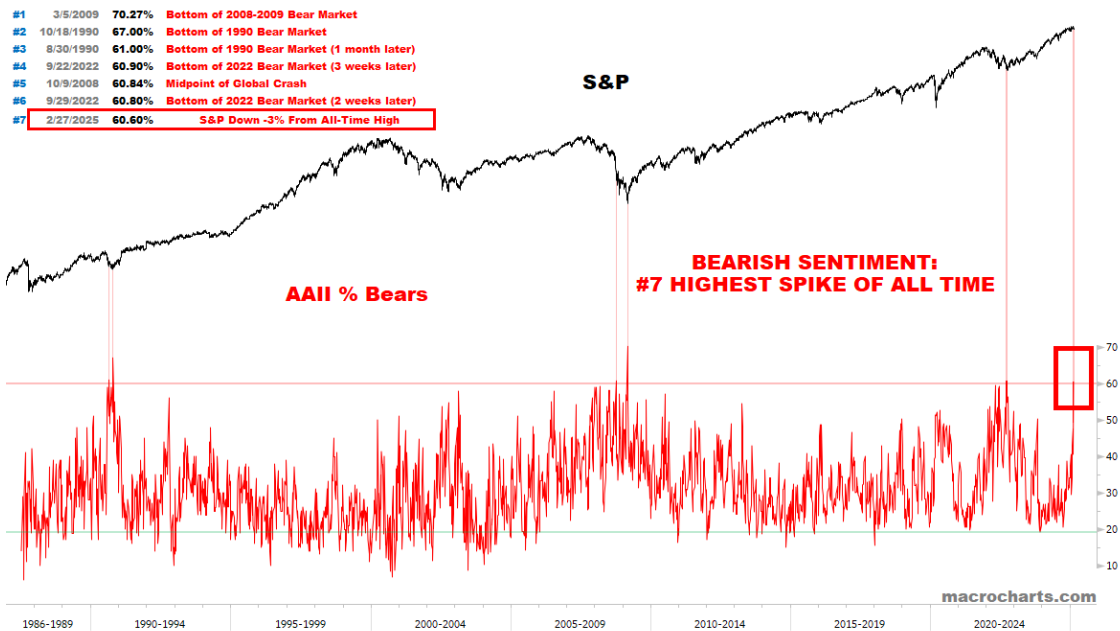
Source: AAll Week Feb 26, 2025



Current AAI Bear over Bull readings are at decade highs.



Source: WSJ Daily Shot Feb 26, 2025



Source: MacroCharts.Com Feb 24, 2025 on X

Now may not be the best time to sell.

As tempting as it is, we're keeping the finger off the SELL-ALL button.



Have a Great Weekend

Steve & Anna Hilberry



FOR THE RECORD Feb 27 2025 close

DOW INDUSTRIALS:	43,239
S&P 500:	5,861
S&P/TSX COMP:	25,128
WTI:	\$69.77
LOONIE IN \$USD:	\$0.6917 \$US

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