

On animal spirits (or the lack thereof)

By Warren Lovely & Taylor Schleich

Barely a month has passed since the U.S. election, yet it's hard to overstate the relative shift in sentiment on either side of the 49th parallel. Setting aside partisan politics, the economic mood in America has brightened. The first read on the *NFIB Small Business Optimism Index* since the election was telling. As per the official release:

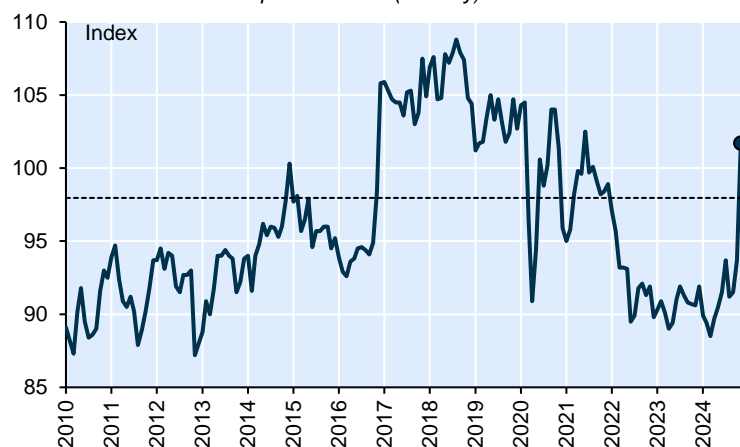
"The NFIB Small Business Optimism Index rose by eight points in November to 101.7, after 34 months of remaining below the 50-year average of 98. This is the highest reading since June 2021. Of the 10 Optimism Index components, nine increased, none decreased, and one was unchanged. Following last month's record high of 110, the Uncertainty Index declined 12 points in November to 98." — NFIB

Confidence up... uncertainty down... must be nice. For in Canada, the opposite seems to hold, consistent with a weak domestic economy and the fresh spectre of catastrophic Trump tariffs. Northern businesses are no doubt angsty, although we'll await confirmation via the CFIB's next Business Barometer report (promised before Christmas Day).

In the meantime, the Bloomberg Nanos Canadian Confidence Index

Chart 1: US small businesses are more confident...

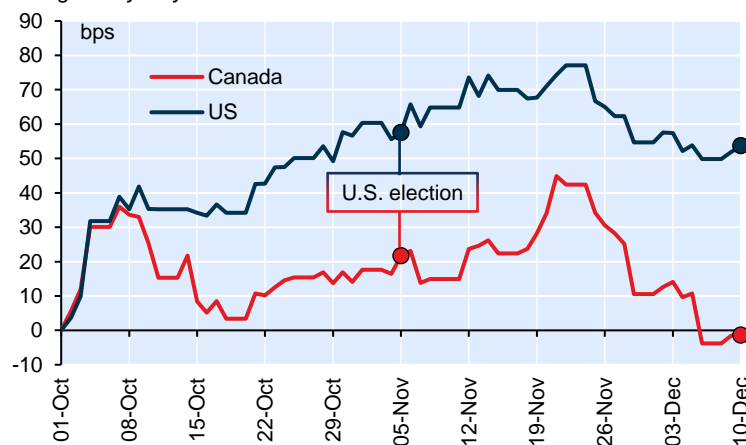
US NFIB Small Business Optimism Index (monthly)



Source: NBC, BBG, NFIB | Note: Dotted line is 50-year average (98)

Chart 3: Canadian outperformance continues post-election...

Change in 2-year yields since 1-Oct: Canada and U.S.



Source: NBC, BBG

provides a window into consumer's psyche. Here, nervousness and apprehension are building. As per the latest weekly release on Monday:

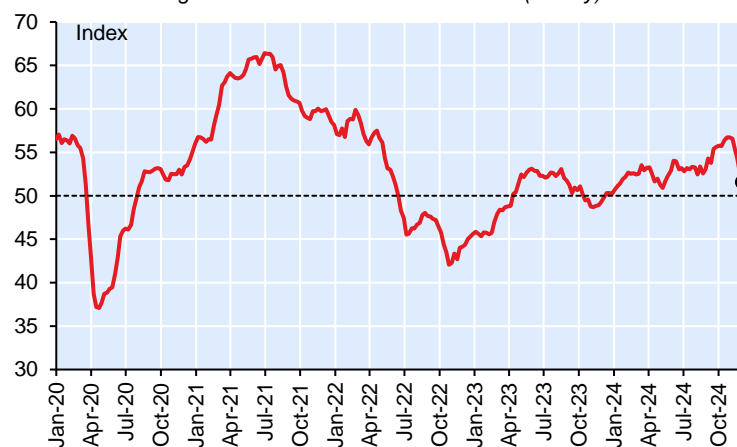
"Canadian consumer confidence continues a downward trajectory in the wake of the US presidential election. Of note, people are almost four times more likely to think the economy will get weaker rather than stronger in the next six months." — Nik Nanos, Chief Data Scientist

So while America's much-heralded 'animal spirits' look to be alive and well, Canada's economic pulse appears ever fainter. Of note, the broadly divergent paths for business and consumer confidence are paralleled in rates markets. A heretofore-resilient U.S. economy has the Fed in 'go-slow' mode, while the BoC is likely to hurry rate relief along on Wednesday (in the form of a second-straight 50-bp rate cut).

Diverging confidence is reflected in bond markets, the outperformance of Canadian rates (which was already evident throughout 2024) continuing post-election. The U.S. curve may be little changed since the vote, but the Canada curve has shifted decisively lower. To be clear, this price action is justified... and unlikely to reverse in the near-term.

Chart 2: ... while Canadian consumers more anxious

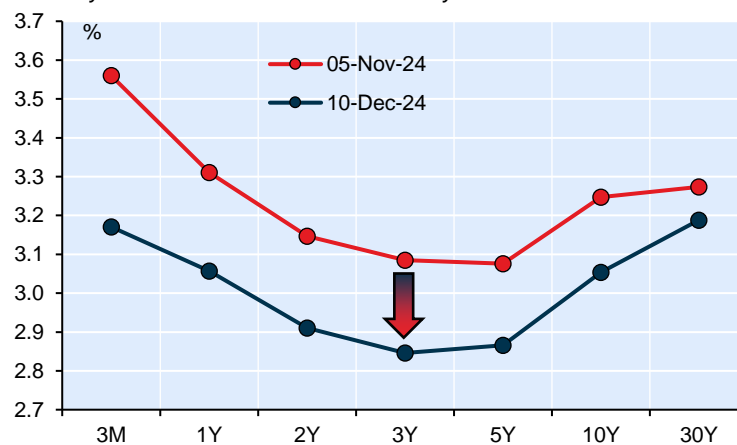
Canada Bloomberg Nanos Canadian Confidence Index (weekly)



Source: NBC, BBG, Nanos | Note: Diffusion index; dotted line is 50 level

Chart 4: ... with the Canada curve shifting decisively lower

Canada yield curve: Pre-U.S. election and today



Source: NBC, BBG



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