MACKENZIE Investments

Justin Truong, CFA
Investment Strategy
justin.truong@mackenzieinvestments.com

Weekly Market Snapshot

For the week ending May 16, 2025

Equities

Local currency, price only, % change

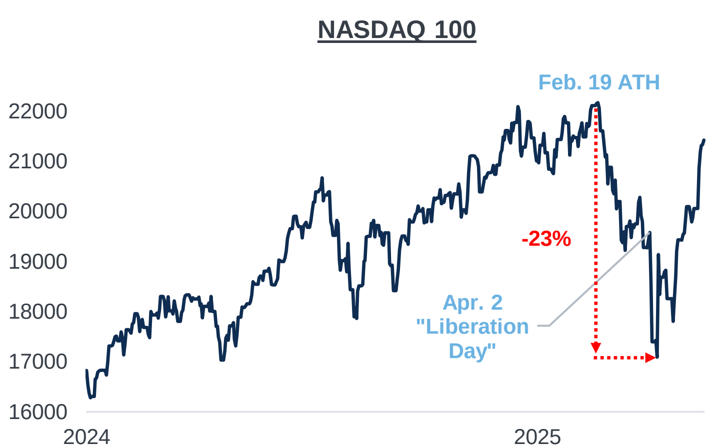
	2025-05-16	Week	QTD	YTD	1Y
S&P/TSX Composite	25,972	2.4%	4.2%	5.0%	16.5%
S&P/TSX Small Cap	829	-0.1%	1.5%	1.8%	7.2%
S&P 500	5,958	5.3%	6.2%	1.3%	12.5%
NASDAQ	19,211	7.2%	11.1%	-0.5%	15.0%
Russell 2000	2,113	4.5%	5.0%	-5.2%	0.8%
UK FTSE 100	8,685	1.5%	1.2%	6.3%	2.9%
Euro Stoxx 50	5,428	2.2%	3.4%	10.9%	7.0%
Nikkei 225	37,754	0.7%	6.0%	-5.4%	-3.0%
MSCI China (USD)	74	2.0%	-0.1%	14.6%	16.9%
MSCI EM (USD)	1,172	3.0%	6.4%	9.0%	6.7%

Fixed income

Total return, % change

	2025-05-16	Week	QTD	YTD	1Y
FTSE Canada Universe Bond	1,184	0.1%	-0.7%	1.3%	6.9%
FTSE Canada All Corporate Bond	1,465	0.3%	0.0%	1.8%	8.4%
Bloomberg Canada High Yield	194	0.5%	0.3%	1.3%	6.4%

Chart of the week: Let’s make a deal



Interest rates - Canada

Change in bps

	2025-05-16	Week	QTD	YTD	1Y
3-month T-bill	2.58	-2	-4	-58	-228
GoC bonds 2 yr	2.53	0	7	-40	-166
GoC bonds 10 yr	3.17	2	20	-6	-39
GoC bonds 30 yr	3.49	2	26	16	7

Currencies and Commodities

In USD, % change

	2025-05-16	Week	QTD	YTD	1Y
CADUSD	0.716	-0.2%	3.0%	3.0%	-2.5%
US Dollar Index	101.09	0.8%	-3.0%	-6.8%	-3.2%
Oil (West Texas)	62.49	2.4%	-12.6%	-12.9%	-21.1%
Natural Gas	3.33	-12.1%	-21.7%	0.0%	2.3%
Gold	3,204	-3.6%	2.6%	22.1%	34.8%
Copper	4.59	-1.3%	-9.6%	12.3%	-3.6%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	1.1%	-0.9%
Materials	-5.6%	18.4%
Industrials	6.1%	5.9%
Cons. Disc.	4.3%	7.8%
Info Tech	11.2%	4.3%
Health Care	2.2%	-14.5%
Financials	3.4%	4.3%
Cons. Staples	-0.4%	2.0%
Comm. Services	-2.1%	-1.5%
Utilities	0.0%	6.4%
Real Estate	2.1%	2.1%

Just like that, President Donald Trump has flipped the market narrative on its head. A week ago, tariff uncertainty, which initially triggered a near 20% equity drawdown from the February highs, remained the sole focus for investors. ***Last week, following a breakthrough trade deal with China, Trump turned to the Middle East.*** *Joined by over 25 US tech CEOs—including Nvidia’s Jensen Huang, OpenAI’s Sam Altman, and Amazon’s Andy Jassy—Trump secured over $1 trillion in Gulf investments from Saudi Arabia, Qatar, and the UAE, focused on AI, defense, and infrastructure, supercharging the sharp recovery in equities from the April 9 market lows.*

Saudi Arabia’s $600 billion package included Nvidia, Amazon, and AMD partnerships for its Humain AI initiative, with Nvidia supplying 18,000 Blackwell chips initially and hundreds of thousands over five years to advance Vision 2030. Qatar committed ~$240 billion, including $96 billion for Boeing jets and $10 billion for a US military base. The UAE’s $200 billion deal featured an AI data center with 500,000 Nvidia H100 chips annually starting in 2025—100,000 for G42, the rest for US firms like Microsoft. ***These agreements positioned the Gulf as a US tech hub, driving the S&P 500, Dow, and Nasdaq to their strongest week since April 11, 2025.***

In a speech in Riyadh, Trump hailed a “great transformation” in the region and progress in US-Iran nuclear talks. While Tehran pushed back—Stating its right to enrich uranium is non-negotiable—it confirmed that negotiations with the US would continue. The fact that both sides are engaging signalled a potential step toward geopolitical stability in the region. Speculation around a possible Russia-Ukraine peace deal added to the optimism. Together, these diplomatic advances could help anchor inflation expectations, especially if oil remains anchored near ~$60/bbl.

Still, risks loom. Relaxed AI chip export controls raise concerns about US technology rerouting to China. Meanwhile, the effective US tariff rate—up from ~2% to 15% despite recent deals, and rising Treasury yields (see below) could threaten future market gains. ***Even so, Trump’s rapid-fire deal-making—from the UK to China to the Gulf—has meaningfully improved the outlook for growth and risk assets compared to just a week ago.***

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One Big Beautiful Bill

Global equities surged after President Trump's abrupt pivot from tariffs to his pro-business agenda. Following back-to-back trade agreements with the UK and China, momentum accelerated after Trump secured over $1 trillion in Middle East investment pledges. **This propelled US big tech back to the forefront of global markets,** as the Nasdaq surged ~7% (see chart comments for more). However, the recent equity rebound has come at the cost of bonds. The 10- and 30-year Treasury yields climbed another ~10 bps last week to 4.5% and 5.0% levels, respectively, as growth optimism collided with fiscal concerns (more below).

At first glance, April's US inflation data was excellent. Headline CPI rose a modest 0.2% m/m, nudging the annual rate down to 2.3% y/y, the slowest since early 2021. Meanwhile, core inflation, excluding food and energy, rose 0.24% m/m, holding the annual rate at 2.8% y/y. Meanwhile, producer prices (PPI) fell sharply, down -0.5% m/m. On the surface, these numbers suggest further progress on inflation cooling. However, the details of the report suggest last month's relief in prices could prove temporary.

First, the decline in producer prices were driven by shrinking margins, suggesting companies have been absorbing some of the hit from higher tariffs rather than passing them on to consumers thus far. **This raises a critical question: how long can businesses continue absorbing rising input costs before passing them on?** Potential answers are already emerging. Walmart, citing tariffs and mounting cost pressures, announced plans to hike prices soon, noting that the recent 90-day tariff reduction deal with China—lowering US levies to 30%—offered minimal relief. April's CPI data reflect this, with President Trump's "Liberation Day" tariffs (initially 145% on Chinese goods) driving prices higher in furniture, appliances, audio equipment, and sporting goods. Meanwhile, deflation in services like airfares and hotels offset these price gains, keeping overall inflation in check for now.

Consumer behaviour is starting to reflect strain. April retail sales grew a mere 0.1%, a steep drop from March's 1.7% surge. The control group for retail sales, excluding autos and gas, slipped -0.2%, signalling weaker discretionary spending. This pullback, likely driven by inflation fatigue, higher borrowing costs, and tariff uncertainty, aligns with broader disinflationary trends in services. About 40% of core CPI categories saw price declines in April, up from 34% in March, with groceries and recreational services leading the way as consumers grew more cost-conscious. Together, these signals hint at stagflationary undercurrents. **While headline inflation is easing, cost pass-through may have only just begun if we use Walmart as a gauge.** The Fed is expected to stay cautious, with markets pushing out expectations for the next Fed cut to October.

While equities enjoyed the reprieve on tariffs, long-end US yields are taking the brunt. Driving rates higher are reduced recession fears, renewed concerns over the US fiscal deficit, and a US credit downgrade.

The surge in yields kicked off with a 90-day US-China tariff rollback, sparking hopes for global growth. Momentum gained steam after President Trump's >$1 trillion Middle East investment deals and his May 14 Riyadh speech, where he hinted at a US-Iran nuclear deal. Yet, bond markets zeroed in on US fiscal policy as the Trump administration shifted from trade hawkishness to sweeping tax reform. The proposed "One Big Beautiful Bill," extending 2017 tax cuts, scrapping taxes on tips and overtime, expanding the child tax credit, and boosting defense spending, could add $3–5 trillion to the deficit over a decade. With the FY2025 deficit already topping $1 trillion, bond markets are pricing in risks of even bigger structural deficits, pushing yields—particularly on the long end—higher.

On Friday, Moody's added fuel to the fire, downgrading the US from Aaa to Aa1, aligning with S&P and Fitch, citing the lack of a credible fiscal plan. It projected the deficit could hit 9% of GDP by 2035, with interest payments consuming nearly a third of revenue. Despite reassurances from Treasury Secretary Scott Bessent, the widening spread between short- and long-term yields siganlled investor unease.

Bottom line: Trade deals and diplomacy have reignited growth hopes, but **rising yields and fiscal instability now pose the biggest risks to markets.** Without clarity on inflation and spending, **equity valuations may come under pressure if longer-term yields continue to move higher.**

The week in review

- US CPI inflation (Mar.) rose 0.2% m/m (versus 0.3% expected), lowering the annual pace to 2.3% y/y from 2.4% in the prior month. Core consumer prices also rose 0.2% m/m (versus 0.3% expected), maintaining the annual pace at 2.8% y/y. Producer price inflation (PPI) fell -0.5% m/m, dragging the annual pace down to 2.4% y/y from 3.0% in the prior month.
- US President Trump secures $600 billion investment in the US from Saudi Arabia.
- President Trump announces plans to lift Syria sanctions.
- Canadian existing home sales (Apr.) were largely flat, down -0.1% m/m seasonally adjusted (versus 1.0% expected), after the prior month's -4.8% drop. Sales are now down 9.8% y/y from a year ago. The national sales-to-new listing ratio inched up to 46.8%, but remains near the lows of 2009. The MLS Home Price Index is down -1.2% m/m in seasonally adjusted terms, marking the eighth decline in the past 10 months. Meanwhile, housing starts rose 279k (versus 226k expected), up from 214k in the prior month.
- US retail sales (Apr.) were largely flat, up 0.1% m/m (versus 0.0% expected), following an upwardly revised 1.7% gain in the prior month. Sales are still up 5.2% y/y over the past year. The control group (an input for PCE) saw a -0.2% m/m decline, suggesting a further downshift in consumer spending to start Q2.
- US industrial production (Apr.) was flat m/m (versus 0.1%% % expected), after a -0.3% decline in the prior month. However, production remains 1.5% y/y higher over the past year. US housing starts (xx.) jumped 12.2% m/m to 1.58 million (versus 1.45 million expected), following a downwardly revised to 1.40 million. Building permits fell (-10.0% m/m versus -4.8% expected).
- Eurozone industrial production (Mar.) rose 2.6% m/m (versus 2.0% expected), raising the annual pace to 3.6% y/y from a downwardly revised 1.0%.
- China's aggregate yuan financing (Apr.) accelerated to ¥16.3 trillion (versus ¥16.6 trillion expected), up from ¥15.2 trillion. New loans also rose to ¥10.1 trillion (versus ¥10.5 trillion expected), up from ¥9.8 trillion. M2 Money Supply (Apr.) accelerated to 8.0% y/y from 7.0% in the prior month

The week ahead

- Canadian CPI and retail sales data
- US housing data
- Chinese industrial production and retail sales data
- Japanese CPI and trade data
- Eurozone CPI and consumer confidence data
- UK inflation and retail sales data
- G7 Finance Ministers and Central Bank Governors Meeting
- Reserve Bank of Australia monetary policy announcement