

So, have we landed yet?

Highlights

- The third quarter ended on a high note, with financial markets enthusiastically welcoming the Fed's decision to cut interest rates for the first time since last December. But, does this mean that the proverbial “soft landing” has been achieved?
- While this seems to be the case in Europe, in Canada, the slowdown in inflation has been accompanied by much greater turbulence in the job market. As for the United States, the situation is more difficult to define.
- At first glance, several aspects of the U.S. economy appear to be on the right track with monetary policy perhaps already neutral, a job market that has not passed the point of no return, and encouraging signs for the manufacturing sector.
- However, a return to target for inflation remains unlikely, with service inflation no longer slowing just as goods and food prices begin to rise again, likely driven in part by tariffs.
- In short, although volatility is likely to return at some point in Q4, we continue to believe that the uptrend will remain dominant, driven by continued economic expansion against a backdrop of more accommodative monetary and fiscal policies.
- Within equities, we have marginally adjusted our positioning in favour of emerging markets, where a series of promising signals have accumulated over recent months.

Global Asset Allocation Views

Asset Classes	-		N		+
Equities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Fixed Income	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alternatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Fixed Income					
Government	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Duration	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equities					
Canada	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
United States	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EAFE	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Emerging Markets	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alternatives & FX					
Gold	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uncorrelated Strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Canadian Dollar	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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Bottom line: Overall, while a complete landing of U.S. inflation will have to wait, the outlook for growth remains positive. This environment continues to justify a pro-risk asset allocation strategy, while preserving room to maneuver should better buying conditions arise.



Market review

Fixed income

- The fixed income universe posted positive returns in September, with the asset class benefitting from the Bank of Canada and the Federal Reserve shifting to a more dovish stance. On a quarterly basis, Canadian bonds ended the period with gains of 1.4%.

Equities

- Global equities continued to climb in September, with Emerging Markets and Canada leading the way. The S&P/TSX benefitted from its sector composition, which is more focussed on cyclical sectors such as Materials, Energy, and Finance. Moreover, the TSX ended the quarter at the top of the four equity regions with gains of 12.5%.
- Within the S&P 500, monthly gains were concentrated in the three sectors dominated by technology giants: Communication Services, Information Technology, and Consumer Discretionary. Outside of these sectors, the Equity Index ended the month virtually unchanged.

FX & Commodities

- Oil prices pulled back in September and in the third quarter as a whole. Meanwhile, the spectacular rise in gold prices showed no signs of slowing down.
- The U.S. dollar rebounded slightly in Q3 after depreciating sharply in the first six months of the year, supported in part by the ever-surprising resilience of the U.S. economy.

Market Total Returns

Asset Classes	Sep	Q3	YTD
Cash (S&P Canada T-bill)	0.3%	0.7%	2.2%
Bonds (ICE Canada Universe)	1.8%	1.4%	2.8%
Short Term	0.8%	1.3%	3.4%
Mid Term	1.7%	1.9%	4.2%
Long Term	3.5%	1.0%	0.3%
Federal Government	1.5%	1.2%	2.5%
Corporate	1.6%	1.8%	4.0%
U.S. Treasuries (US\$)	0.9%	1.6%	5.4%
U.S. Corporate (US\$)	1.4%	2.6%	7.0%
U.S. High Yield (US\$)	0.8%	2.4%	7.1%
Canadian Equities (S&P/TSX)	5.4%	12.5%	23.9%
Communication Services	-1.8%	7.7%	12.9%
Consumer Discretionary	0.9%	3.7%	18.0%
Consumer Staples	0.3%	1.6%	5.7%
Energy	5.6%	12.6%	17.1%
Financials	4.5%	10.6%	22.5%
Health Care	3.0%	5.5%	-1.0%
Industrials	-0.8%	-1.4%	4.6%
Information Technology	2.1%	13.2%	19.7%
Materials	18.9%	37.8%	79.3%
Real Estate	-1.0%	7.6%	11.1%
Utilities	3.9%	6.9%	17.5%
S&P/TSX Small Caps	8.9%	20.9%	36.3%
U.S. Equities (S&P 500 US\$)	3.6%	8.1%	14.8%
Communication Services	5.6%	12.0%	24.5%
Consumer Discretionary	3.2%	9.5%	5.3%
Consumer Staples	-1.6%	-2.4%	3.9%
Energy	-0.4%	6.2%	7.0%
Financials	0.1%	3.2%	12.8%
Health Care	1.8%	3.8%	2.6%
Industrials	1.9%	5.0%	18.4%
Information Technology	7.2%	13.2%	22.3%
Materials	-2.1%	3.1%	9.3%
Real Estate	0.5%	2.6%	6.2%
Utilities	4.2%	7.6%	17.7%
Russell 2000 (US\$)	3.1%	12.4%	10.4%
World Equities (MSCI ACWI US\$)	3.7%	7.7%	18.9%
MSCI EAFE (US\$)	2.0%	4.8%	25.7%
MSCI Emerging Markets (US\$)	7.2%	10.9%	28.2%
Commodities (GSCI US\$)	0.6%	4.1%	6.1%
WTI Oil (US\$/barrel)	-1.8%	-4.7%	-12.8%
Gold (US\$/oz)	11.4%	16.7%	46.0%
Copper (US\$/tonne)	4.1%	1.7%	18.2%
Forex (US\$ Index DXY)	0.0%	0.9%	-9.9%
USD per EUR	0.4%	0.1%	13.5%
CAD per USD	1.3%	2.3%	-3.2%

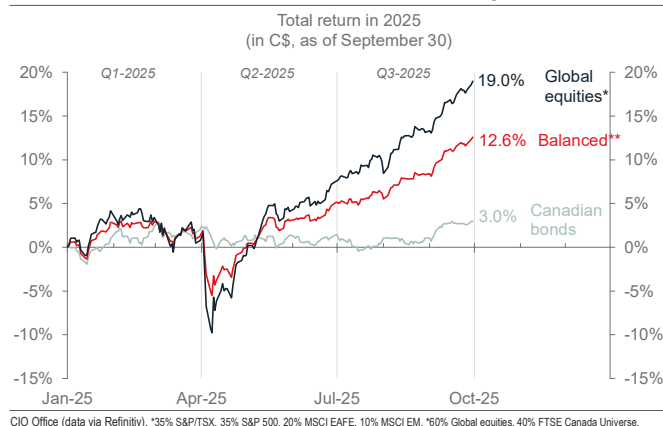
CIO Office (data via Refinitiv, as of 2025-09-30)



So, have we landed yet?

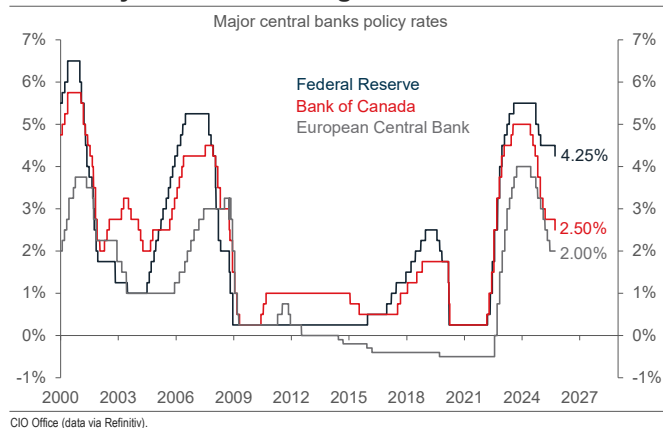
The third quarter ended on a high note, with stocks reaching historic highs, thereby extending their lead over bonds which nevertheless also managed to post gains over the period (**Chart 1**).

1 | Stock markets soared in the third quarter



Clearly, the Fed's decision to exit its wait-and-see stance and lower interest rates as a matter of “risk management”¹ in September was welcomed by financial markets. Moreover, it is not the only central bank to have adopted a more dovish tone recently, with the Bank of Canada also lowering its reference rate in September while the European Central Bank concluded a series of uninterrupted rate cuts earlier this Summer (**Chart 2**).

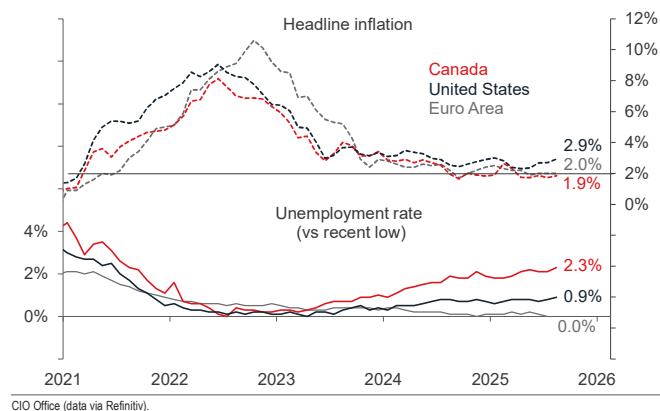
2 | Policy rates are coming down...



So, are these interest rate adjustments a sign that the proverbial “soft landing” — defined as a return of inflation to target and a balanced job market — has been achieved?

In Europe, it seems to be the case, with inflation at exactly 2% for the past three months and unemployment at an all-time low. In Canada, inflation has also been very close to target for several months, although this has been achieved through much more turbulence in the labour market. But, in the United States, the situation is more difficult to define, with a modest but still significant rise in unemployment and, most importantly, inflation stagnating above target, at nearly 3% (**Chart 3**).

3 | ... has the economy “landed”?

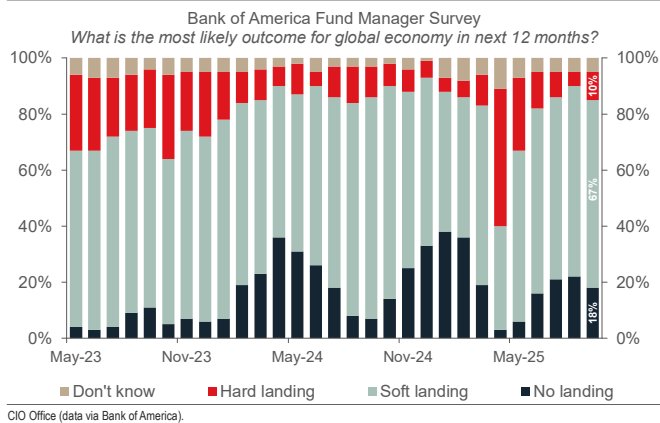


In any event, consensus still seems to be leaning toward a soft landing over the next year, according to a survey of global fund managers, with only one in 10 expecting a hard landing, which essentially means a recession (**Chart 4**, next page). Is this reasonable?

¹ The Fed Makes a ‘Risk-Management’ Rate Cut, and Powell Scores a Win, Bloomberg, September 17, 2025.



4 | The consensus remains fairly optimistic



Let's verify the checklist

In our [Outlook 2025](#) report published last December, we listed six quantifiable conditions to monitor during the year, designed to confirm (or disprove) whether the U.S. economy had reached a soft landing.

In theory, four out of six conditions are currently satisfied. But, in reality, there are important nuances to consider, as several criteria could swing one way or the other at any moment (**Chart 5**).

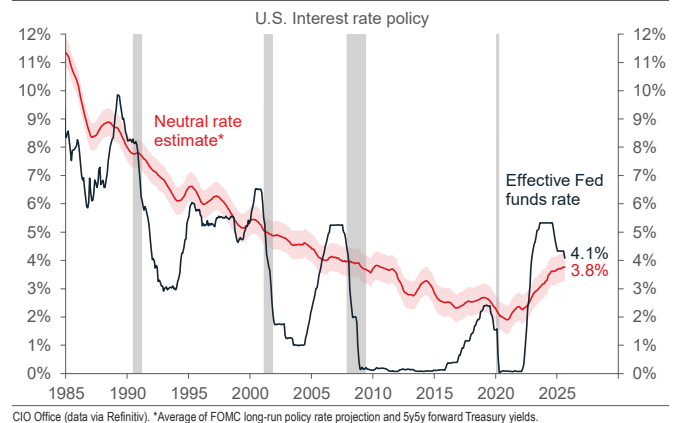
5 | Yes, no, maybe?

Soft landing checklist		
Category	Criteria	Status
Monetary	Neutral fed funds rate	Yes, but...
	Steep yield curve	No, but...
Cyclical	Stable unemployment rate	Yes, but...
	Rebound in manufacturing activity	No, but...
Inflation	Headline CPI below 3%	Yes, but...
	Wage growth below 4%	Yes, but...

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Specifically, with its latest interest rate cut, the Fed has technically moved its monetary policy into “neutral” territory for the first time since September 2022, according to our model based in part on market data (**Chart 6**).

6 | The Fed rate is potentially already neutral...



However, given that we stand at the upper limit of the margin of error, we certainly cannot say that monetary policy is neutral beyond any doubt, especially since, according to Jerome Powell, interest rates are still “moderately restrictive.”²

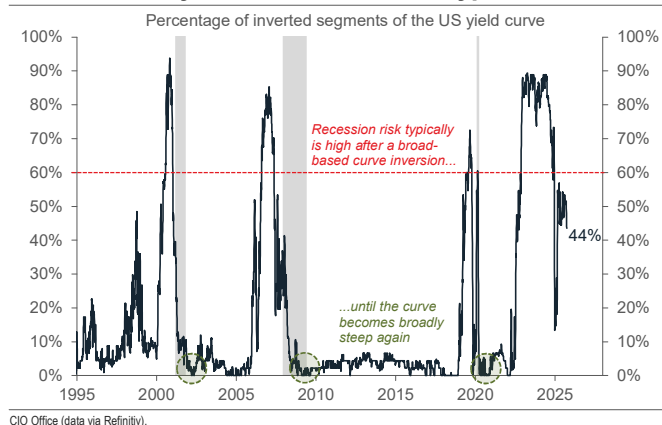
Indeed, the shape of the yield curve does seem to indicate that there is still some way to go before monetary conditions return to some degree of normality. Typically, a reversion to a positively sloped yield curve across all maturities (i.e., where the longer the term, the higher the rate) is a good indication that this is the case. Unless there is a drastic change in the economic environment, this will probably have to wait until the Fed delivers another two or three rate cuts (**Chart 7**, next page).

In parallel, after starting the year on a positive note, manufacturing activity quickly turned down amid the tariff turmoil of recent months. It will be interesting to see how this sector evolves. But, there are still

² Powell Describes Rates as ‘Modestly Restrictive,’ Keeping Door Open to Cuts, Wall Street Journal, September 23, 2025.



7 | ... but the yield curve remains atypical



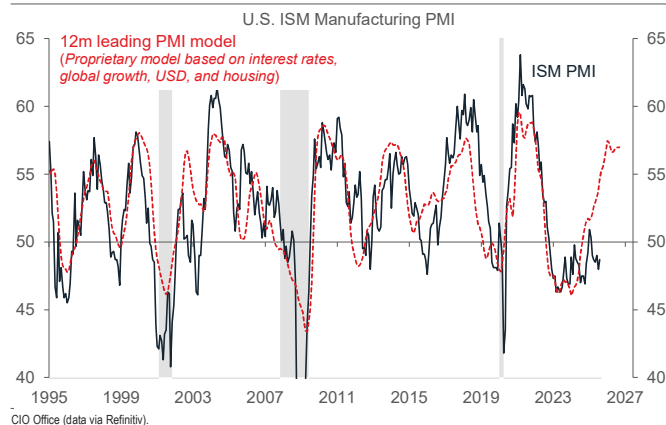
reasons to believe the ISM Manufacturing PMI could renew growth (>50) in the coming months (**Chart 8**), especially when we take into account the Trump administration's tax plan, which is set to take effect in 2026 and should benefit manufacturing more than any other sector of the economy (**Chart 9**).

That said, in the near term, it will be particularly important to monitor developments in the job market, as the recent rise in the unemployment rate to 4.3% — its highest level since October 2021 — is raising concerns.

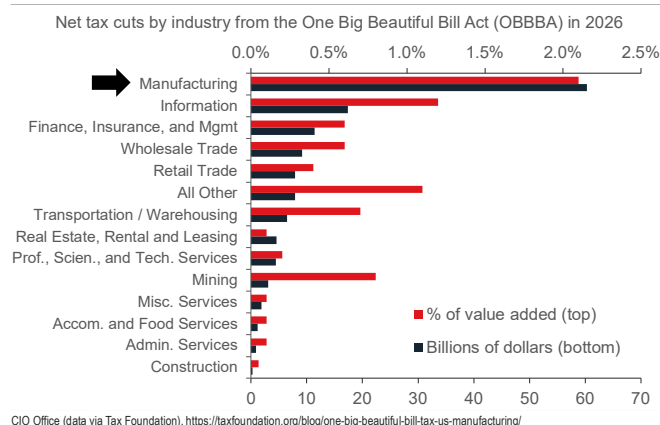
To be clear, unemployment may still rise without this necessarily being problematic, which is actually what the Fed is projecting.³ However, an increase above 4.6% would quickly become more worrisome, as Sahm's rule would likely be triggered again (**Chart 10**).

On the flip side, the implications for wage growth will also need to be watched carefully. In this regard, the ideal scenario is one in which wages rise enough to lift consumer purchasing power, but not so much that they risk triggering an inflationary

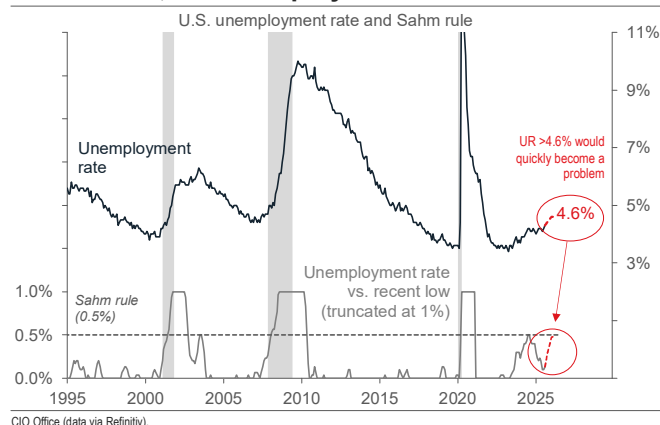
8 | Don't discount manufacturing activity...



9 | ... especially in 2026



10 | For now, the unemployment rate is "OK"...



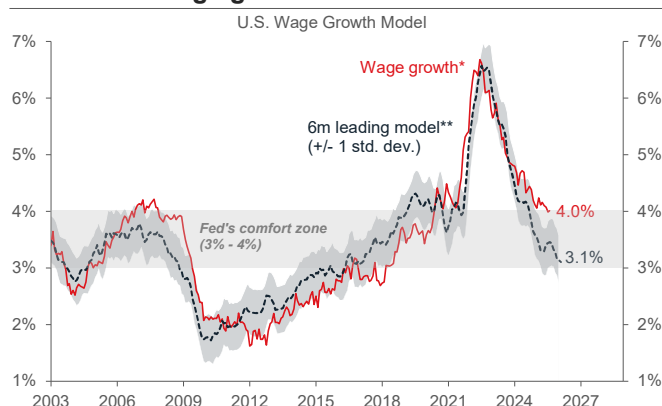
³ In the latest Summary of Economic Projections, the median unemployment rate projection of the members of the Fed's monetary policy committee was 4.5% for 2025. For inflation, the median projection was 3.0% in 2025 and 2.6% in 2026.



spiral – a range that can be roughly estimated at between 3% and 4% (2% inflation + 1% to 2% labour productivity growth).

Currently, wage growth is hovering right at the upper limit of this comfort zone, at 4%. So, although our model suggests this figure could slow slightly, for now, it leaves us very close to potentially more inflationary levels (**Chart 11**).

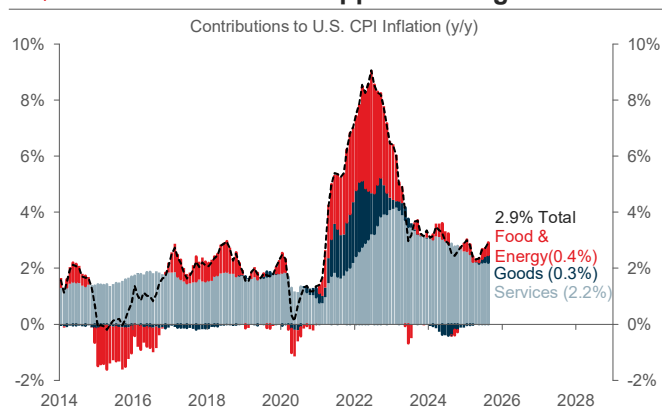
11 | ... as is wage growth...



CIO Office (data via Refinitiv). *Average between the Atlanta Fed measure and average hourly earnings (adjusted for extreme movements due to sector composition early in the pandemic). **Linear regression based on (1) job openings (indeed and JOLTS) vs unemployed, (2) NFIB "hard to fill jobs", (3) NFIB "plan to increase wages", (4) consumer sentiment "jobs plentiful", (5) JOLTS quits rate.

And, indeed, while total inflation currently meets the somewhat arbitrary condition of being "below 3%," a rate of 2.9% is not particularly comfortable at a time when inflation in services has stopped slowing down and inflation in goods and food is starting to rise again, probably in part due to tariffs (**Chart 12**).

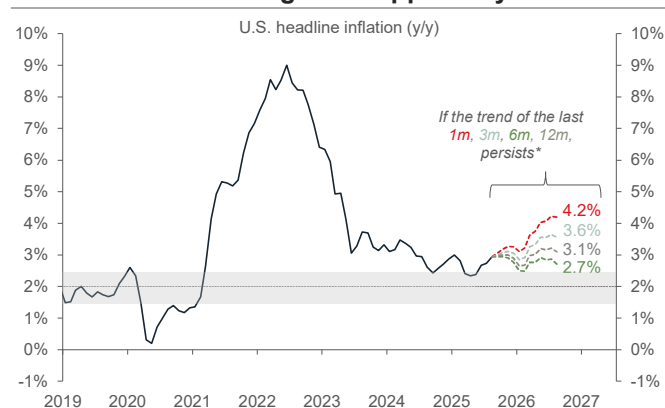
12 | ... but inflation has stopped slowing down



CIO Office (data via Refinitiv).

For now, markets seem to be willing to accept a period of prolonged inflation around 3%, which is also the Fed's projection.³ However, a move closer to 4% would certainly cause some turbulence, and this cannot be completely ruled out for 2026 in view of recent trends (**Chart 13**).

13 | A return to the target will apparently have to wait



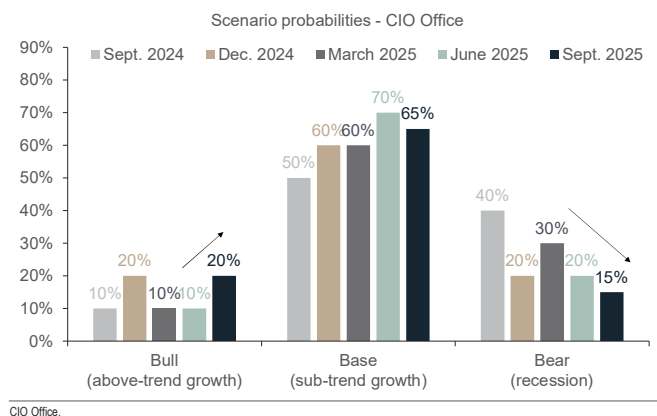
CIO Office (data via Refinitiv). *With the exception of energy, which grows at its 30-year average in all scenarios.



The bottom line

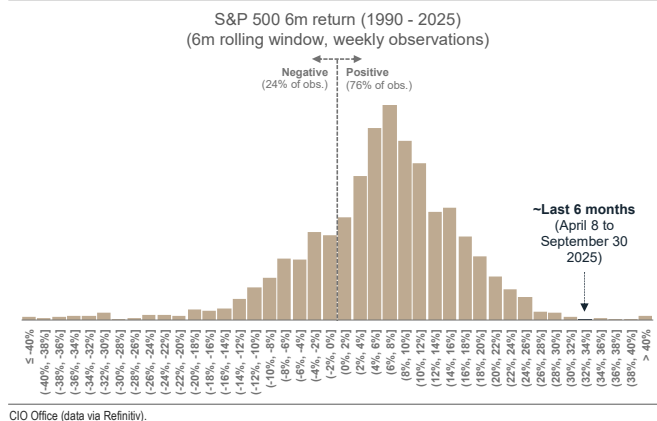
Overall, while a complete landing of U.S. inflation will have to wait, the outlook for growth remains positive, with the risk of recession further reduced in the latest update of our quarterly baseline scenario (**Chart 14**).

14 | The balance of risks improves



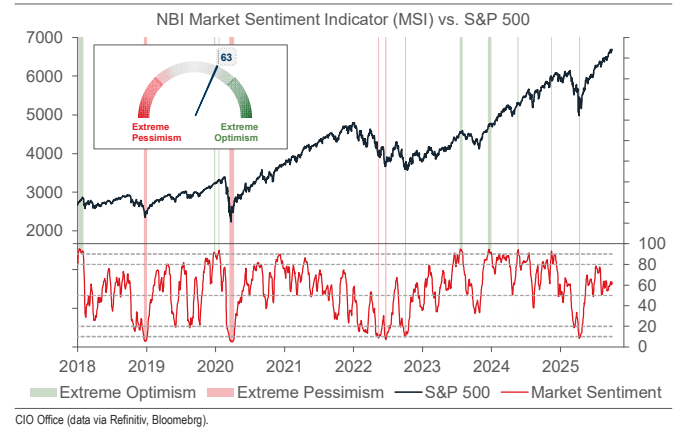
For equity markets, this does not mean the spectacular rise since the lows of early April — one of the best six-month periods for the S&P 500 in more than 30 years (**Chart 15**) — will necessarily continue unabated.

15 | Equity rebounds of this magnitude are rare...



However, despite what one might think, our sentiment indicator remains far from levels indicating excessive optimism (**Chart 16**), with

16 | ... but without excessive optimism...



many investors still feeling hesitant in the face of all the prevailing uncertainties.

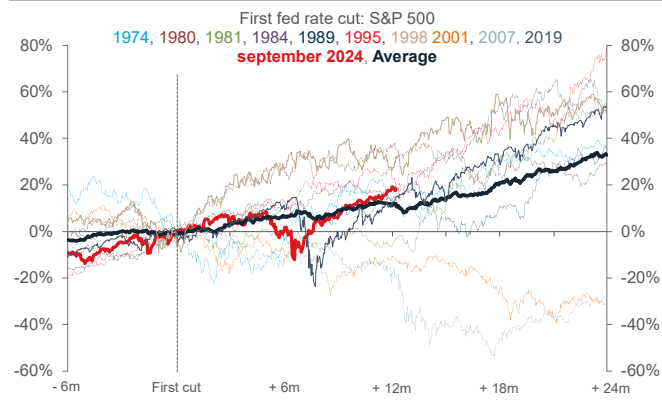
So, although volatility is likely to make a comeback at some point in the fourth quarter, we continue to believe that the uptrend will remain dominant, driven by a sustained economic expansion against a backdrop of more accommodative monetary and fiscal policies.

Moreover, let us not forget that it has already been twelve months since the Fed began its rate cut cycle. From this point of view, we can see that the current bull market is actually fairly average one year after the start of rate cuts, an analysis that reminds us that the bursting of the tech bubble and the financial crisis are the exceptions, not the rule (**Chart 17**, next page).

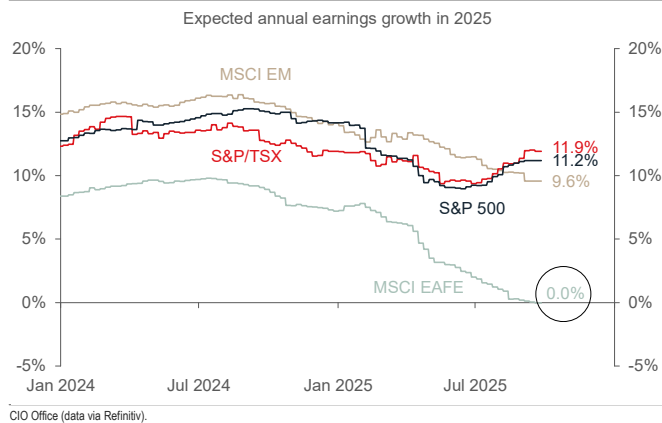
Geographically, within Equities, while the favourable trend in Canada is likely to continue, the relative recovery in the EAFE region appears to have lost momentum in recent months, hampered by lower earnings growth (**Chart 18**, next page) and political instability in France. Conversely, a more positive trend in Emerging Markets has been building recently (**Chart 19**, next page).



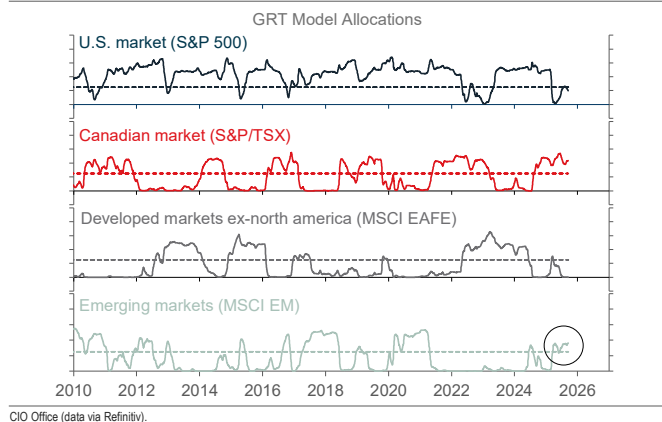
17 | ... the uptrend is likely to continue



18 | Growing earnings is never easy in EAFE

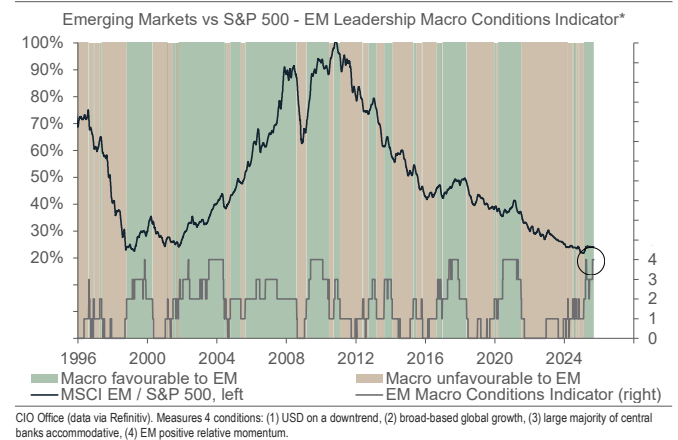


19 | A positive trend is developing in EM...



In this context, we have marginally adjusted our stance within equities, reducing the EAFE region to neutral in exchange for a slight overweight in Emerging Markets. In addition to positive momentum, a weak U.S. dollar, more accommodative central banks and improving global growth all typically bode well for the region, as measured by our model (**Chart 20**).

20 | ... which are benefiting from several tailwinds





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