

Economics

THE WEEK AHEAD

May 25 - 29, 2026

The squeeze from Treasuries

by Avery Shenfeld avery.shenfeld@cibc.com

The conflict with Iran has played a role in lifting long-term US Treasury yields, so an end to the current impasse, and getting oil flowing again, should therefore provide some temporary relief to long-term borrowers. But there are other factors behind what could well be a lasting period with high, if not necessarily even higher, long rates. The Treasury is financing large deficits even when the economy is at full employment, with no credible plan to reduce them in the face of unfavourable demographic trends for social security and Medicare costs.

Even if median inflation expectations are grounded, investors will need to be compensated for the uncertainty surrounding any long term inflation forecast. As the debt-GDP burden mounts, there's at least some risk that a future government will pressure its central bankers to let inflation run hotter and thereby shrink the debt in real terms.

Some CFOs, looking at the higher coupon yields they currently face on new, long-dated issues, are tempted to postpone such plans. Waiting a few months might pay off if we get a relief rally from an end to the conflict in the Middle East.

But if a 5%-ish 30-year rate is now part of our future, where will that be felt in the US economy? Most directly in the housing market, where 30-year mortgage rates never really got down to levels that would support that sector's typical contribution to economic growth. The slowing population growth rate, in the face of a tighter border and increasing deportations, has further cooled demand, particularly for rental properties.

For now, the economy has been able to offset the drag from residential construction, in part due to the AI capital spending boom, as well as support to consumer spending from tax measures and equity-driven wealth gains. But if there's no further tax juice in next year's budget, running a large but not growing budget deficit won't be a lift to year-on-year growth in 2027. AI capital spending budgets, while staying very lofty, also seem poised to decelerate in terms of year-on-year growth.

Ironically, that could well be what it takes to get incoming Fed Chair Warsh's hopes for rate cuts onside, if it generates a moderation in growth and inflation pressures in 2027. Warsh's thesis was that reducing the Fed's balance sheet, thereby putting upward pressure on yields, would then make the case for offsetting downward pressure achieved by cutting the fed funds rate. Rather than balance sheet moves, we might instead get that pressure on long rates from the market's indigestion from ever rising debt levels.

As for equities, the finance 101 textbook would say that a higher level for 10-year Treasuries should have put downward pressure on multiples and squeeze stock prices. Obviously, we haven't seen that. Huge earnings gains from those selling the chips, power plants and other inputs into the AI boom, and optimism that the hyper-scalers will be rewarded for their spending, have been important offsets, along with old-fashioned momentum trading. Corporate profits are sitting at a record share of GDP.

For the corporate world, the costs of higher long-term Treasury yields have in part been cushioned by tight corporate spreads. There's also an ample supply of equity capital for public companies in the hottest sectors.

But there's still an opportunity cost from the combination of the government and AI-related borrowing boom. Other corporate borrowers, seeing higher debt-financing costs, will be squeezed out of capital spending that they might otherwise have undertaken. When thinking about the lift to the economy from low taxes or the AI tech wave, we need to net out the loss of whatever capital assets might otherwise have been deployed in a world in which longer term rates were cooler.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, May 25	-	-	-	-	-	-	-
Tuesday, May 26	8:30 AM	Speaker: Nicolas Vincent (Deputy gov.)	-	-	-	-	-
Wednesday, May 27	-	AUCTION: 10-YR CANADAS \$5B	-	-	-	-	-
Thursday, May 28	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Mar)	-	-	-	-60.2K
Thursday, May 28	8:30 AM	CURRENT ACCOUNT BALANCE	(1Q)	(M)	-\$4.7B	-\$2.5B	-\$0.7B
Thursday, May 28	10:00 AM	Release: Financial Stability Report	-	-	-	-	-
Friday, May 29	8:30 AM	GDP M/M	(Mar)	(H)	0.0%	0.1%	0.2%
Friday, May 29	8:30 AM	GDP QUARTERLY ANNUALIZED	(1Q)	(H)	1.7%	1.4%	-0.6%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, May 25	-	Markets Closed (Memorial Day)	-	-	-	-	-
Tuesday, May 26	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Tuesday, May 26	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Apr)	(M)	-	-	-0.2
Tuesday, May 26	8:30 AM	PHILADELPHIA FED NON-MANUFACTURING	(May)	(M)	-	-	-16.5
Tuesday, May 26	9:00 AM	HOUSE PRICE INDEX M/M	(Mar)	(M)	-	0.1%	0.0%
Tuesday, May 26	9:00 AM	S&P CORELOGIC CS Y/Y	(Mar)	(H)	-	1.0%	0.9%
Tuesday, May 26	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(May)	(H)	91.0	91.5	92.8
Tuesday, May 26	8:20 AM	Speaker: Neel Kashkari (Minneapolis) (Voter)	-	-	-	-	-
Wednesday, May 27	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Wednesday, May 27	-	AUCTION: 2-YR FRN \$28B	-	-	-	-	-
Wednesday, May 27	7:00 AM	MBA-APPLICATIONS	(May 22)	(L)	-	-	-2.3%
Wednesday, May 27	10:00 AM	RICHMOND FED MANUF. INDEX	(May)	(M)	-	-	3.0
Wednesday, May 27	4:00 AM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Wednesday, May 27	3:55 PM	Speaker: Lisa D. Cook (Governor) (Voter)	-	-	-	-	-
Wednesday, May 27	8:00 PM	Speaker: Philip N. Jefferson (Governor) (Voter)	-	-	-	-	-
Wednesday, May 27	10:25 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Thursday, May 28	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Thursday, May 28	8:30 AM	INITIAL CLAIMS	(May 23)	(M)	-	213K	209K
Thursday, May 28	8:30 AM	CONTINUING CLAIMS	(May 16)	(L)	-	-	1782K
Thursday, May 28	8:30 AM	PCE DEFLATOR Y/Y	(Apr)	(H)	3.8%	3.9%	3.5%
Thursday, May 28	8:30 AM	PCE DEFLATOR Y/Y (core)	(Apr)	(H)	3.3%	3.3%	3.2%
Thursday, May 28	8:30 AM	PERSONAL INCOME M/M	(Apr)	(H)	0.4%	0.4%	0.6%
Thursday, May 28	8:30 AM	PERSONAL SPENDING M/M	(Apr)	(H)	0.4%	0.5%	0.9%
Thursday, May 28	8:30 AM	DURABLE GOODS ORDERS M/M	(Apr P)	(H)	2.4%	3.0%	0.8%
Thursday, May 28	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Apr P)	(H)	0.5%	0.4%	0.9%
Thursday, May 28	8:30 AM	GDP (annualized)	(1Q S)	(H)	-	2.1%	2.0%
Thursday, May 28	8:30 AM	GDP DEFLATOR (annualized)	(1Q S)	(H)	-	3.6%	3.6%
Thursday, May 28	10:00 AM	NEW HOME SALES SAAR	(Apr)	(M)	647K	663K	682K
Thursday, May 28	10:00 AM	NEW HOME SALES M/M	(Apr)	(M)	-5.1%	-3.9%	7.4%
Thursday, May 28	8:55 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, May 28	10:15 AM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Friday, May 29	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Apr)	(M)	-\$88.4B	-\$87.0B	-\$87.4B
Friday, May 29	8:30 AM	RETAIL INVENTORIES M/M	(Apr)	(H)	-	-	0.6%
Friday, May 29	8:30 AM	WHOLESALE INVENTORIES M/M	(Apr P)	(L)	-	-	1.3%
Friday, May 29	9:45 AM	CHICAGO PMI	(May)	(M)	-	51.2	49.2
Friday, May 29	12:00 AM	Speaker: Mary C. Daly (San Francisco) (Non-Voter)	-	-	-	-	-
Friday, May 29	6:50 AM	Speaker: Jeffrey R. Schmid (Kansas City) (Non-Voter)	-	-	-	-	-
Friday, May 29	9:10 AM	Speaker: Michelle W. Bowman (Governor) (Voter)	-	-	-	-	-
Friday, May 29	9:15 AM	Speaker: Anna Paulson (Philadelphia) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're in line with the consensus for the core PCE price index, the Fed's key inflation tracking measure. A hot PPI reading didn't see that heat in the components that get added to CPI data in the core PCE calculation, which will limit the upside we see this month. Durable goods orders should look fairly healthy. We have a lot of Fed speakers on the schedule, but it's worth remembering that they're not in the White House Situation Room, and have no greater insights than the rest of us on the path for the energy part of the inflation story.

In **Canada**, we've been on a one-step-forward, one-step-backward story for quarterly GDP going back to the spring of 2025, and we're due for a respectable gain in Q1 on the heels of the decline posted in Q4. While our 1.7% forecast is a bit above consensus, that will be offset by a flat reading for March GDP that will signal a softer, but not negative, quarterly growth rate for Q2. The current account deficit will look a lot better in Q2, but the first quarter data won't pick up enough of the benefit from higher oil prices that will show up in the spring data.

Week Ahead's key Canadian number: Gross domestic product—March and Q1

(Friday, 8:30 am)

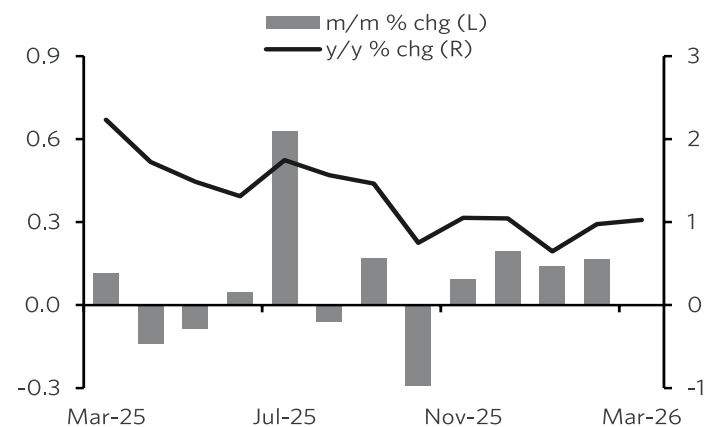
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Variable (%)	CIBC	Mkt	Prior
GDP Q1 (SAAR)	1.7	1.4	-0.6
GDP Mar (m/m)	0.0	0.1	0.2

Canadian GDP likely rebounded in the first quarter following Q4's slight contraction, driven by an acceleration in consumer spending and a rebuilding of inventory. However, final domestic demand growth may actually be weaker than in the prior quarter, thanks to softer government spending and a decline in residential investment.

Monthly data is also likely to show that the quarter ended on a weaker footing, with March data likely to show flat activity relative to the prior month. While higher oil and gasoline prices flattered nominal figures, activity appears to have fallen in real terms in both the mining, oil & gas and retail sectors. That will have offset further improvement in manufacturing.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — With Q1 appearing to end on a weaker footing, and with employment data pointing to continued weakness at the start of Q2, it appears that growth in the Canadian economy will slow again in the second quarter. While higher oil prices will boost nominal GDP, the current period of elevated prices would have to continue much longer to become a big positive for business investment or growth more generally.

Other Canadian releases: Current account balance—Q1

(Thursday, 8:30 am)

Even with the surge in oil prices towards the end of the quarter seeing Canada's goods trade balance return to surplus in March, the current account deficit was likely larger in Q1 than in the final quarter of 2025. On aggregate, the deficit in goods trade was actually wider, while the previous surplus in services trade disappeared. We forecast a \$4.7bn current account deficit in Q1.

Week Ahead's key US number: Personal income & outlays—April

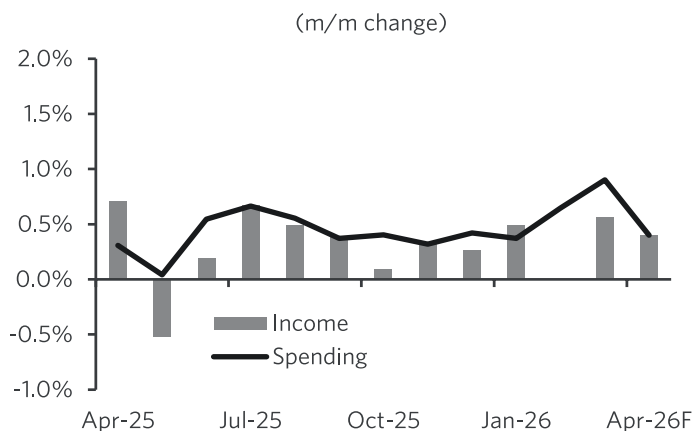
(Thursday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.4	0.4	0.6
Personal spending (m/m)	0.4	0.5	0.9
Core PCE price index (y/y)	3.3	3.3	3.2

Spending in April will fully reflect higher prices, with households paying more at the pump, leaving less money for spending on discretionary goods and services. Headline PCE prices likely accelerated to 3.8% y/y on higher gasoline prices, while the Fed's preferred prices gauge, core PCE, could have ticked up to 3.3% y/y, with some pass through from the oil price shock to core components expected. The PCE index places a lower weight on shelter prices than its CPI counterpart, which explains the divergence for the monthly core reading with that index, given the hot shelter reading in the CPI data.

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

Forecast implications — We expect consumption to fade over the quarter as purchasing power is dented by higher prices, compounded by a low savings cushion once tax refunds dry up. The Fed will be focused on the jump in inflation, however, and keeping inflation expectations anchored, with the combination of weak underlying momentum and an acceleration in inflation keeping policymakers on the sidelines for now.

Market reaction — We are largely in line with the consensus which should limit any market reaction.

Other US Releases: Durable goods orders—April

(Thursday, 8:30 am)

Orders of durable goods could have jumped by 2.4% in April, reflecting a bounce back in the transportation group following a string of weak readings. The ex. transportation group could have slowed to a 0.5% m/m pace, as capital expenditures tied to AI expansion have been pulled forward in prior months and could have eased off to a more sustainable pace in April. With businesses taking advantage of a more favorable tax backdrop, we look for business investment to remain a significant growth driver in Q2.

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