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Weekly Market Snapshot

For the week ending May 9, 2025

Equities

Local currency, price only, % change

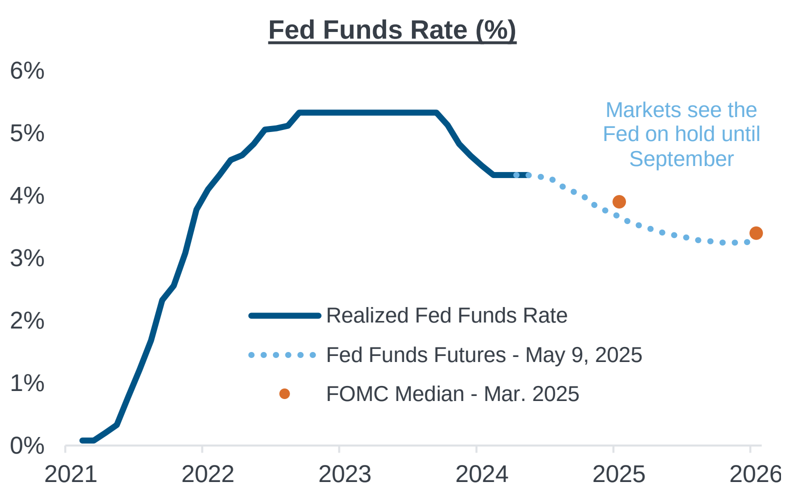
	2025-05-09	Week	QTD	YTD	1Y
S&P/TSX Composite	25,358	1.3%	1.8%	2.5%	13.3%
S&P/TSX Small Cap	829	3.9%	1.6%	1.9%	7.8%
S&P 500	5,660	-0.5%	0.9%	-3.8%	8.6%
NASDAQ	17,929	-0.3%	3.6%	-7.2%	9.7%
Russell 2000	2,023	0.1%	0.6%	-9.3%	-2.4%
UK FTSE 100	8,555	-0.5%	-0.3%	4.7%	2.1%
Euro Stoxx 50	5,310	0.5%	1.2%	8.5%	5.1%
Nikkei 225	37,503	1.8%	5.3%	-6.0%	-1.5%
MSCI China (USD)	72	0.5%	-2.0%	12.3%	19.6%
MSCI EM (USD)	1,138	0.5%	3.4%	5.9%	7.0%

Fixed income

Total return, % change

	2025-05-09	Week	QTD	YTD	1Y
FTSE Canada Universe Bond	1,182	0.4%	-0.9%	1.2%	7.3%
FTSE Canada All Corporate Bond	1,461	0.4%	-0.4%	1.4%	8.5%
Bloomberg Canada High Yield	193	0.3%	-0.2%	0.8%	6.1%

Chart of the week: Boxed in



Interest rates - Canada

Change in bps

	2025-05-09	Week	QTD	YTD	1Y
3-month T-bill	2.62	-2	0	-54	-226
GoC bonds 2 yr	2.53	-3	7	-40	-168
GoC bonds 10 yr	3.15	-2	19	-7	-47
GoC bonds 30 yr	3.47	-3	25	14	-4

Currencies and Commodities

In USD, % change

	2025-05-09	Week	QTD	YTD	1Y
CADUSD	0.718	-0.9%	3.3%	3.2%	-1.9%
US Dollar Index	100.34	0.3%	-3.7%	-7.5%	-4.6%
Oil (West Texas)	61.02	4.7%	-14.6%	-14.9%	-23.0%
Natural Gas	3.80	4.5%	-10.9%	13.8%	21.1%
Gold	3,325	2.6%	6.4%	26.7%	41.7%
Copper	4.65	-0.4%	-8.4%	13.7%	0.9%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	1.6%	-1.9%
Materials	5.8%	25.4%
Industrials	1.1%	-0.2%
Cons. Disc.	1.2%	3.4%
Info Tech	-2.3%	-6.2%
Health Care	-2.2%	-16.3%
Financials	0.7%	0.8%
Cons. Staples	-1.4%	2.5%
Comm. Services	5.7%	0.6%
Utilities	0.5%	6.4%
Real Estate	-0.5%	0.0%

*The Federal Reserve held its policy rate steady at 4.25%–4.50% last week, as Chair Jerome Powell signalled a cautious stance amid ongoing economic uncertainty tied to President Trump's sweeping tariffs. Powell's press conference highlighted the **risk of stagflation**—higher inflation and slower growth—driven by these "significantly bigger than expected" tariffs. With core inflation remaining well above the Fed's 2% target at 2.8% y/y and a strong April jobs report (+177k), **Powell described the economy as "in solid shape"** but noted rising risks to inflation and unemployment, placing the Fed's dual mandate of price stability and maximum employment "in tension." He noted that the first-quarter GDP contraction of 0.3% was largely due to a pre-tariff import surge, seeing no clear slowdown in current data.*

*The Fed continues to find itself in a holding pattern. Powell's message was clear: the bar for rate cuts remains high, and the Fed is "in a good position to wait." He reiterated a preference to "rather be late and cut quickly" than move too soon and risk misjudging inflation's persistence. This reinforces a data-dependent stance, where action will only follow clear signs of deterioration in hard data. All things considered, **the Fed's attention appears tilted toward the inflation side of its dual mandate, and a June cut is effectively ruled out at this junction, barring a disastrous May jobs report.***

*Meanwhile, the Bank of Canada (BoC) painted a much more fragile picture. Its latest Financial Stability Report warned that prolonged US tariffs and retaliatory Canadian measures could materially weaken domestic growth. That concern was validated by this week's softer payrolls print, **reinforcing expectations that the BoC is likely to resume cuts at its July 30 meeting,** especially if cross-border trade disruptions persist.*

*In short, both central banks appear boxed in by tariffs—but with different constraints. The Fed, wary of reigniting inflation, is likely to stay sidelined until hard data forces its hand. The BoC, by contrast, may have no choice but to act sooner to cushion Canada's more cyclical, and therefore vulnerable, economy. **For markets, monetary policy may no longer be the first responder to shocks. Investors should watch real-time indicators like trade flows and hiring trends—not just inflation prints—for a potential turning point.***

De-escalation Day

Global equities took a breather last week after completing their month-long round trip from the April 2 "Liberation Day" selloff. But markets surged Monday morning (May 12) after a breakthrough in US-China trade negotiations. Over the weekend, the two sides agreed to a 90-day mutual tariff reduction to ease tensions in their ongoing trade war, **marking the most substantial de-escalation since the trade war intensified last month**. The deal was struck in Geneva between US Treasury Secretary Scott Bessent and Chinese Vice Premier He Lifeng, responding to mounting economic pressure—Q1 US GDP contracted 0.3% in Q1 2025, while China's manufacturing sector shrank at its fastest pace in 16 months.

Under the agreement, China will reduce its tariffs on US goods from 125% to 10%, while the US will lower its tariffs on Chinese imports from 145% to 30%, partially reversing the sharp increases introduced last month. This is a significant step in supporting China's export-driven economy and maintaining its access to the US market.

The talks also touched on non-tariff barriers, though China made no formal commitment to relax export controls on rare earth minerals critical for semiconductors, green technology, and defense systems. Still, Beijing's decision to exempt certain US goods, such as microchips and pharmaceuticals, from tariffs indicates potential flexibility that could help ease global supply chain pressures. To support ongoing communication, both sides agreed to establish a bilateral economic and trade consultation mechanism. This mechanism aims to ensure regular dialogue and reduce the risk of future trade disruptions. **Treasury Secretary Bessent emphasized that "neither side seeks economic decoupling**," highlighting additional discussions on issues like fentanyl regulation and potential Chinese commodity purchases.

The US and China détente adds to the positive news on the trade front. **Earlier in the week, the US-UK announced a deal** to reduce tariffs on British automobile imports from 27.5% to 10% for up to 100,000 vehicles annually, eliminated 25% tariffs on UK steel and aluminum, and exempted British aircraft components. In return, the UK eliminated its 19% tariff on US ethanol and introduced a duty-free quota of 13,000 metric tons for US beef. Expected to boost US exports by $5 billion annually, the deal leverages the UK's trade deficit with the US to prioritize relief in automotive, steel, and aerospace sectors. **However, a 10% baseline US tariff on most UK goods remains.**

The agreement adds to what appears to be a growing shift in US trade policy. With the US and China agreeing to a 90-day mutual tariff reduction and establishing a bilateral consultation mechanism, and with Canadian Prime Minister Carney's visit to the White House highlighting continued North American dialogue, **the Trump administration seems to be pivoting from aggressive unilateralism toward conditional engagement.** However, it is important to note that **the baseline US tariff on imports—even for allies like the UK— begins at 10%.** Meanwhile, tariffs on Chinese goods remain steep, at 30%, underscoring that while the tone may be softening, the administration's stance on China remains hawkish. **The key question for markets now is whether the damage from months of uncertainty has already been done.** Soft economic data — including consumer sentiment and purchasing manager surveys — has already turned lower. **Whether that deterioration begins to show up in hard data, such as employment and business investment, will be critical in determining the durability of the recent recovery in equities.**

The week in review

- US Federal Reserve holds rates steady. Chair Powell reiterates "wait and see" approach amid tariff uncertainty.
- Canadian employment (Apr.) rose 7.4k (versus 5.0k expected), after the prior month's -32.6k decline. The silver lining was job losses were all from part-time positions (-24.2k), as full-time jobs were rose (+31.5k). The unemployment rate rose to 6.9% from 6.7%, while the participation rate ticked higher to 65.3% from 65.2%.
- US ISM Services Index (Apr.) improved to 51.6 (versus 50.2 expected), up from 50.8 in the prior month.
- The US trade deficit (Mar.) expanded to a record US$140.5 billion (versus US$137.2 billion expected), from a US$123.2 billion deficit in the prior month as company's rushed to front-load expected tariffs..
- US nonfarm productivity (Q1) fell -0.8% q/q (in line with expectations), after the prior quarter's 1.7% gain.
- The Bank of England reduced interest rates by 25 basis points as anticipated, emphasizing that additional easing will proceed cautiously. Five Monetary Policy Committee members supported the decision, with two favouring a 50-basis-point cut and two for holding rates unchanged.
- The People's Bank of China (PBoC) announced significant supportive measures to support growth amid escalating trade concerns. The PBoC announced it will cut its seven-day reverse repo rate by 10 bps to 1.4%. The Bank will also reduce its reserve requirement ratio for major banks by 50 bps to 9%.
- China's trade surplus (Apr., US$ terms) narrowed to $96.2 billion from $102.6 billion in the prior month. Chinese exports decelerated to 8.1% y/y from 12.4%, while imports are -0.2% lower versus a year ago.

The week ahead

- US CPI report
- Canadian housing data
- US retail sales, industrial production and housing data
- China GDP, CPI, industrial production and aggregate yuan financing data
- Eurozone GDP, industrial production data
- Eurozone trade data
- UK employment data
- 11 S&P 500 and 30 S&P/TSX companies report earnings