

A smartphone screen displaying a financial market overview. The screen shows a line chart with a blue area under the line, representing market data. The chart has a y-axis ranging from 3.70 to 3.80 and an x-axis with dates like 10/19/23. Above the chart, there are tabs for 'Overview', 'Options', and 'Maximize'. To the right of the chart, there are news headlines such as 'Loonie Pauses Losses as Oil Prices Decline: Inside Canada', 'Ontario Spread Tightens: Canada Provinces', 'Bloomberg Canada Corporate Index Down, OAS Unchanged', 'Canada Yield Curve Steady, CDS Spread Wider', and 'Canada Yield Curve Steady, Stocks Down'. The phone's status bar at the top shows '60%' battery and various icons.

Market Commentary

THIRD QUARTER - SEPTEMBER 30 2025



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Equity Markets

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Equity markets extended their gains through the third quarter as investors took comfort in a clear shift toward easier monetary policy and signs of continued resilience in corporate earnings. Both the Federal Reserve and the Bank of Canada moved to cut rates, reinforcing confidence that policy support would remain in place as growth cooled. Canadian equities continued to lead global markets, with performance supported by a broadening in sector participation and notable strength in gold and other resource names. The combination of easing policy and steady earnings reinforced confidence that the cycle remains intact despite signs of slower growth ahead.

Canadian equities carried their momentum into the third quarter, adding another 12.5% as market breadth improved and gold surged to multi-year highs. Materials led the advance with an exceptional 38% return, underscoring the strength of resource-linked sectors and reinforcing Canada's market leadership. Despite the clear leadership, breadth was wide with ten of eleven sectors offering positive returns. Investors certainly favoured more economically sensitive companies as Technology (+13%), Energy (+11%) and Financials (+11%) performed the best after Materials. Industrials (-1%) was a bit surprisingly the only negative sector, as investors shied away from the transportation sector.

U.S. equities advanced strongly in the third quarter, rising 8.1% in USD during the quarter. The US dollar rebounded against the loonie leading to a 10.3% return in Canadian dollars. Excitement around generative-AI also continued. The main players building out infrastructure (Meta, Alphabet, Microsoft, Amazon, etc.), backed by immense balance sheets and cash flows from their non-AI businesses, are all showing signs of FOMO, pouring hundreds of billions of dollars into new data-centers as they race toward superintelligence. Despite the mixed economic backdrop and unpredictable trade policy changes from the Trump administration, earnings have remained resilient. Sectors tied to "generative-AI" winners led the way again. Information Technology (+13%), Communication

Services (+12%), and Consumer Discretionary (+10%) outperformed, driven largely by five heavyweight constituents; Alphabet, Apple, Broadcom, Nvidia, and Tesla, which accounted for the lion's share of gains.

International equities momentum continued this quarter, up 7.0% in Canadian dollars, but lagged their US counterparts given its lower underlying exposure to generative-AI. From a sectorial basis, the strength was led by financials (+10%), particularly with banks who has continued to drastically outperform as they benefit from the interest rate curve steepening. Consumer discretionary (+9%) also performed strongly driven by increasing clarity on tariffs for car OEMs, a rebound in the luxury behemoth LVMH and Prosus, which owns a significant stake in Chinese tech company: Tencent. The rally was generally funded by selling off defensive sectors with Consumer Staples (+1%), Health Care (+3%), Communication Services (+3%) and Utilities (+4%), all lagging the benchmark.

While the macro backdrop remains challenging, markets have continued to grind higher, supported by the shift toward easier monetary policy and still-resilient corporate earnings. Global trade tensions have eased somewhat, though political uncertainty in major economies continues to cloud the outlook. Economic growth appears to be slowing gradually rather than stalling outright, suggesting that the long-anticipated soft



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landing may be taking shape. However, we recognize the potential for a lag effect that could see inflation reaccelerate as policy easing filters through the economy and commodity prices stabilize. At the same time, advances in artificial intelligence continue to raise the possibility of a meaningful productivity boost—one that could extend the cycle, contain inflation pressures, and support corporate profitability. This balance of risks has kept policymakers cautious and could challenge the market's expectation of a smooth disinflation path. We believe selectivity remains paramount. Valuations are elevated, and the dispersion of returns across sectors and regions is widening. In this environment, we maintain a balanced to moderately defensive posture—focusing on companies with durable cash flows, sound balance sheets, and reasonable valuations. While near-term volatility is likely as markets digest mixed economic signals, central banks' renewed flexibility should help cushion downside risk and sustain confidence in risk assets.



Fixed Income Markets

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The third quarter of 2025 was marked by a broad shift in global monetary policy, with several central banks moving to cut interest rates in response to moderating inflation, weakening labour markets, and slowing economic activity. This coordinated easing improved financial conditions but was accompanied by a notable rise in fiscal deficits. In response to escalating protectionist measures from the United States, many governments increased spending to restructure supply chains and support domestic industries. This expansionary fiscal stance has pushed long-term yields higher, steepened global yield curves, and raised concerns about the sustainability of government borrowing.

The Bank of Canada (BoC) cut its policy rate by 25 basis points in September, bringing it to 2.5%. The move reflected reduced inflation risk and growing signs of economic weakness. Headline inflation remains above the BoC's 2% target at 2.5%, but the recent removal of retaliatory tariffs has eased near-term price pressures. Meanwhile, consumer spending has slowed, and labour markets have softened further. With Q2 GDP contracting by 1.6%, and early data suggesting continued weakness in Q3, we expect at least one additional rate cut by year-end. Canadian GDP growth is forecasted at 1.2% for 2025, with a modest recovery to 1.5% projected in 2026.

The U.S. Federal Reserve also lowered its target rate by 25 basis points to 4.00%–4.25%, driven by signs of labour market weakness. However, with core inflation still elevated at 3.1%, further rate cuts could be limited. Despite ongoing global trade uncertainty, the U.S. economy showed strength in the second quarter, with GDP growth revised up to 3.8%, supported by robust consumer spending and strong investment in AI-related technologies.

The Canadian yield curve steepened further in Q3, as short-term rates declined and long-term yields rose. Rate cut expectations weighed on the front end, while fiscal concerns and increased global bond issuance drove long-term yields higher.

This dynamic reflects rising term premiums amid growing concerns about long-term inflation and government concerns about long-term inflation and government funding needs, despite short-term disinflationary trends

While stagflation risks have increased—given the combination of slowing growth and elevated inflation—we do not view this outcome as inevitable. The full impact of monetary easing and fiscal stimulus has yet to materialize. Market direction in Q4 will depend on how quickly these measures support demand and whether inflation continues to trend lower.



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