

The winds are shifting

Markets kept their momentum going during the third quarter, with Emerging Markets and Canadian equities leading the charge, the latter being supported by the relative strength of cyclical sectors such as Financials, Energy and especially Materials. U.S. equities also advanced, though gains were more modest amid already very high valuations. Canadian fixed income posted slightly positive returns, benefiting from a drop in yields late in the quarter.

Over the summer, macroeconomic conditions remained relatively stable, with inflation holding near 2% in Canada and a bit higher, around 3%, in the United States. However, the winds appear to be shifting in the labour market, where there are more serious signs of a slowdown, as the pace of job creation slowed and the unemployment rate ticked up to its highest level since 2021. This evolving environment has prompted central banks to recalibrate their policy stance, with both the Bank of Canada and the Federal Reserve cutting rates in September and suggesting that further easing is now on the table.

Against this backdrop, our base case scenario of moderate economic growth and above-target inflation in the US remains largely unchanged. While challenges remain, global activity should be supported by improving financial conditions and a more favourable fiscal and monetary stance in the coming quarters. In terms of key risks, a further deterioration of the labour market cannot be ruled out, while an acceleration in inflation could quickly call into question market expectations of upcoming Fed rate cuts. Thus, after a remarkably calm summer, volatility could increase in the coming months as markets digest the constantly changing economic and geopolitical environment.

Under these conditions, we maintained our moderate risk-on stance through an overweight position in equities relative to fixed income. Within equities, we continue to favour Canada over the U.S., reflecting our view that Canadian markets offer a more interesting sector composition considering the current economic environment. Finally, despite the dovish bias toward interest rate cuts by central banks, bonds are likely to continue to trade without direction, given the lack of visibility on the longer-term trajectory of inflation and fiscal deficits.

| Q4 2025 | | Key elements and investment implications |
|------------------|---------------------------------|---|
| Bull case | Above-trend growth (20%) | <ul style="list-style-type: none"> • The U.S. labour market strengthens, consumptions surprises to the upside and inflation stagnates above 3%. • The Fed is unable to deliver the expected rate cuts and instead keeps its monetary policy unchanged. • Trade and geopolitical tensions ease, energy prices remain stable, and international trade rebounds. • Worldwide fiscal expansion supports global economic growth. • In the US, the business climate is improves thanks to more accommodative regulatory and fiscal policies. <p>Economic implications: Real GDP growth > 2%, stable unemployment rate around 4%</p> <p>Market implications: ↑Equities, ↑Bond yields, ↑Volatility, ↑USD</p> |
| Base case | Sub-trend growth (65%) | <ul style="list-style-type: none"> • The U.S. labour market slows down, but layoffs are limited; inflation stagnates near 3%, partly due to tariffs. • The Fed gradually brings its monetary policy into neutral territory with two to three additional 25bps rate cuts. • U.S. tariff policy stabilizes at current levels. Uncertainty decreases, businesses and consumers adapt. • The stimulus from the Trump administration's tax plan begins to be felt in business investment, especially in 2026. • In the U.S., consumer spending proves resilient, supported by solid real wage growth. <p>Economic implications: Real GDP growth between 1-2%, U.S. unemployment rate near 4.5%</p> <p>Market implications: ↑Equities, ↓Bond yields, ↓Volatility, ↓USD</p> |
| Bear case | Recession (15%) | <ul style="list-style-type: none"> • The U.S. labour market weakens rapidly; employment contracts and the unemployment rate rises significantly. • With the fears of some Fed members proving to be well-founded, the central bank rapidly cuts its policy rate into accommodative territory. • Geopolitical and trade tensions escalate, leading to greater volatility across all markets. • Households tighten their belts and increase their savings rate, leading to a slowdown in consumer spending. <p>Economic implications: Real GDP contraction, U.S. unemployment rate above 4.5%</p> <p>Market implications: ↓Equities ↓Bond yields, ↑Volatility, ↓USD</p> |

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General

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