

Feeling the autumn chill

Highlights

- Just as the first cold mornings of Fall were setting in, investors also felt, in October, their first chill in a long time with market volatility making a comeback early in the month.
- Nevertheless, equities still ended the month higher, buoyed in part by strong earnings in the U.S. banking and technology sectors.
- While there remains debate about the return on investment for the massive spending on AI research and infrastructure, the example of the emergence of the internet in the early 2000s ultimately offers hope for productivity, although this is already partly reflected in stock market valuations.
- Meanwhile, stable oil prices continue to limit upward pressure on inflation, making the Federal Reserve's job a little easier, even if policymakers will probably take their time with rate cuts from here on out.
- Overall, the combination of more accommodative monetary and fiscal policies, strong earnings growth, favourable productivity prospects, and stable oil prices are all significant tailwinds for equity markets.
- Lastly, while there is reason to believe that gold prices are engaged in a bull market that may last, the previous cycle teaches us that this does not preclude significant setbacks along the way, and the consolidation phase that began in October may need to continue for a little longer.

Global Asset Allocation Views

Asset Classes	-		N		+
Equities	☐	☐	☐	☒	☐
Fixed Income	☐	☒	☐	☐	☐
Cash	☐	☐	☒	☐	☐
Alternatives	☐	☐	☐	☒	☐
Fixed Income					
Government	☐	☒	☐	☐	☐
Credit	☐	☐	☐	☒	☐
Duration	☐	☐	☒	☐	☐
Equities					
Canada	☐	☐	☐	☒	☐
United States	☐	☒	☐	☐	☐
EAFE	☐	☐	☒	☐	☐
Emerging Markets	☐	☐	☐	☒	☐
Alternatives & FX					
Gold	☐	☐	☒	☐	☐
Uncorrelated Strategies	☐	☐	☐	☒	☐
Canadian Dollar	☐	☐	☒	☐	☐

CIO Office

Bottom line: After six consecutive months of stock market gains against a background of considerable uncertainty, it is reasonable to temper return expectations. Nevertheless, while the slightly higher volatility seen in October is likely to persist, the overall situation remains largely favourable for risky assets, prompting us to maintain our asset allocation strategy unchanged.



Market review

Fixed income

- The Canadian fixed income universe posted positive returns for the second consecutive month, with bond yields falling slightly amid a period of economic fragility in Canada.

Equities

- The upward trend in equities continued in October, but the magnitude of gains declined compared to previous months. Emerging Markets once again stood out for their outperformance, with the region now leading the year-to-date rankings.
- In Canada, the S&P/TSX was buoyed by the excellent performance of a few tech stocks (including Shopify and Celestica). However, after several consecutive months of spectacular gains, gold miners of the Materials sector declined.
- Within the S&P 500, gains were heavily concentrated in the tech sectors, while the more cyclical sectors (Energy, Finance, Materials) posted monthly losses.

FX & commodities

- The price of gold once again ended the month higher, but with a notable increase in volatility causing some significant daily gains and declines.
- In currencies, the U.S. dollar rebounded in October buoyed by Jerome Powell's hawkish comments that another Fed rate cut in December was far from a foregone conclusion.

Market Total Returns

Asset Classes	October	YTD	12M
Cash (S&P Canada T-bill)	0.2%	2.5%	3.1%
Bonds (ICE Canada Universe)	0.8%	3.5%	4.6%
Short Term	0.4%	3.8%	4.8%
Mid Term	0.6%	4.8%	6.0%
Long Term	1.4%	1.8%	2.7%
Federal Government	0.6%	3.1%	3.8%
Corporate	0.7%	4.7%	6.3%
U.S. Treasuries (US\$)	0.6%	6.1%	5.1%
U.S. Corporate (US\$)	0.4%	7.4%	6.8%
U.S. High Yield (US\$)	0.2%	7.3%	8.0%
Canadian Equities (S&P/TSX)	1.0%	25.1%	28.7%
Communication Services	0.3%	13.2%	-4.4%
Consumer Discretionary	1.6%	19.9%	20.6%
Consumer Staples	-1.2%	4.4%	11.3%
Energy	-0.9%	16.1%	18.0%
Financials	1.7%	24.5%	31.7%
Health Care	4.3%	3.3%	-5.0%
Industrials	-0.7%	3.9%	5.0%
Information Technology	13.8%	36.2%	67.4%
Materials	-5.0%	70.4%	56.5%
Real Estate	-4.0%	6.6%	1.1%
Utilities	4.1%	22.4%	22.7%
S&P/TSX Small Caps	2.3%	39.4%	38.4%
U.S. Equities (S&P 500 US\$)	2.3%	17.5%	21.5%
Communication Services	1.9%	26.8%	35.4%
Consumer Discretionary	2.4%	7.8%	25.1%
Consumer Staples	-2.3%	1.5%	1.0%
Energy	-1.1%	5.8%	2.4%
Financials	-2.8%	9.6%	14.3%
Health Care	3.6%	6.3%	0.0%
Industrials	0.5%	18.9%	17.7%
Information Technology	6.2%	29.9%	37.5%
Materials	-5.0%	3.8%	-5.8%
Real Estate	-2.6%	3.4%	-1.6%
Utilities	2.1%	20.2%	14.7%
Russell 2000 (US\$)	1.8%	12.4%	14.4%
World Equities (MSCI ACWI US\$)	2.3%	21.5%	23.2%
MSCI EAFE (US\$)	1.2%	27.2%	23.7%
MSCI Emerging Markets (US\$)	4.2%	33.6%	28.7%
Commodities (GSCI US\$)	1.3%	7.5%	11.1%
WTI Oil (US\$/barrel)	-2.2%	-14.8%	-11.3%
Gold (US\$/oz)	3.8%	51.6%	45.2%
Copper (US\$/tonne)	6.3%	25.7%	16.0%
Forex (US\$ Index DXY)	2.1%	-8.0%	-4.0%
USD per EUR	-1.8%	11.5%	6.3%
CAD per USD	0.6%	-2.6%	0.6%

CIO Office (data via Refinitiv, as of 2025-10-31)



Feeling the autumn chill

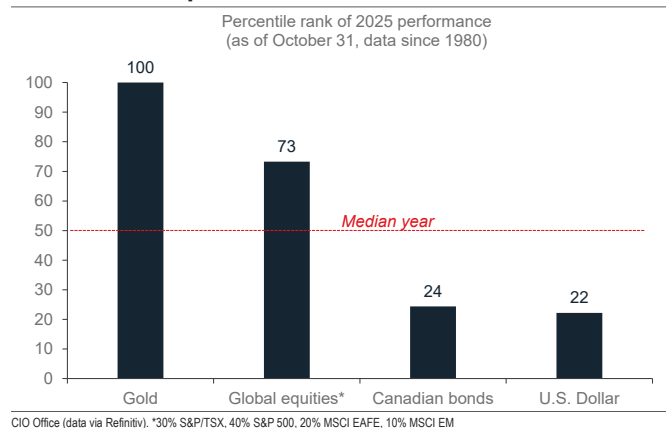
Just as the first cold mornings of Fall were setting in, investors also felt, in October, their first chill in a long time with market volatility making a comeback early in the month, particularly for gold prices but also for equities (**Chart 1**).

1 | A slightly bumpier start to the quarter...



This doesn't change the overall picture for markets with only two months left in 2025, a year that is on track to be the best for gold since at least 1980, significantly above the median for global equities and in the lowest quartile for the U.S. dollar (**Chart 2**).

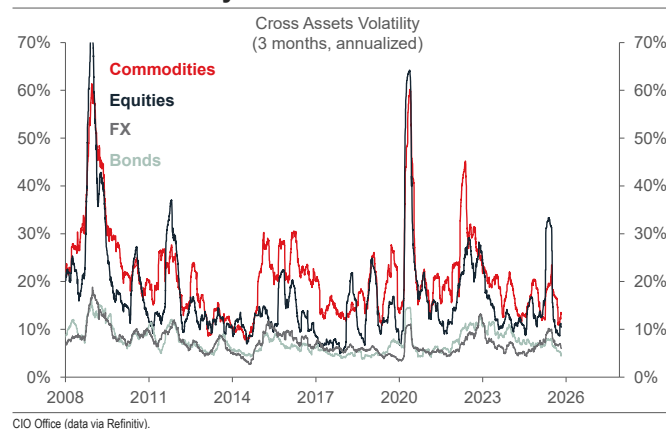
2 | ... but the picture for 2025 remains intact



Nevertheless, many are wondering whether the slight increase in volatility might be a precursor to a

more hostile Winter for markets (**Chart 3**). Let's take stock of the situation.

3 | More volatility ahead?



Weather report

So far, the corporate earnings season in the United States has brought good news, with the vast majority of companies delivering results that have exceeded expectations, even though these expectations had been revised significantly upward in recent months (**Chart 4**).

4 | Corporate earnings are strong...

U.S. equities earnings						
	Price index weight	Earnings weight (12m)	Q3-2025 (realized)*		Next 12m (expected)	
			Growth	VS expectations	Growth	Revisions (last 3m)
S&P 500	100%	100%	15.3%	▲ 6.3%	13.6%	▲ 1.6%
Technology	36%	27%	28.3%	▲ 6.4%	21.7%	▲ 3.7%
Financials	13%	19%	24.7%	▲ 11.9%	10.5%	▲ 0.4%
Health Care	9%	13%	2.0%	▲ 1.7%	10.8%	▼ -0.3%
Telecom. Services	10%	8%	17.1%	▲ 10.9%	5.8%	▲ 1.9%
Discretionary	11%	8%	9.8%	▲ 9.8%	11.4%	▲ 2.4%
Industrials	8%	8%	9.4%	▼ -5.6%	16.8%	▲ 1.7%
Staples	5%	6%	1.8%	▲ 4.5%	5.9%	▲ 1.8%
Energy	3%	4%	-3.3%	▲ 2.1%	7.9%	▲ 3.4%
Utilities	2%	3%	3.6%	▲ 7.4%	8.4%	▲ 1.5%
Materials	2%	2%	13.4%	▼ -0.7%	17.0%	▲ 4.8%
Real Estate	2%	1%	23.2%	▲ 4.7%	9.2%	▲ 2.2%

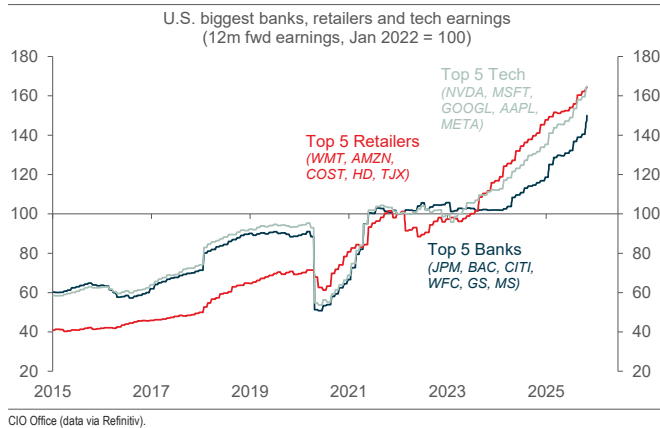
CIO Office (data via Refinitiv). *Blends reported earnings (65% of the index as of November 3) with expectations for results yet to be reported.

More specifically, the strong signal sent by the earnings of most major banks, tech giants, and



retailers¹ about the current state of economic activity is compelling (**Chart 5**).

5 | ... across key sectors

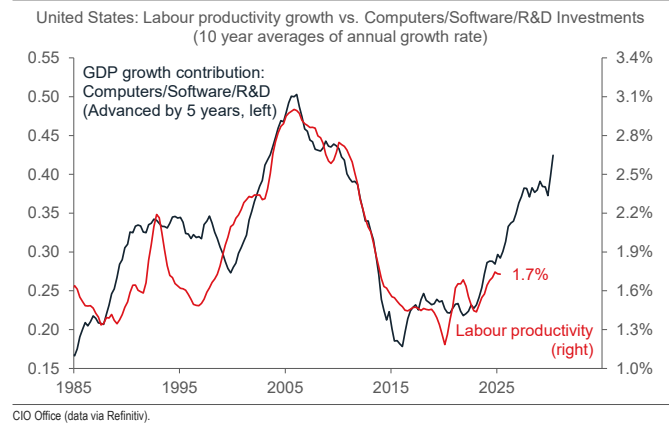


For the technology heavyweights, the return on investment from massive spending on artificial intelligence research and infrastructure continues to be a subject of debate. However, although there will inevitably be winners and losers within the industry, there is reason to believe that this could effectively boost productivity for the economy as a whole, even if this is not yet clearly reflected in economic figures.

At least, if we take the example of the last wave of massive investment in technology associated with the emergence of the internet at the turn of the millennium, we see that it took roughly five years before its full impact on labour productivity² became evident. Therefore, if average annual productivity growth has been 1.7% over the past decade in the United States, it is reasonable to foresee something above 2.0% for the next decade (**Chart 6**).

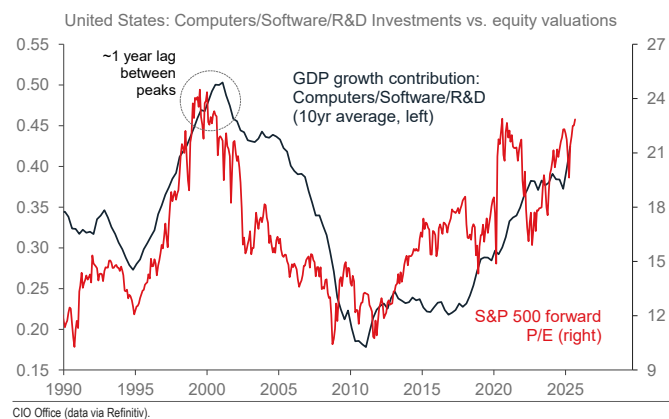
Naturally, financial markets are forward-looking, and the sharp rise in stock valuations is undeniably influenced by the optimism generated by these

6 | There is grounds for optimism for productivity...



technological advances. Incidentally, we should point out that at the time, U.S. equity price-to-earnings ratios peaked about a year before investment spending on IT, software, and R&D peaked (**Chart 7**).

7 | ... as markets are actively discounting



It will therefore be important to keep a close eye out for any change in corporate guidance in this regard. But, for now, the message is that more investments – and likely innovations – are on the way.³

In the meantime, a secular rise in productivity would also have the advantage of allowing strong wage growth while limiting the impact on inflation (i.e.,

¹ Among the largest retailers, only AMZN has reported its official results, but the overall trend looks promising.

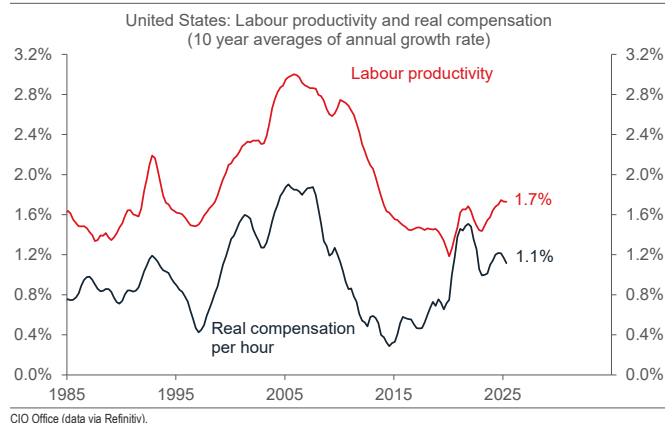
² Labour productivity = Real output (quantity of goods and services produced) per number of hours worked.

³ Big Tech Is Spending More Than Ever on AI and It's Still Not Enough, Wall Street Journal, October 30, 2025.



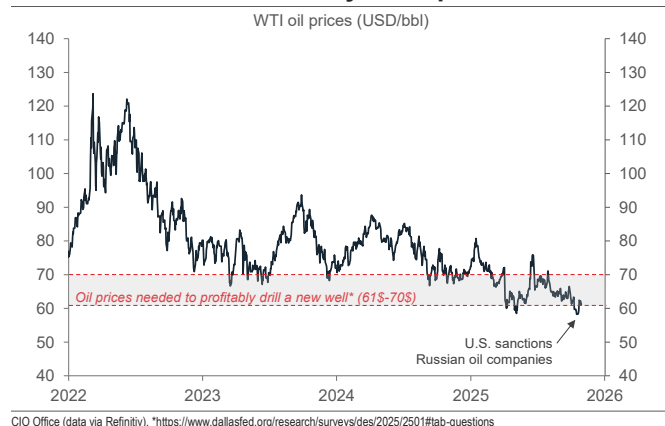
strong real wages), insofar as productivity gives companies the ability to meet growing demand without necessarily raising selling prices (**Chart 8**). That said, in the immediate term, it is mostly oil prices that are mitigating inflation.

8 | High productivity is key to strong real wages



Since the start of the year, the price per barrel of WTI has remained remarkably stable within a range that satisfies both U.S. oil producers who need to make their new drilling operations profitable and consumers who don't want to pay too much at the pump. And when prices hit new lows in October, the U.S. administration took the opportunity to announce tougher restrictions on Russian oil, effectively killing two birds with one stone (**Chart 9**).

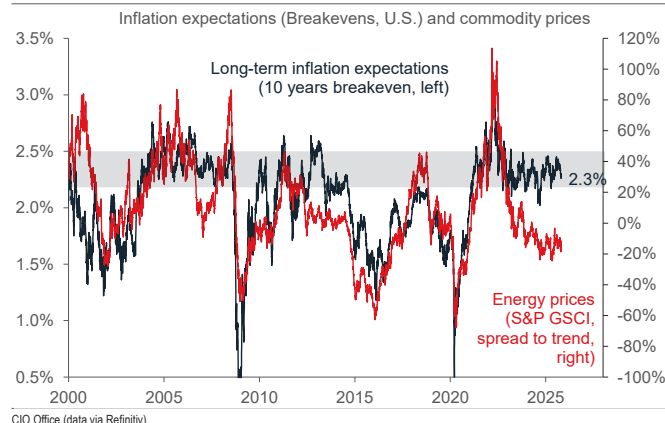
9 | The remarkable stability of oil prices...



To be clear, not everything is rosy on the energy front, with electricity prices rising sharply against a backdrop of aging infrastructure and emerging demand linked to advances in artificial intelligence.⁴

Nevertheless, for now, the relative weakness of oil, gasoline, and natural gas prices probably explains in part why long-term inflation expectations have remained consistent with the Federal Reserve's target this year (**Chart 10**) — despite the profound restructuring of global trade relations currently underway.

10 | ... certainly helps to contain inflation

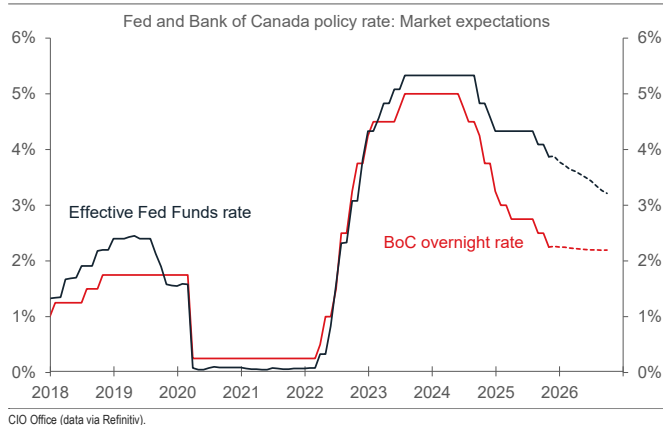


Without this condition, it would have been more difficult, if not impossible, for the Fed to justify interest rate cuts, especially considering that Jerome Powell made it clear that another cut in December was far from certain. As for the Bank of Canada, Tiff Macklem was even more explicit about his future intentions, stating that interest rates were now “essentially at the appropriate level.” For now, markets are expecting three rate cuts in the United States and a 40% chance of another cut in Canada over the next twelve months (**Chart 11**, next page).

⁴ Surging US power costs defy Donald Trump's pledge to halve bills, Financial Times, September 17, 2025.



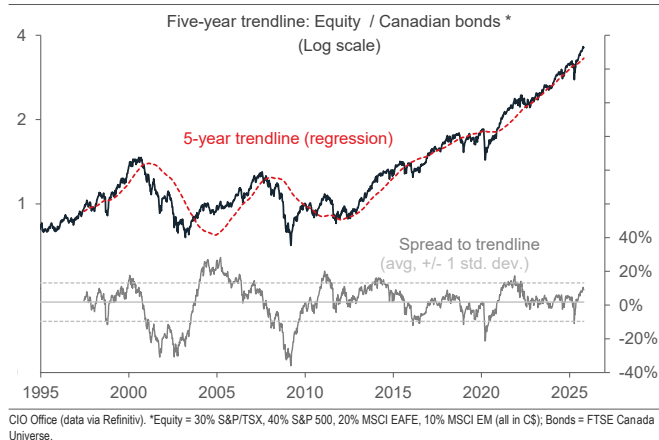
11 | No urgency for central banks from here on out



In short

Overall, the mix of more accommodative monetary and fiscal policies, strong earnings growth, favourable productivity prospects, and stable energy prices are all significant tailwinds for equity markets. Thus, although the approximately 10% gap to the trend in equities versus bonds represents a source of vulnerability in the short term, the overall direction should remain upward (**Chart 12**).

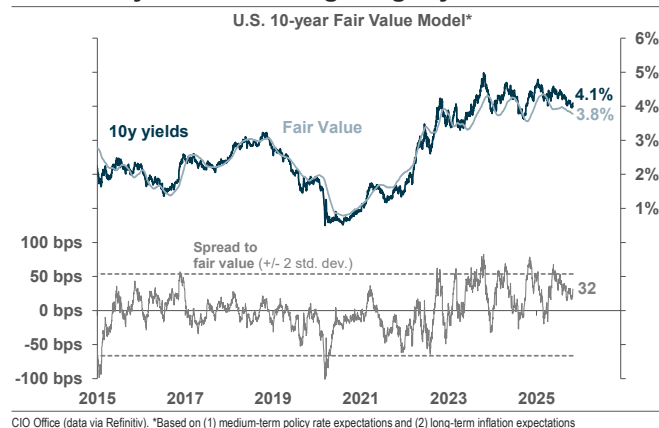
12 | Equities' upward trend is firmly rooted



For bonds, the outlook is not necessarily bleak. In theory, our fair value model for U.S. 10-year yields suggests that they could fall below 4% if

expectations of Fed rate cuts and inflation are vindicated over the coming months (**Chart 13**).

13 | Bond yields could edge slightly lower



In practice, this may be too much to ask in a context of significant fiscal deficits, so we should expect returns to be close to prevailing yields (**Chart 14**).

14 | Limited fluctuations → modest returns

Expected 1-year total return from a change in interest rates¹

Rate Change	U.S. 10-year Treasury Note	U.S. 30-year Treasury Bond	Canada 10-year Bond	Canada Broad Universe ²	Canada Corporate Universe ²
100bps	-3.7%	-11.2%	-5.1%	-4.0%	-1.7%
80bps	-2.2%	-8.1%	-3.4%	-2.5%	-0.6%
60bps	-0.6%	-4.9%	-1.8%	-1.0%	0.5%
40bps	1.0%	-1.7%	-0.2%	0.4%	1.6%
20bps	2.5%	1.5%	1.5%	1.9%	2.7%
0bps	4.1%	4.7%	3.1%	3.3%	3.9%
-20bps	5.6%	7.8%	4.8%	4.8%	5.0%
-40bps	7.2%	11.0%	6.4%	6.3%	6.1%
-60bps	8.8%	14.2%	8.0%	7.7%	7.2%
-80bps	10.3%	17.4%	9.7%	9.2%	8.3%
-100bps	11.9%	20.6%	11.3%	10.7%	9.4%

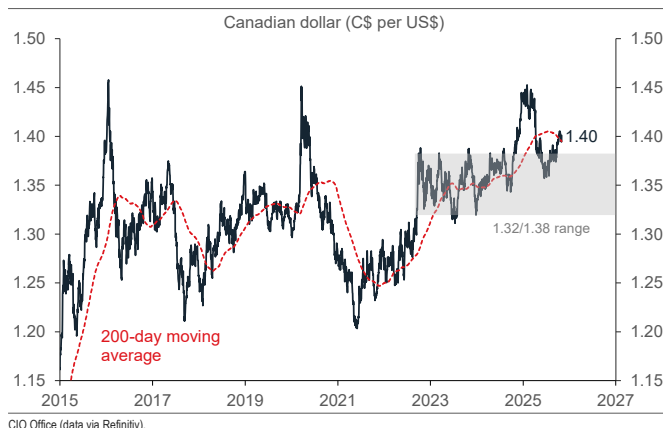
CIO Office (data via Refinitiv). 1. Total return = starting yield + roll yield + duration impact of the rate change (assuming parallel shifts in the yield curve). 2. For corporate bonds (representing approximately 30% of the Broad Universe index) we assume no change in credit spreads.

As for the Canadian dollar, unless the Federal budget (scheduled for November 4) seriously lacks ambition, chances are our currency will gain ground over the next 6 to 12 months. Clearly, any significant appreciation will require a minimum of clarity on the parameters governing trade with our southern neighbours, which will apparently have to wait a while longer, but the bar for returning to the 1.38 – 1.32 USD/CAD range does not seem all that high (**Chart 15**, next page). For reference, our



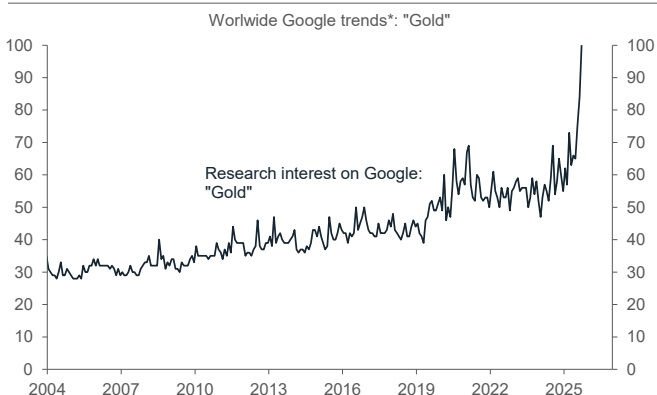
colleague economists' 12-month target is currently 1.34 USD/CAD.⁵

15 | Could the loonie make a comeback?



Finally, gold prices have recently attracted investors' interest as rarely seen before, shown by Google search data (Chart 16) and, more anecdotally, in the number of questions we've received on this topic.

16 | Did somebody mention gold?

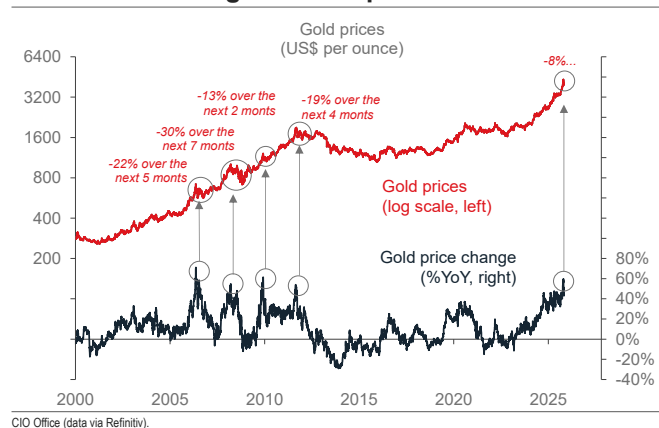


Admittedly, there are many arguments in favour of gold prices. Geopolitical uncertainty, purchases by major central banks, lower interest rates, higher fiscal deficits, low correlation with equities, and growing institutional demand are all factors that have prompted a string of investment firms to

predict a price that could border on \$5,000 per ounce in 2026.^{6,7,8}

However, while there is good reason to believe gold prices are engaged in a bull market that will last, the previous cycle from 2001 to 2011 teaches us this does not preclude significant pullbacks along the way. Specifically, on each of the four occasions when gold prices rose by around 60% on an annual basis (as they have just done), a correction of an average magnitude and duration of 21% over four months followed. This suggests that the decline since the October 20 peak may need to extend a little further before gold prices resume their upward trajectory (Chart 17).

17 | This was not gold's first parabolic move



The bottom line

After six consecutive months of stock market gains (Chart 18, next page) against a background of considerable uncertainty, it is reasonable to temper return expectations. Nevertheless, while the higher volatility seen in October is likely to persist, the overall situation remains largely favourable for risky

⁵ [Forex, NBF Economics and Strategy, October 2025.](#)

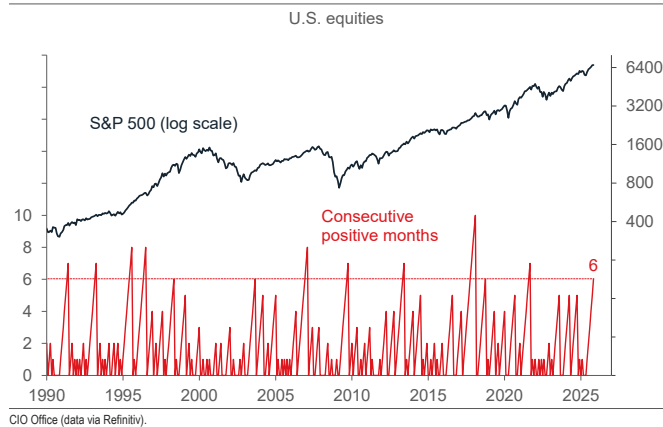
⁶ [BoFA says gold rally not extreme, next target \\$5,000 by 2026, Yahoo Finance, October 28, 2025.](#)

⁷ [JP Morgan sees gold prices averaging \\$5,055 per ounce by late 2026, Reuters, October 23, 2025.](#)

⁸ [Goldman Sachs sees upside risk to its \\$4,900 gold forecast, Yahoo finance, October 23, 2025.](#)



18 | Stocks increasingly deserve a break



assets, prompting us to maintain our asset allocation strategy unchanged.

Next month, we will publish our outlook for 2026, where we will have the opportunity to elaborate on our expectations and the likely implications across asset classes.



CIO Office
CIO-Office@nbc.ca

Martin Lefebvre
Chief Investment Officer
martin.lefebvre@nbc.ca

Louis Lajoie
Senior Director
Investment Strategy
louis.lajoie@nbc.ca

Simon-Carl Dunberry
Senior Director
Portfolio Strategy
simon-carl.dunberry@nbc.ca

Nicolas Charlton
Director
Quantitative Strategy
nicolas.charlton@nbc.ca

Mikhael Deutsch-Heng
Director
Investment Strategy
mikhael.deutschheng@nbc.ca

Zaid Shoufan
Associate
Portfolio Strategy
zaid.shoufan@nbc.ca

Julien Gordon
Analyst
Quantitative Strategy
julien.gordon@nbc.ca

General

The information and the data supplied in the present document, including those supplied by third parties, are considered accurate at the time of their printing and were obtained from sources which we considered reliable. We reserve the right to modify them without advance notice. This information and data are supplied as informative content only. No representation or guarantee, explicit or implicit, is made as for the exactness, the quality and the complete character of this information and these data. The opinions expressed are not to be construed as solicitation or offer to buy or sell shares mentioned herein and should not be considered as recommendations.

Views expressed regarding a particular company, security, industry, market sector, future events (such as market and economic conditions), company or security performance, upcoming product offerings or other projections are the views of only the CIO Office, as of the time expressed and do not necessarily represent the views of National Bank of Canada and its subsidiaries (the "Bank"). Any such views are subject to change at any time based upon markets and other conditions, which could cause actual results to differ materially from what the CIO Office presently anticipate(s) or project(s). The Bank disclaims any responsibility to update such views. These views are not a recommendation to buy or sell and may not be relied on as investment advice.

These index providers may be included in this document: BofA Merrill Lynch, Standard & Poor's, FTSE, Nasdaq, Russell et MSCI. These companies are licensing their indices "as is", make no warranties regarding same, do not guarantee the suitability, quality, accuracy, timeliness and/or completeness of their indices or any data included in, related to or derived therefrom, assume no liability in connection with their use and do not sponsor, endorse or recommend National Bank Investments Inc. and any of their products and services. The above index providers do not guarantee the accuracy of any index or blended benchmark model created by National Investment Bank using any of these indices. No responsibility or liability shall attach to any member of the Index Providers or their respective directors, officers, employees, partners or licensors for any errors or losses arising from the use of this publication or any information or data contained herein. In no event shall the above Index Providers be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, legal or other expenses, or losses (including, without limitation, lost revenues or profits and opportunity costs) arising out of or in connection with the use of the content, even if advised of the possibility of such damages.

The FTSE/TMX indices are trademarks of the LSE Group. S&P Indices are trademarks of S&P Dow Jones Indices LLC, a division of S&P Global. MSCI indices are trademarks of MSCI Inc. BofA indices are trademarks of Merrill Lynch, Pierce Fenner & Smith incorporated ("BofAML"). Nasdaq index is a trademark of Nasdaq Inc. Russell 2000 ® is a trademark of the Frank Russell Company.

© National Bank Investments Inc., 2025. All rights reserved. Any reproduction, in whole or in part, is strictly prohibited without the prior written consent of National Bank Investments Inc.

® NATIONAL BANK INVESTMENTS is a registered trademark of National Bank of Canada, used under licence by National Bank Investments Inc.

National Bank Investments is a signatory of the United Nations-supported Principles for Responsible Investment, a member of Canada's Responsible Investment Association, and a founding participant in the Climate Engagement Canada initiative.