

The Bridge

From the Office of the CIO

Weekly Market Tides

Weekly Market Tides: Trends to Watch

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Stocks retreat after last week's records, a Canadian dollar recovery, and rising long-term rates

1. Equities have eased following last week's record highs

After starting last week on a pause, equities recovered to reach fresh record highs before slipping again this week. In the U.S., the S&P 500 and Dow each fell 0.5% to start the week, and tech stocks have come under additional pressure with the Nasdaq falling more than 1% in early trading today. European and Asian markets have been mixed. Several factors have weighed on sentiment. The U.S.–Iran memorandum of understanding expired at the start of the week. Since then, President Trump has warned he would apply further pressure if any party interferes with U.S. plans for the Strait of Hormuz. Brent crude prices have risen to their highest level in more than two weeks in response. Long-term U.S. interest rates have also continued to climb, with the 30-year Treasury yield reaching its highest level since 2007. Higher long-term rates raise borrowing costs for companies and consumers and can put pressure on stock valuations. On a more constructive note, July U.S. inflation data released last Wednesday was tame, with headline CPI rising 0.1% for the month and easing to 3.4% annually. The Federal Reserve's next decision is next month, and the tame July print left rate-hike expectations well below where they stood a month ago. Looking ahead, major U.S. retailers including Home Depot, Target, Lowe's, and Walmart report second-quarter results this week, offering a fresh read on consumer spending. The Federal Reserve also releases minutes from its July 28–29 meeting on Wednesday, and new U.S. tariffs on some Canadian goods are scheduled to take effect on August 19.

2. The Canadian dollar has bounced back despite the tariff backdrop

The Canadian dollar has strengthened over the past few weeks, reversing much of the pressure it was under earlier in the summer. Speculators had built the largest bearish positioning against the loonie since late 2024 in the weeks leading up to the new tariff announcement, and the currency touched its weakest level since April 2025 in late July. It is now trading near 1.39 per U.S. dollar, its strongest level in about two months and its third consecutive weekly gain. The recovery reflects several factors. Canadian economic data has come in stronger than expected, including a Q2 GDP rebound tracking around 3.4% annualized, well above the Bank of Canada's forecast, and July employment that beat expectations by a wide margin. U.S. data has been softer, with the July jobs report showing a decline in nonfarm payrolls and July retail sales falling more than expected. That combination has narrowed the interest rate gap between Canada and the U.S. and pulled some capital back into the loonie. New 50% U.S. tariffs on some Canadian exports are scheduled to take effect just after midnight on August 19 and would cover roughly \$20 billion of Canadian goods, or about 5% of Canadian goods exports to the U.S. each year. Last-minute negotiations are underway, with Prime Minister Mark Carney describing recent talks with President Trump as "very intense and delicate." The U.S. also announced earlier this summer that it would not renew CUSMA in its current form, though about 90% of Canadian exports continue to move under CUSMA rules without new duties, so the direct impact would be concentrated in a smaller number of sectors. The currency market's willingness to move past the initial tariff pressure suggests investors have come to view the direct impact as manageable, and for now, stronger Canadian fundamentals and softer U.S. data have outweighed that concern.

3. Long-term interest rates keep rising, even as short-term rates ease

There has also been meaningful movement in the bond market recently. The 30-year U.S. Treasury yield reached its highest level since 2007 earlier this week. The 10-year rate also moved higher, and at last week's auctions the U.S. government paid the highest borrowing costs in nearly two decades to raise long-term debt. What makes this notable is that shorter-term interest rates have been moving lower over the same period, and recent U.S. inflation and jobs data have been softer than expected. Normally, when inflation and growth cool, long-term rates would ease as well. Instead they have been rising, which suggests investors are focused on a different set of concerns. Three factors help explain the move: the U.S. government continues to borrow at a rapid pace, with the deficit projection recently raised to \$2.1 trillion; inflation has been above the Federal Reserve's 2% target for five consecutive years; and corporate borrowing to fund AI infrastructure has added to the volume of long-term debt being issued. This is not just a U.S. story. Canadian and German long-term bond yields have also reached multi-year highs. For investors, higher long-term interest rates matter beyond bond portfolios. They translate into higher mortgage rates, higher borrowing costs for companies, and can put pressure on stock valuations.

Bottom line for investors

The past week captured a market with several distinct stories playing out at once. U.S. equities remain near record levels despite pulling back this week, corporate earnings have been strong, and inflation has moderated. The Canadian dollar has staged a notable recovery on stronger domestic data and softer U.S. data, even as new U.S. tariffs on some Canadian goods are scheduled to take effect on August 19. And in the bond market, long-term interest rates continue to push higher on concerns about government borrowing, inflation persistence, and the financing needs of the AI buildout.

The message for portfolios remains consistent. Diversification across sectors, regions, and asset classes helps steady returns during periods of broader market stress.

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