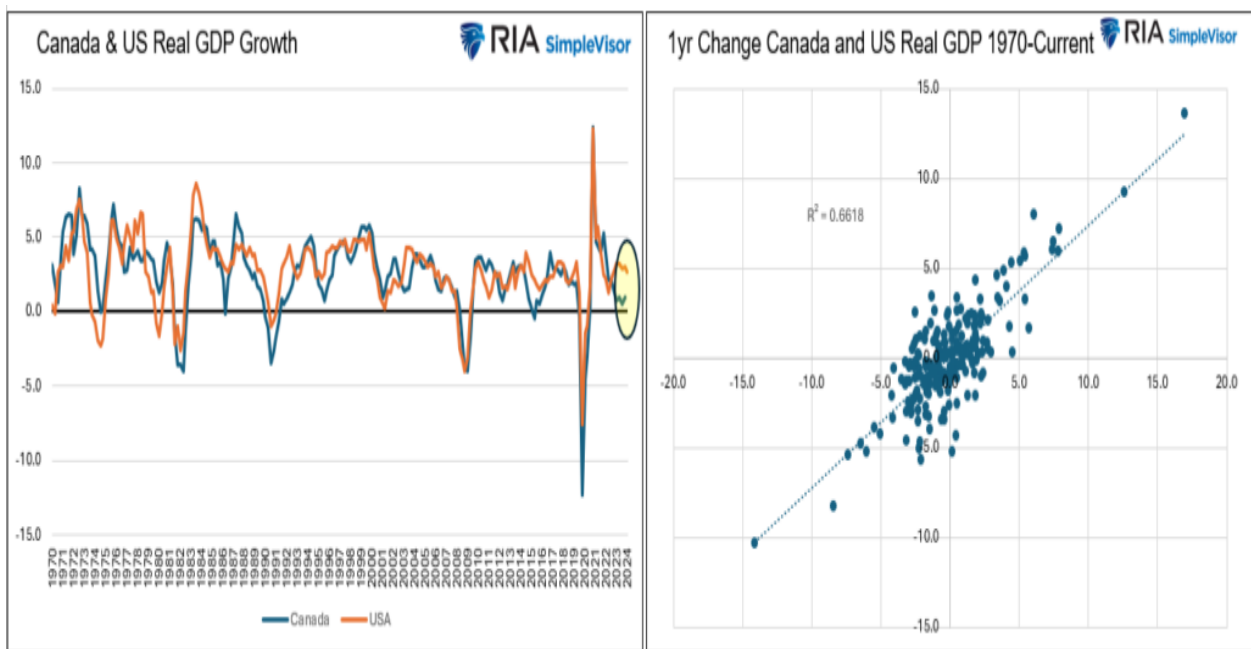


# Is Canada A Canary In The Economic Coalmine?

On Wednesday, the Bank of Canada cut its key benchmark rate by 50bps. They have now cut by 150 bps in 2024, compared to what will likely be 100 bps for the Fed after next week's meeting. Unlike the Fed, Canada's central bank is fighting off a recession. Canadian real GDP for the last four quarters has been below 1%. Its unemployment rate troughed in January 2022 at a fifty-year low of 4.9%. However, since then, it has risen steadily to 6.8%. The Canadian dollar has been trading at its lowest levels compared to the US dollar since 2016 (excluding the pandemic).

We should pay attention because the U.S. economy and Canada are extremely closely linked despite being different. The biggest differentiator is that Canada's economy relies much more heavily on commodities and manufacturing, while the U.S. is more service-sector-oriented. Despite the differences, there has been a historically tight economic relationship between Canada and the US, as shown below.

Is Canada's recent slumping economy a warning for U.S. investors? Conversely, should we ignore it, assuming that Canada's reliance on commodities and manufacturing, which are also in a slump in the U.S., is solely to blame for the recent divergence?



## What To Watch Today

### Earnings

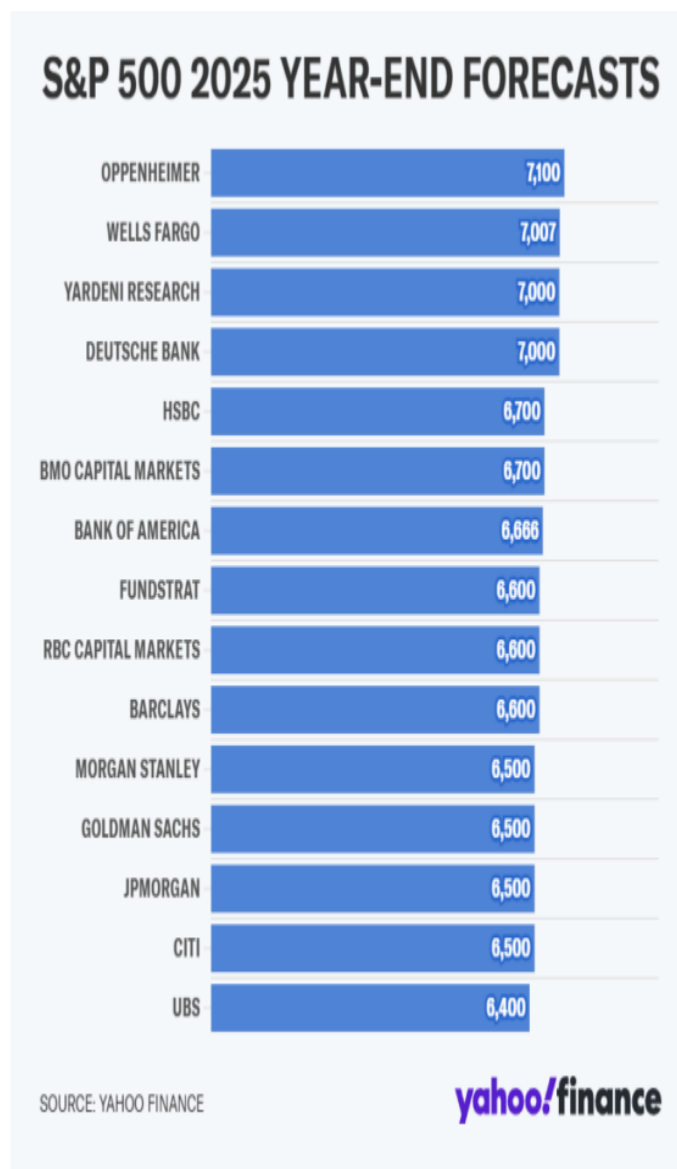
- *No earnings reports today.*

### Economy

Friday December 13 2024			Actual	Previous	Consensus	Forecast
07:30 AM	US	Export Prices MoM NOV		0.8%	-0.2%	0.9%
07:30 AM	US	Import Prices MoM NOV		0.3%	-0.2%	0.2%
07:30 AM	US	Export Prices YoY NOV		-0.1%		0.4%
07:30 AM	US	Import Prices YoY NOV		0.8%		1%

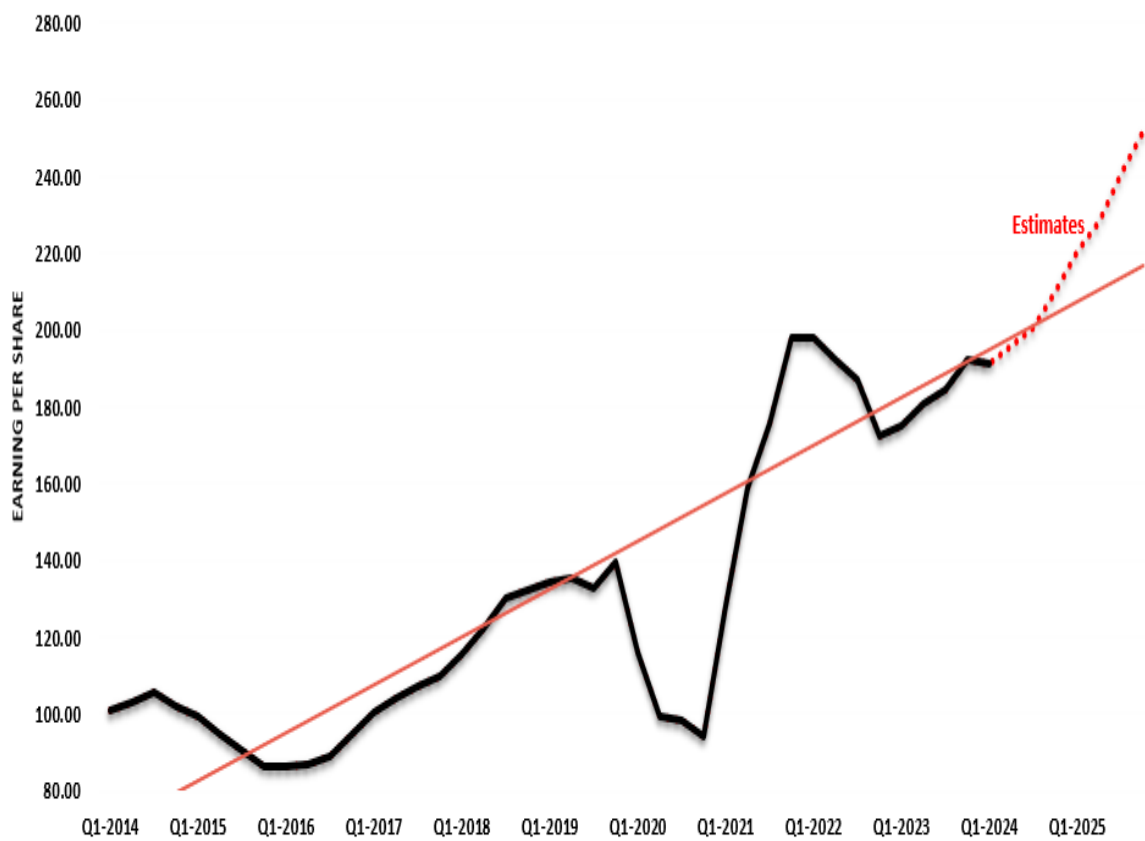
## Market Trading Update

[Yesterday, we discussed the exuberance](#) in the latest NFIB report. It isn't just small business owners who are optimistic; it is analysts as well. The stock market has had a remarkable return this year, with the Magnificent 7 doing the bulk of the work. Such has pushed Wall Street analysts to become more bullish with their outlooks, with every analyst predicting higher returns next year. While nothing is wrong with those outlooks, we must remember that those gains come on top of two years of exceptionally strong returns in an environment of high valuations, elevated interest rates, and inflation.



Earnings forecasts, as discussed in this past weekend's [#BullBearReport](#), are also very optimistic, with expectations well above the long-term trend growth of earnings over time.

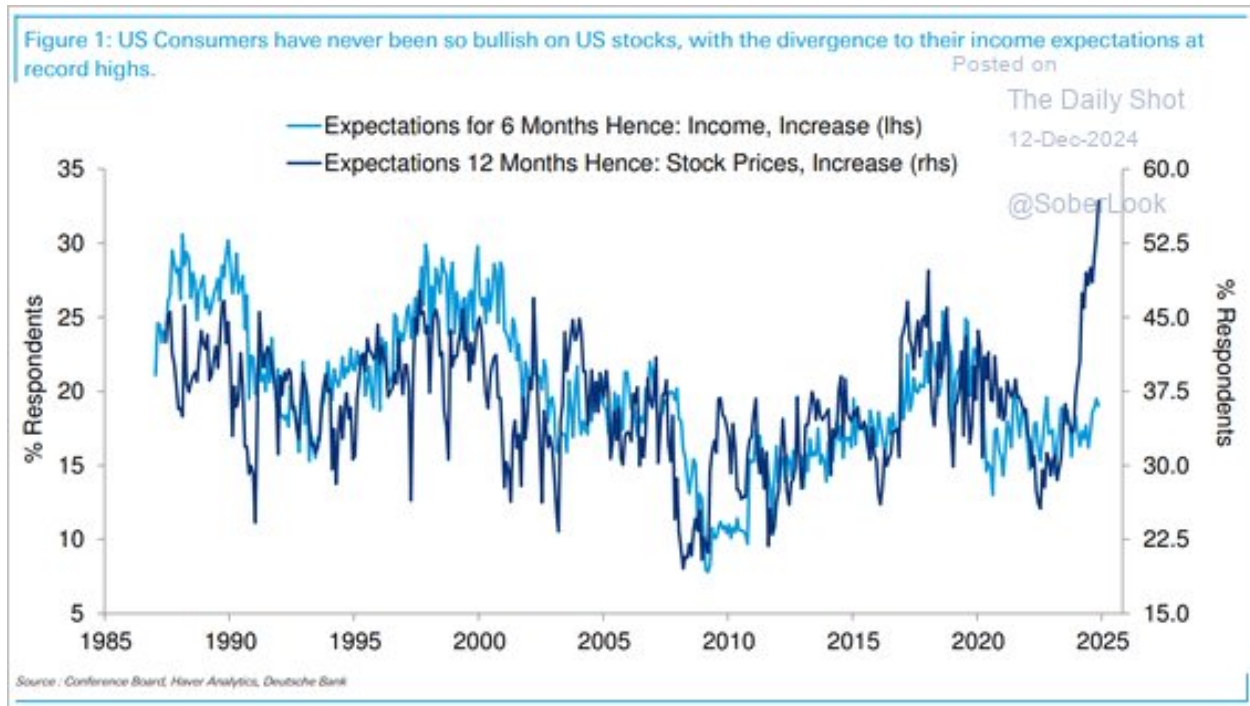
# Earnings Forecast Remain Very Optimistic



Source: S&P 500 Index Earnings Estimates

..... 12/1/2024    — 12/1/2024    — Linear (12/1/2024)

Add to that consumer confidence in higher stock prices over the next 12 months, and you can start to visualize our concerns about 2025, where the markets may have difficulty living up to expectations.



As we head into year-end, we are considering our current portfolio positioning and what risks may derail those more optimistic outlooks for 2025. From a purely technical perspective, on a longer-term basis, the market is very deviated, extended, and overbought. Historically, this has not worked out well and eventually led to a short-term correction or bear market. While there is always the possibility that this time could be different, we would be remiss in not considering the possibility that it isn't.



Trade accordingly.

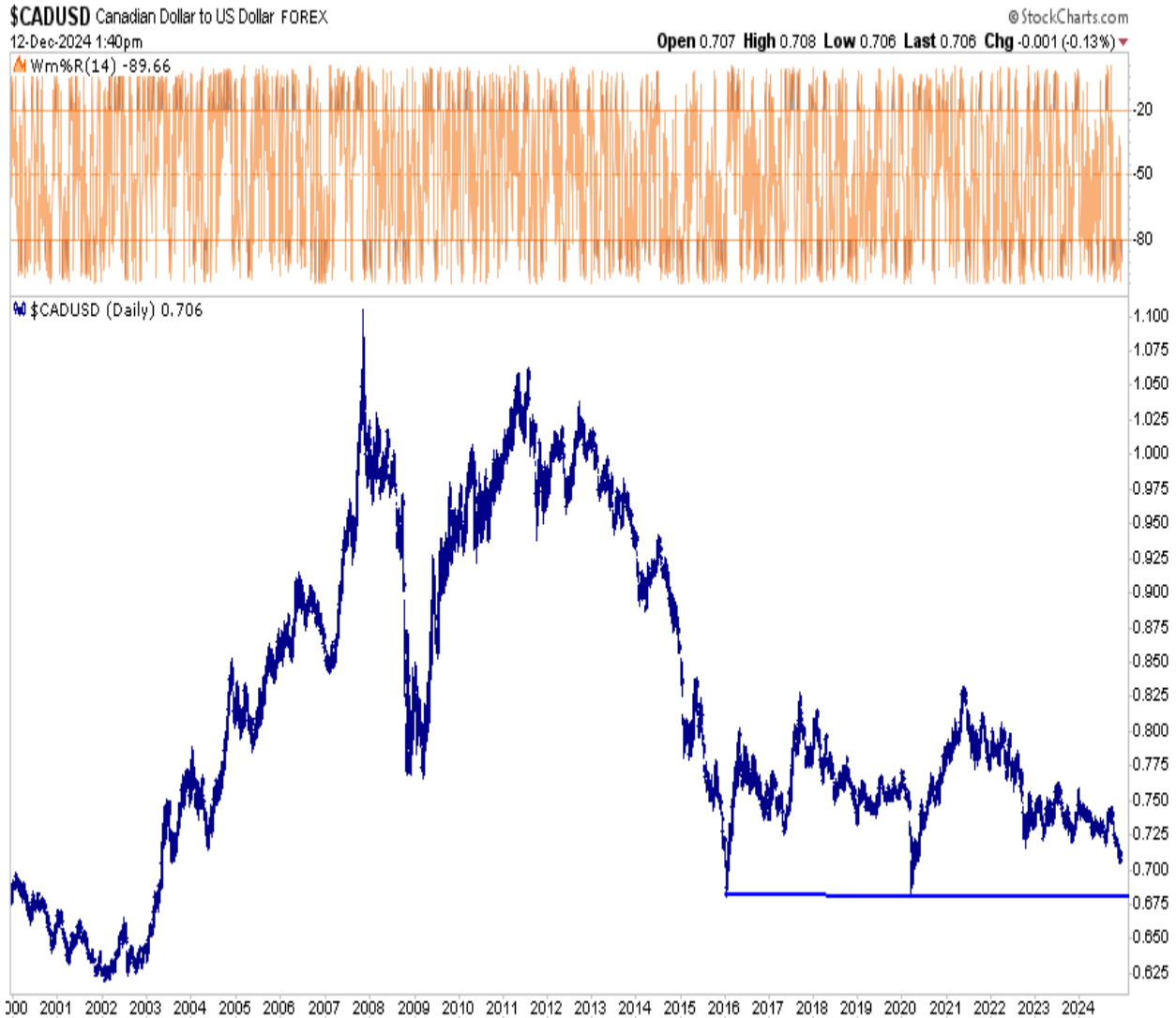
## U.S. vs. Canada

There is an escalating feud between Canada and the U.S. over tariffs. The Ontario Province Premier, Doug Ford, said his province might stop exporting oil, electricity, steel, and many other metals and minerals to the U.S. Ford's harsh comments are likely a staunch negotiation tactic to try and get the Trump administration to back off on tariffs. Per AP, Doug Ford stated:

*?We will use every tool in our tool box to fight back. We can?t sit back and roll over. We just won?t as a country. And isn?t this a shame, our closest friends and allies.? -Doug Ford*

Prime Minister Trudeau admits that tariffs on Canada would be "absolutely devastating." However, he also knows that Canada has some leverage, which, if forced to counter tariff actions, can create some hardships for the U.S., albeit not nearly as severe as in Canada.

This is what ugly negotiations broadcast over the media look like. If the verbal battle rages and potentially escalates, the markets may take notice. If you recall, the S&P 500 did not fare well in 2018 as tariffs were imposed. The graph below shows the Canadian dollar is near the lower end of its 25-year range. Breaking that range could be problematic for Canada, so they must balance rhetoric with amicable negotiations.



## Richard Rosso's Top 2025 Reads and Gift Idea

On many weekends, I can be found nose-deep in dusty volumes that rot on used bookstore shelves. Or I'll rummage through boxes in poorly-lit corners of small-town Texas antique stores in search of books written, in many instances, over 100 years ago by authors most of us never knew existed.

The following books made the most significant impact on me, although I could share ten titles!

My top 2025 reads may take a while to finish. Many of the topics are heady, and the volumes are thick. However, I assure you the following selections will please and teach you a few things.

And with that, here you go:

[READ MORE?](#)





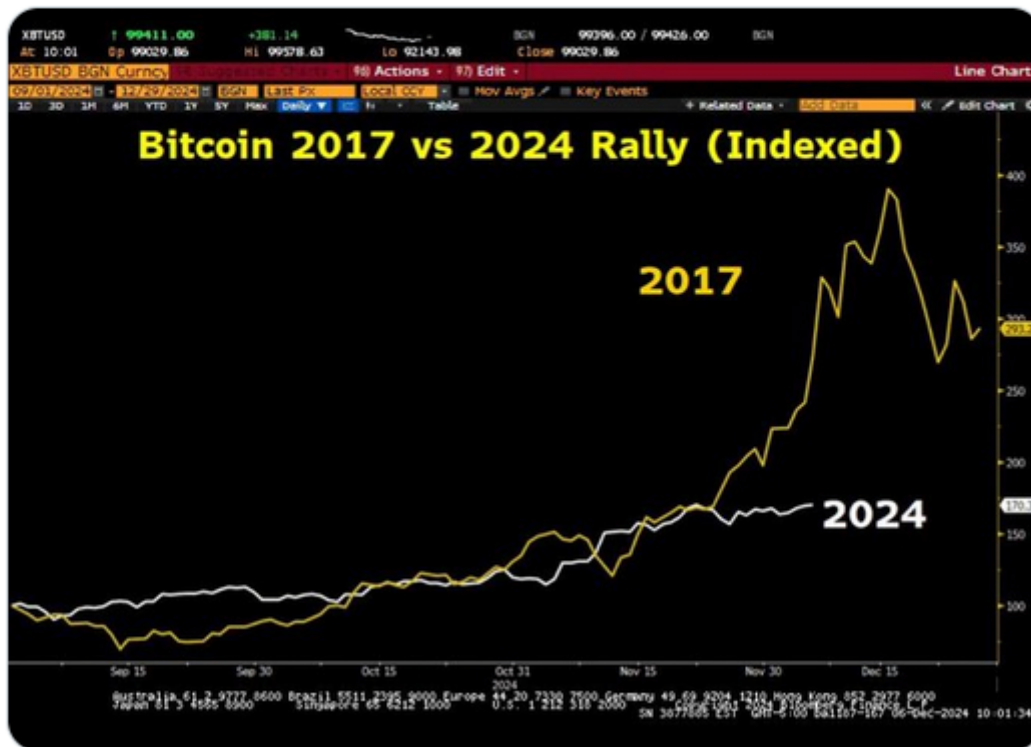
---

## Tweet of the Day



**Lawrence McDonald** @Convertbond · 8h

Seven years ago almost to the day — Never, ever forget. Bitcoin lost 70% of its value in just TWO months (December 2017 to February 2018). Opportunities ahead.



?Want to achieve better long-term success in managing your portfolio? Here are our [15-trading rules for managing market risks.](#)?

---

Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.

*If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.*