RJL PCS: INSIGHTS & STRATEGIES

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October 2025 Insights & Strategies: Gold and A.I. and rate cuts, oh my!

Macro Highlights for September

- U.S. 2Q25 GDP was revised up again to +3.8% (from +3.3%) annualized growth over 1Q25, a sharp rebound from the -0.6% (revised from -0.5%) contraction in 1Q25. Net exports' contribution to GDP growth swung from a -4.6% drag in Q1 (as companies stocked up on inventory to front-run tariffs) to a +4.8% boost in Q2. Consumer spending continues to support growth, at +2.5% (revised up from +1.6%) in Q2, after a +0.6% (revised from +0.5%) gain in Q1.
- Canadian GDP was +0.2% m/m in July (up from the preliminary estimate of +0.1%), improved from -1.6% in 2Q25 (annualized). Goods production was +0.6% m/m while services production was +0.1% m/m. The advance estimate for August suggests no change, with weakness in manufacturing, likely mostly in trade-sensitive areas.
- U.S. Fed Chair, Jerome Powell, warned that there are "no risk-free paths now", after the FOMC lowered its policy rate by 25 bps on September 17. The message is that holding interest rates at current levels risks driving the unemployment rate higher, while lowering rates risks allowing inflation to rise higher.

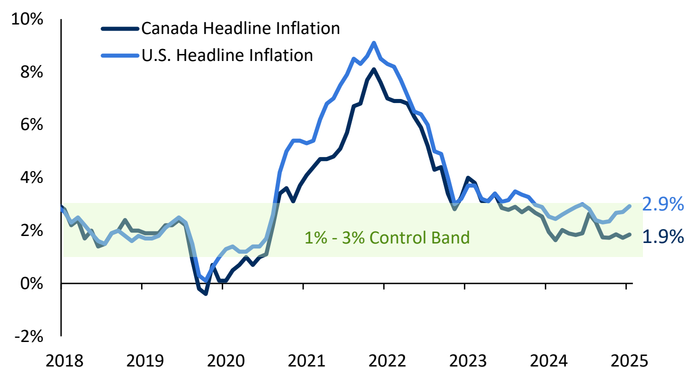
Financial Markets in September

- In September, the TSX gained 5.1% in price and 5.4% in total return, pushing its year-to-date performance to 21.4% and 23.9%, respectively. The S&P 500 also had a solid month, rising 3.5% in price and 3.6% in total return, bringing its year-to-date gains to 13.7% and 14.8% in local currency.
- The TSX Composite continued to outpace the S&P 500 in September, as rhetoric on trade seems to have cooled, as impacts to economic growth and the labour market have been significant, but not as bad as feared. Further increases in the month in the price of gold (+11.5% to US$3,825/oz) have also led to significant strength in the Materials sectors, which has been a major driver of Canada's outperformance. We maintain our year-end target of 29,900 for the TSX Composite index as we await 3Q25 earnings results and commentary.
- U.S. equity market indices continued to climb in September, with price returns led by the NASDAQ 100 (+5.4%), followed by the S&P 500 (+3.5%). Improved market breadth also supported the Russell 2000, the small-cap benchmark, which rose 3.0% and surpassed its previous 2021 high, as a new rate easing cycle breathed new life into this previously overlooked segment. Further broadening out of market leadership could be difficult as intensifying tariff pressures place more headwinds on smaller companies with less capacity to absorb supply chain disruptions and margin pressures.

Upcoming

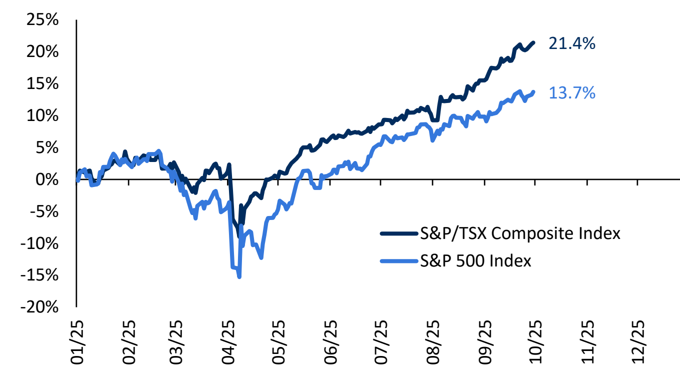
- Canada's unemployment rate will be updated on October 10. The consensus expectation is that it will remain steady at 7.1%.
- In mid-October we will start to see 3Q25 earnings being reported, which should provide additional clarity and commentary on how tariffs have been impacting businesses since the latest broad implementation in August. The most recent earnings revisions have been positive, as impacts so far have been less than feared and companies are touting productivity gains from A.I.
- With September rate cuts behind us, financial markets will be looking for signals about the potential for cuts at the next BoC and FOMC announcements on October 29 (and then on December 10). Weakening labour markets favour one more cut in Canada and two more cuts in the U.S., by year-end.

Chart 1 - Canada and U.S. Headline Inflation



Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025. Not seasonally adjusted.

Chart 2 - S&P/TSX Composite and S&P 500 2025 Performance



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. Price return in local currency.

Executive Summary

Interest rates are coming down. On September 17, both the Bank of Canada (BoC) and the Federal Open Markets Committee (FOMC or Fed), lowered their policy rates by 25 basis points (bps). In Canada, this was in response to a weakening economy that has been battered by U.S. tariffs and general economic and trade uncertainty, against the backdrop of relatively controlled inflation and a deteriorating labour market. In the U.S., economic growth has been still relatively strong and the unemployment rate is historically low, although signs are pointing to the economy weakening somewhat and employment growth slowing. Despite inflation remaining stubbornly above target, the FOMC is more willing to look past the slightly elevated inflation, with the expectation that some of it will be tariff-driven and transient, in order to preemptively avoid any rapid deterioration in employment with this “risk management” rate cut. More cuts are expected before year-end.

Equity markets continue to climb. The stock market generally likes interest rate cuts. This easing, which can make equity valuation calculations more favourable, and shift investor sentiment away from the declining yields of fixed income and money market investments, towards the higher returns of equities. Of course, there has to be a reasonable attractiveness to the stock market. In Canada investors have been recognizing that the U.S. trade war has not been as dramatic as feared, bringing more confidence back to investors, as an escalating gold price has boosted the TSX Materials sector specifically. In the U.S., enthusiasm about A.I.-induced spending and anticipated gains in productivity and efficiencies have been major drivers of S&P 500 performance, while rate cuts and a still resilient economy has improved market breadth and renewed enthusiasm in small cap stocks. The Russell 2000 finally broke through its previous high from 2021, as earnings expectations have broken out from an almost three-year slump, although growth expectations are still well below large cap stocks.

Gold continues to shine. There are lots of tailwinds pushing up the price of gold, which is often seen as an asset to protect against both inflation and geopolitical concerns. The price of gold ended September at around US$3,800, and chalked up 15 record highs during the quarter and 39 year-to-date.

Tariff concerns not as pronounced. The tariff story is far from over, yet fears of tariffs that would decimate the Canadian economy and drive up U.S. inflation are fading somewhat. Canadian exports to the U.S. have been relatively shielded by the USMCA agreement, despite certain industries, such as automotive, steel, and aluminum being put under significant strain. The U.S. has also given numerous exemptions after chaotically announcing broad tariffs in April, such that the actual tariffs collected have been much lower than would be expected from headline announcements and effective tariff rate calculations. As businesses initially stockpiled inventories to avoid tariffs, they have now started to adapt to a more stable tariff regime. While the extra revenue that the U.S. government is collecting is primarily coming from U.S. companies and U.S. consumers, impacts so far have not been as devastating as feared, and while we can still expect some inflation impacts to come, policymakers are generally willing to accept that they will be transient and manageable when determining monetary policy.

Attention is turning to 2026. As investors somewhat shrug off tariff pressures and economic uncertainty, a lot of attention is turning now to the benefits of the One Big Beautiful Bill Act (OBBBA) in the U.S. Benefits to consumers could be larger tax refunds (no tax on tips, no tax on overtime), while businesses could benefit from fixed business investment (immediate expensing). The offset is that the OBBBA will add over US$4 trillion to the deficit over the next 10 years, and raise the deficit to over 7% of GDP. Tariff collections however could ease that to 6.2-6.5% of GDP over the next few years. As we watch for central banks to reduce rates affecting the shorter end of the yield curve, we will also be watching the longer-end as the bond market reflects concerns about government debt, economic growth, and inflation.

Tariffs

Tariffs remain an overriding concern for investors, but the erratic roll-out has lost much of its shock value. As tariffs are threatened, imposed, delayed, re-imposed, and scaled back, markets have been on a roller-coaster ride for most of 2025. Tariffs however, are certainly here to stay. Tariffs collected by the U.S. government represented approximately US$30 billion in August and US$145 billion YTD. (The September update is not yet available.) Overall, the average effective tariff rate is estimated to be ~11.5% as of August up from 9.5% in July. As announced tariffs come into effect, that rate is expected to settle into the 15-20% range (currently 17.9% according to the Yale Budget Lab, up from 17.4% last month). Canada is faring relatively better than most countries, with an expected rate of ~5% based on the vast majority of goods continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Below, we include brief updates on key tariff-related items.

Another legal blow to IEEPA-based tariffs

On August 29, the Federal Court of Appeals upheld the May 28 ruling from the U.S. Court of International Trade (CIT) against President Trump's use of the International Emergency Economic Powers Act (IEEPA) to impose unlimited global tariffs. This has been the Trump Administration's favoured tool to quickly implement massive tariff rates against various countries — including the 'fentanyl' tariffs against Canada, Mexico, and China, that were first announced in early February, and are still being used against non-USMCA-compliant products, as well as all the 'reciprocal' tariffs that were announced on April 2. The Appeals Court did however leave the tariffs in place until October 14, which allows time to appeal to the Supreme Court. This issue was likely heading to the Supreme Court in any event, so there are no surprises there. We see the most likely path as the Supreme Court leaves the tariffs in place until they rule themselves, likely in early 2026.

IEEPA was by no means the only tariff mechanism in President Trump's toolbox, and the other sector-specific tariffs, such as against the automotive industry, steel, and aluminum, that were implemented using Section 232, are unaffected by these rulings. While a ruling against the use of IEEPA could require the reimbursement of over US$62 billion already collected, we expect that the Trump Administration was already prepared for the possibility, and aside from challenging it, will also potentially use Section 122 authority, which allows the President to impose tariffs of up to 15% for up to 150 days to address "large and serious" trade deficits. An existing Section 301 authorization against China could also be used to continue the pressure, and new investigations using Section 301 and 232 are likely to be used against various countries as the Section 122 tariffs expire. Section 232 investigations on pharmaceuticals, semiconductors, copper, and lumber are already underway (Table 1). Overall, although the mechanisms might change, we see this Administration continuing along the same tariff path regardless of this ruling.

April 2 — Liberation Day tariffs

April 2 now seems like a distant memory after multiple delays, revisions, and new deals. The rates that President Trump announced on "Liberation Day" shocked the world. While termed "reciprocal" tariffs based on each country's tariff and non-tariff trade barriers to U.S. products, the rates displayed were instead based on U.S. trade deficits with each country in 2024, divided by the value of U.S. imports from that country. This rate was then halved to derive the tariff rate that the U.S. would apply against each country, subject to a minimum rate of 10%, but escalating to as high as 50%. These rates stacked on existing rates however, such that the 34% "reciprocal" rate on China was stacked onto the 20% rate that was previously announced under the 'fentanyl' tariffs, for a combined rate of 54%. These rates have generally been revised and are summarized in Chart 4.

De minimis exemption

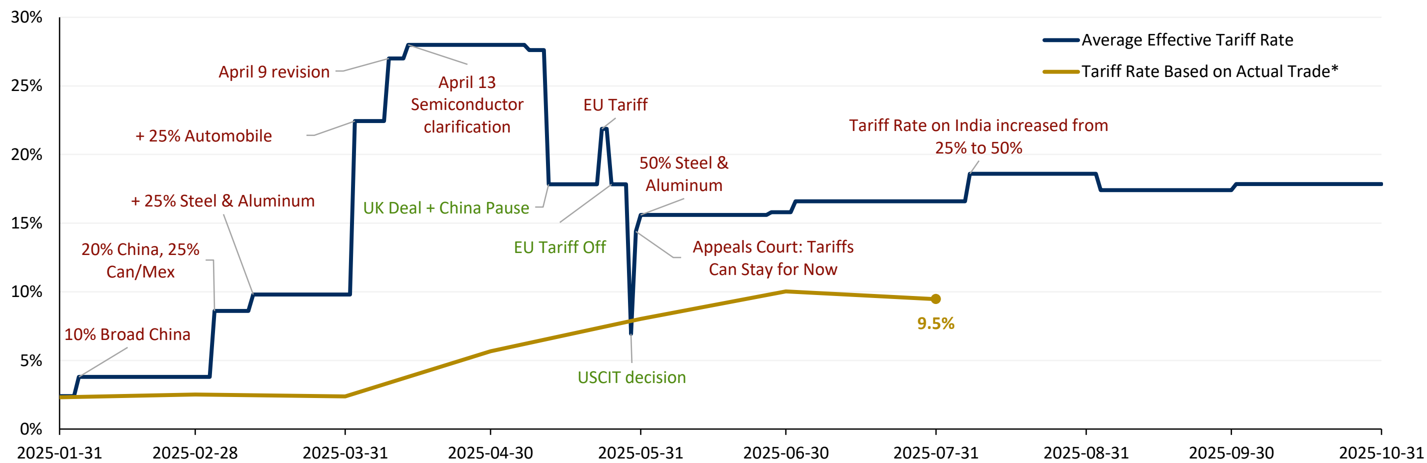
Wrapped up in the tariff discussion was the 'de minimis' exemption. A major tax-loophole for American consumers, it had a dramatic overhaul. Previously, shipments by mail that were valued under US$800 were exempt from duties. Now, Americans using e-commerce sites, many of which were primarily sourcing from China, such as Temu and Shein, are going to have to cover taxes, which as in the case of shipments from China, is currently 34%. Packages received from all other countries will be taxed at the country-specific IEEPA rate as of August 29. In 2022, 80% of all U.S. bound e-commerce shipments were covered by the 'de minimis' exemption, with the vast majoring coming from China, and last year, U.S. Customs and Border Protection (CBP) processed 1.36 billion 'de minimis' exempt packages.

Table 1 - Section 232 Tariffs Summary, as of October 6, 2025

Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3	25%
Steel and aluminum	Effective June 4	50%
Copper	Effective August 1	50%
Pharmaceuticals	Effective October 1	100%
Softwood timber and lumber	Effective October 14	10%
Wooden furniture	Effective October 14	25% (will increase to 30% on Jan 1, 2026)
Kitchen cabinets and vanities	Effective October 14	25% (will increase to 50% on Jan 1, 2026)
Medium/heavy duty trucks	Effective November 1	25%
Semiconductors and chip making equipment	Investigation initiated April 1	Threatened 100%
Processed critical minerals and derivative products	Investigation initiated April 22	-
Commercial aircraft and jet engines	Investigation initiated May 1	-
Polysilicon and its derivatives	Investigation initiated July 1	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1	-
Wind turbines	Investigation initiated August 13	-
Robotics and industrial machinery	Investigation initiated September 2	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2	-

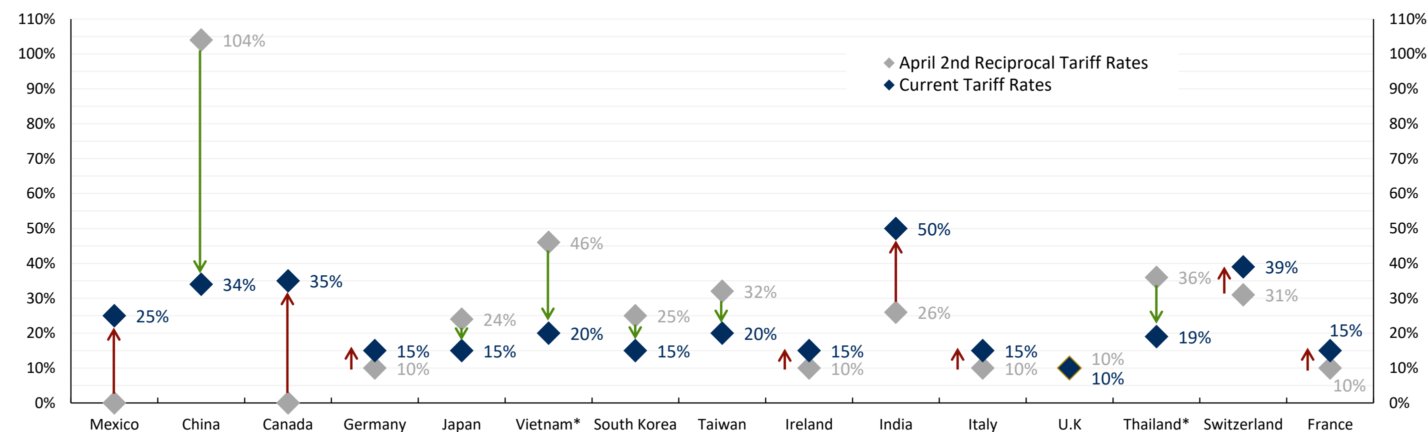
Source: U.S. Department of Commerce, Raymond James Ltd.

Chart 3 - U.S. Effective and Actual Tariff Rate



Source: The Budget Lab at Yale. *Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Tariff Rates - As of October 6, 2025



Source: U.S. Census Bureau, Raymond James Ltd. *USMCA-compliant goods remain exempt. **40% tariff rate on transshipments.

Canada's Economic Response to Tariffs

It has now been eight months since the initial U.S. tariff threat and three months since our last update on Canada's economic tracker (Table 2). Since then, several shifts have taken place. Net exports swung from a 1.4% gain in 1Q25 to a 7.5% decline in 2Q25, while the trade deficit remained wide through the summer months, though less extreme than April's record gap. The BoC also delivered a 25 bps rate cut, a move broadly anticipated by markets.

Some areas of the economy have proven more resilient than expected. Manufacturing sales have held up, supported by solid domestic demand, particularly in the auto sector, which has been hit hard in exports but less so in domestic retail sales. Retail spending has also been steadier than feared, underpinned by households drawing down savings (the savings rate fell from 7.2% in 3Q24 to 5.0% in 2Q25) as real credit card spending declined. Stock market gains in recent years have likely added a wealth effect, giving households more confidence to keep spending. Meanwhile, recent business sentiment surveys point to modest improvements in outlook, and tariff-driven inflation concerns have somewhat eased.

On the other hand, signs of spillover from U.S. tariffs are emerging in the core working-age unemployment rate. Unlike youth unemployment, which mainly reflects hiring freezes, rising unemployment among prime-age workers points to layoffs, restructuring, and tougher job searches for experienced employees. That could be an early sign of broader economic stress.

Bottom line: While some industries are clearly feeling the pain, the Canadian economy looks set to avoid a technical recession for now, and the tariff impact remains manageable. A 5% savings rate is still fairly healthy by historical standards, so there is probably no immediate risk of a sharp pullback in consumer spending. The core-age unemployment rate will be the key indicator to watch. If it rises quickly, it would show that the spillover from tariffs is worsening. For the moment, with the labour force itself shrinking, a sharp spike seems less likely.

Table 2 - Canada's Economic Response to Tariffs At a Glance

Channel	Indicator	Latest Update	Comment	Primary/ Secondary Impact	Magnitude of Economic Impact	Economic Implications
GDP	Exports	2Q25	Exports fell 7.5% in 2Q after a 1.4% gain in 1Q, pulling down overall 2Q growth by 2.5%.	Primary	Significant	The sharp drag from net exports in 2Q25 is unlikely to weigh as heavily on 3Q25 GDP. However, the boost from inventories is also expected to fade, as businesses will need time to work through previously front-loaded goods. Private investment remains subdued, leaving government spending as an increasingly important driver of growth. Consumer spending has held up better than anticipated, though there are clear signs that households are dipping into savings to sustain it. Looking ahead, the economy may recover only gradually, but Canada will likely avoid falling into a technical recession.
	Inventories	2Q25	Inventories were again the biggest driver of GDP growth in both 1Q and 2Q, with firms continuing to front-load orders.	Primary	Significant	
	Manufacturing, Wholesale	Jul-25	Both sectors bounced back to Dec-24 levels, but remain volatile, especially autos and auto-parts manufacturing and distribution.	Primary	Considerable	
International Trade	Trade Deficit	Aug-25	After a moderate recovery between May and Jul-25, the trade deficit widened again to $6.3 billion in Aug-25, nearing Apr-25's record of $7.6 billion. Exports to the U.S. saw a modest rebound after Apr-25 but declined again in Aug-25, remaining well below 2024 levels, while total imports stayed strong.	Primary	Significant	Since the U.S. makes up such a large share of Canada's exports, the modest pickup in sales to other markets has not been enough to make up for the significant drop in exports to the U.S. This remains the main driver of Canada's recent trade deficit. Another contributing factor is that total imports have remained strong, particularly from countries outside the U.S., which have been on a steady uptrend YTD.
	USMCA Compliance Rate	Jul-25	Compliance rose from 38% in Dec-24 to 85% in Jul-25	Primary	Considerable	The increase in USMCA compliance rate is mostly driven by more registered energy exports and a fall in non-compliant exports. Exports to the U.S. are down 15.5% YTD. Most compliant goods are likely already registered; the remainder may be structurally non-compliant.
Manufacturing Sector	Manufacturing Sales Values	Jul-25	Sales rose for a second month, up 0.3% in Jun-25 and 2.5% in Jul-25, though still below the 2024 average. New orders remain volatile and inventories have jumped.	Primary	Considerable	Due to Canada's proximity to the U.S. within the manufacturing value chain, industries that produce similar goods are especially vulnerable. Once U.S. producers ramp up their capacity, it may be difficult for Canadian exporters to reclaim lost market share following tariff-related disruptions. This dynamic is likely to accelerate the need for Canadian exporters to diversify their customer base. Although sectors like automotive and metal are seeing sharp drops in export orders, steady domestic demand has helped prevent a collapse in sales. For now, the broader economic impact remains contained.
	PMI Output & New Orders	Sep-25	Output and orders have been shrinking for eight straight months, though the pace of contraction slowed in 3Q compared to 2Q.	Primary	Considerable	
	Manufacturing Employment	May-25	Manufacturing employment was 1.819M in Aug-25, down 3.1% from Jan-25, with 58k jobs lost since February.	Primary	Considerable	

Source: Raymond James Ltd., Bank of Canada, Statistics Canada, Capital Economics, S&P Global, Equifax, BDC, CFIB.

Table 2 (Continued) - Canada's Economic Response to Tariffs At a Glance

Channel	Indicator	Latest Update	Comment	Primary/ Secondary Impact	Magnitude of Economic Impact	Economic Implications
Labour Market	Unemployment Rate	Aug-25	Youth unemployment (15–24) stayed high at 14.5% vs. 10.9% in Jan-25. Core working-age (25–54) unemployment rose from 5.8% in Jul-25 to 6.1% in Aug-25, the highest since Jul-21. Ontario remains the hardest hit.	Primary & Secondary	Considerable	The strains in the labour market highlight the growing impact of U.S. tariffs, with the effects now becoming evident in trade-sensitive sectors and in regions more exposed to U.S. demand. The increase in the core-age unemployment rate may also signal the early stages of broader spillovers from these tariffs. Unlike youth unemployment, which often reflects hiring freezes, rising joblessness among core-age workers points to layoffs, corporate downsizing, and greater difficulty for experienced employees in finding new positions. Combined with subdued hiring intentions, the unemployment rate may continue to edge higher, though a shrinking labour force could provide some stabilization.
	Hiring Intention (S&P Global and CFIB Surveys)	Sep-25	Surveys point to weak hiring plans, with small businesses cutting back on full-time staff.	Primary & Secondary	Noticeable	
Policy Rates	BoC Policy Rate Decision	Sep-25	The BoC cut policy rate by 25bps from 2.75% to 2.5%	Secondary	Considerable	With a weaker economy and less upside risk to inflation, Governing Council judged that a reduction in the policy rate was appropriate to better balance the risks. We maintain our projection that the BoC will continue to lower the policy rate throughout the remainder of the year as economic weakness becomes more evident, while inflation remains relatively contained, ending 2025 at 2.25%.
Business Outlook	The Canadian Small Business Health Index, by BDC and Equifax	2Q25	The national index continued its descent in 2Q25, falling to 97.0, a 2.5% decline from the last quarter.	Primary & Secondary	Noticeable	Tariffs have so far hit Canada's economy less sharply than expected, with 2Q25 likely marking the low point in business confidence. Conditions may improve in 3Q25, but uncertainty remains. The outlook will hinge on Canada–U.S. relations, government spending, and consumer demand. It is also important to note that the effects remain uneven across sectors and regions, leaving some businesses more vulnerable than others.
	CFIB Small Business Confidence Index	Sep-25	Surveyed firms are evenly split, half expect conditions to improve, half expect them to worsen over the next year.	Primary & Secondary	Noticeable	
Inflation	BoC Policy Rate Decision Press Conference	Sep-25	Recent data suggest the upward pressures on underlying inflation have diminished, and with the removal of most retaliatory tariffs by Canada, there is less upside risk to future inflation.	Primary & Secondary	Noticeable	Although businesses plan to raise prices, we don't expect most CPI components to stay elevated for long. Inflation should continue to ease given (1) weaker consumer sentiment and cooling labour market, (2) the removal of most retaliatory tariffs by Canada, and (3) reduced U.S. sales redirect more supply to Canada's domestic market.
	CFIB Small Business Avg Price Plan	Sep-25	Small businesses expect next year average prices to rise by 2.7% in Sep-25, down from 3.6% in Mar-25, yet still higher than 2.3% in Sep-24	Primary & Secondary	Noticeable	
Consumer Spending	Retail Sales	Jul-25	Sales have been stable year-to-date, down 0.8% in Jul-25 but with preliminary Aug-25 data showing a 1% rebound.	Secondary	Noticeable	Consumer spending has held up better than expected, supported in part by the drawdown of household savings. This helps explain why overall spending remains resilient even as credit card usage has declined. The spillover effects have yet to fully weigh on consumption. However, the recent rise in unemployment among core working-age Canadians could be an early warning sign of weakness ahead.
	Nanos Canadian Confidence Index	Sep-25	After falling sharply in Feb–Apr 25, confidence bounced back in May–Jul 25 and has held slightly positive since.	Secondary	Noticeable	
	Equifax Avg Credit Card Spending Per Cardholder	2Q25	Credit card spending has been slipping, mainly among mortgage holders. When adjusted for inflation, the average credit card spend per consumer was over $2,100 in Jun-25, a 0.4% decrease from Jun-24.	Secondary	Noticeable	
Housing Market	Sales-to-New Listings Ratio	Aug-25	The ratio stayed soft at 51.2%, below the long-term average of 54.9%.	Secondary	Noticeable	Tariffs and market uncertainty remain key drags on the housing market. Still, home prices could rebound later this year, supported by rate cuts, the First-Time Home Buyer GST Rebate, and broader economic impacts from U.S. tariff de-escalation.
	MLS Home Prices	Aug-25	Prices show early signs of stabilizing after falling in the 1H25, but remain down 3.5% YTD.	Secondary	Noticeable	

Source: Raymond James Ltd., Bank of Canada, Statistics Canada, Capital Economics, S&P Global, Equifax, BDC, CFIB.

Economics

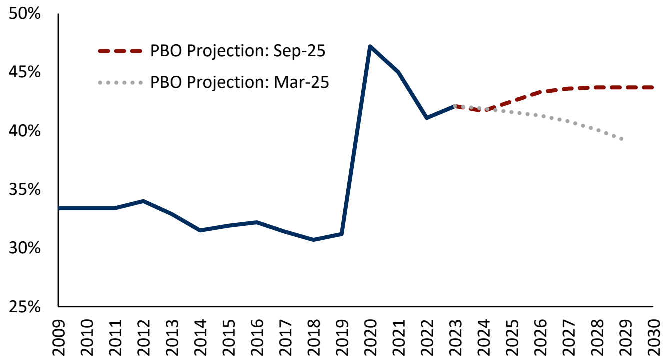
Canada — Ottawa Prepares for the Federal Budget

Domestically, the focus is turning to Ottawa as the federal budget is set to be tabled on November 4. The government has indicated that spending priorities will emphasize nation-building initiatives and large-scale public investment, particularly in infrastructure and industrial development. According to the Parliamentary Budget Officer (PBO), the deficit is projected to widen from $51.7 billion (1.7% of GDP) in 2024-25 to $68.5 billion (2.2% of GDP) in 2025-26, reflecting both higher capital outlays and softer revenues.

The PBO's latest fiscal outlook highlights some structural challenges to explain that projection. Nominal GDP, a key measure of the federal government's tax base, is projected to be $12.9 billion lower on average from 2025 to 2029, primarily due to the lasting impact of tariffs. With

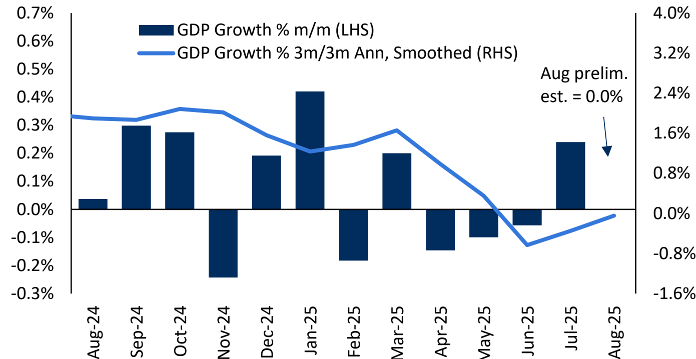
lower revenues and higher spending, annual budget deficits are expected to be $26.6 billion higher on average through to 2029–30 compared to the March outlook (Chart 5). As a result, the federal debt-to-GDP ratio, previously expected to decline, is now projected to rise above 43% over the medium term, raising concerns about the long-term sustainability of the fiscal policy. We of course look forward to updates following the November 4 budget announcement.

Chart 5 - Federal Debt-to-GDP Ratio



Source: Statistics Canada, Office of the Parliamentary Budget Officer (PBO), Raymond James Ltd.

Chart 6 - GDP Growth Rebounds Partially in July



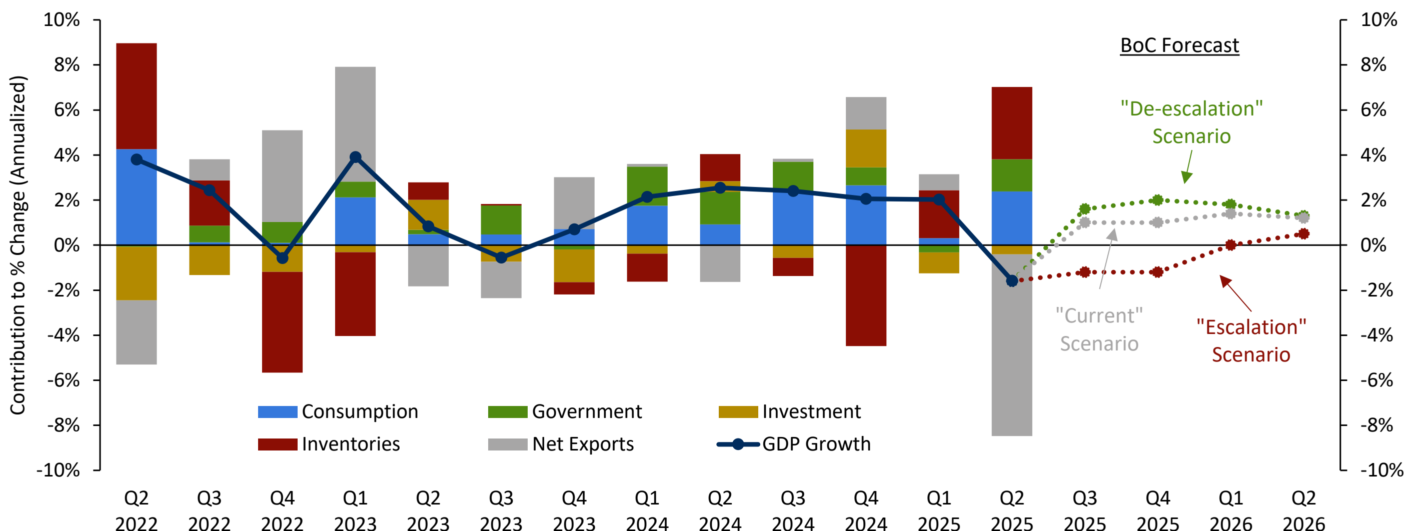
Source: Statistics Canada, Raymond James Ltd.; Data as of July 31, 2025.

GDP Growth Rebounds in July, Outlook Remains Soft

Canada's real GDP rose 0.2% m/m in July (stronger than the preliminary estimate of 0.1% m/m), following three consecutive monthly declines (Chart 6). Growth was driven largely by goods-producing industries, which expanded by 0.6% m/m, while services-producing industries edged up 0.1%. The major contribution came from mining, quarrying, and oil & gas extraction that advanced 1.4% m/m. Manufacturing output rose 0.7% m/m, with much of the increase concentrated in motor vehicles and parts production. Statistics Canada noted that this strength was likely boosted by lighter-than-usual seasonal shutdowns at Ontario auto plants, implying a potential reversal in August. In the services output, retail trade contracted 1.0% m/m, with declines concentrated in general merchandise and food & beverage stores. Real estate, wholesale trade, and transportation posted modest gains, helping offset the drag from retail.

Looking ahead, the advance estimate for August points to no change in real GDP, with weakness in manufacturing expected to weigh on overall activity, signaling persistent weakness in trade-sensitive areas. This supports the view that, while Canada has avoided a formal recession to date, underlying momentum remains subdued.

Chart 7 - Canada has Likely Avoided the "Escalation" Scenario



Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of June 30, 2025.

Retail Sales Slip in July, Rebound Expected in August

Retail sales fell 0.8% m/m in July, following a strong 1.5% m/m increase in June. Despite the pullback, sales remained 4.0% higher y/y, reflecting resilient consumer spending through the first half of the year. Core retail sales, which exclude motor vehicles/parts and gasoline, declined 1.2% m/m, while sales volumes fell 0.8% m/m. The weakness in July was broad-based across core categories, with clothing and accessories down 2.9% m/m, building materials and garden equipment down 2.1% m/m, and food and beverage retailers down 1.3% m/m. Partially offsetting these declines, motor vehicle & parts dealers' sales rose 0.2% m/m, led by gains in new vehicle sales, providing a modest lift to the headline figure.

For August, the advance estimate points to a 1.0% rebound in nominal retail sales, indicating that July's decline was more a normalization after June's strength than a signal of a significant pullback in consumer demand. Volatility in the data from recent months highlights how tariff-related uncertainty has distorted spending patterns, with purchases brought forward in some months boosting sales temporarily, only to reverse in subsequent months.

As these distortions fade, we expect retail activity to moderate, particularly as a weakening labour market begins to weigh on consumer spending. So far, retail resilience may be partly explained by the wealth effect derived out of strong equity market gains, and a declining household saving rate (Chart 8). However, the sustainability of this dynamic remains uncertain. While higher-income households may continue to support discretionary spending in the near term, broader consumption is likely to shift toward a more cautious trajectory amid persistent economic headwinds.

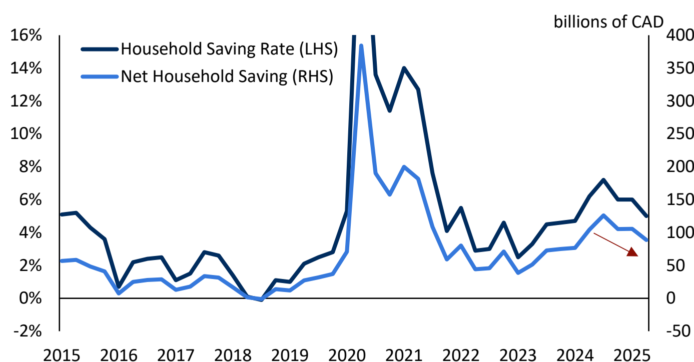
Inflation Remains Contained Despite August Uptick

Headline Consumer Price Index (CPI) inflation rose to 1.9% in August, from 1.7% in July, still remaining below the Bank of Canada's 2% target (Chart 9). The modest acceleration was largely driven by a smaller y/y decline in gasoline prices, which fell 12.7% in August compared to a 16.1% drop in July. Excluding gasoline, CPI inflation eased slightly to 2.4%, down from 2.5% in the prior three months, indicating a continued moderation in underlying price pressures. The Bank's preferred core inflation measures, CPI-trim and CPI-median, rose by an average of 0.21% m/m in August, just slightly above the pace consistent with the 2% target. However, the average annual rate remained unchanged at 3.1%.

In August, transportation posted the largest gain (+0.4% m/m), almost entirely due to gasoline. Clothing and footwear prices rose by 0.3% m/m and 1.7% y/y, though the y/y increase was largely driven by base-year effects, as prices in this category had declined significantly in August 2024. On the other side, travel tour prices saw a notable decline (-9.3% y/y), primarily reflecting weaker demand for U.S. destinations, which contributed to a 0.2% m/m drop in the recreation, education and reading category.

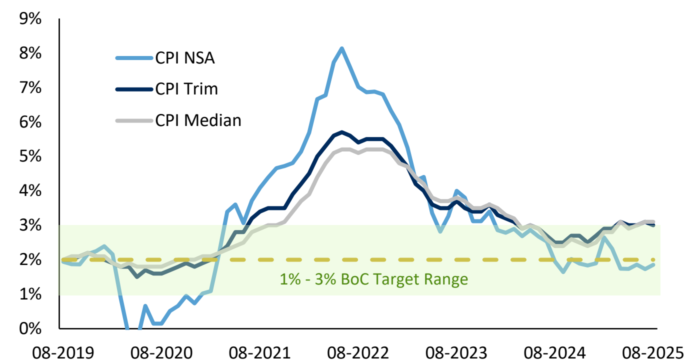
Looking ahead, we continue to expect inflation to remain contained, with a weakening labour market and fading retaliatory tariff impacts likely to limit upside pressures in the near term.

Chart 8 - Household Savings Trending Downward



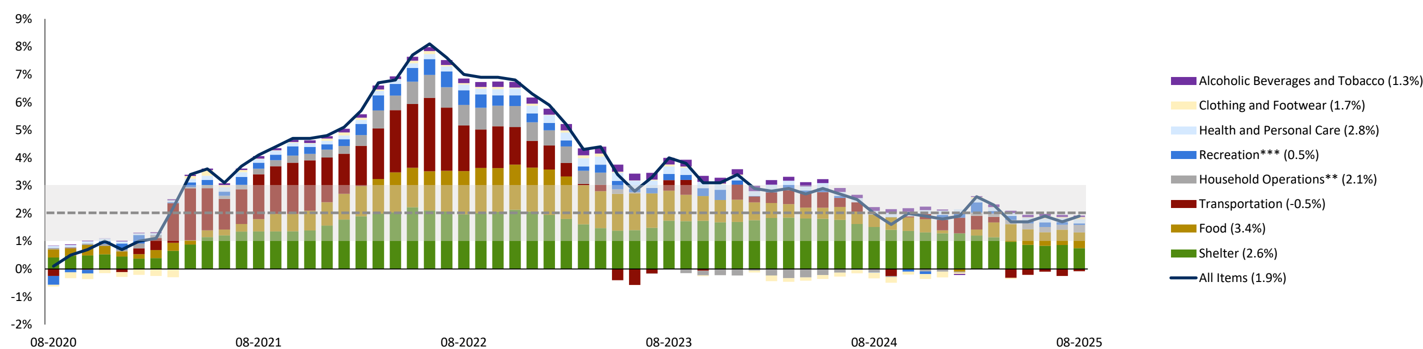
Source: Statistics Canada, Raymond James Ltd.; Data as of June 30, 2025.

Chart 9 - BoC's Preferred Inflation Measures Remain Unchanged



Source: Statistics Canada, Raymond James Ltd.; Data as of August 31, 2025.

Chart 10 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)



Source: Statistics Canada, Raymond James Ltd.; Data as of August 31, 2025. *Assumptions for both scenarios are in "Possible GDP impacts of tariffs in Canada" section; **Household operations, furnishing and equipment; ***Recreation, education and reading.

Canadian International Trade

Canada's merchandise trade deficit widened to $6.3 billion in August, up from $3.8 billion in July, as exports declined by 3.0% m/m and imports rose 0.9% m/m. The drop in exports was led by metal and mineral products, with unwrought gold exports down 11.8% m/m. Continued weakness was also evident in industrial machinery and equipment (-9.5% m/m) and motor vehicles (-3.9% m/m), highlighting pressure across several major export categories.

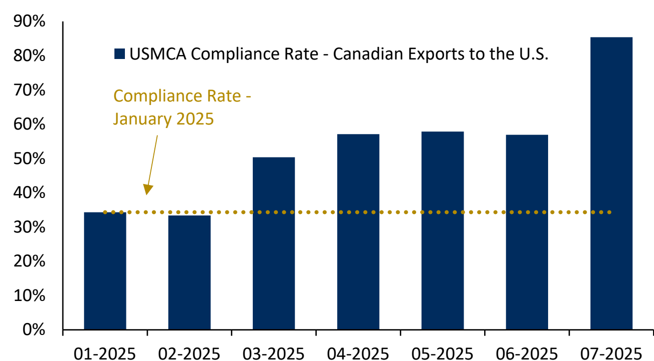
Earlier this year, trade activity was influenced by companies front-running tariffs, stockpiling inventories ahead of potential cost increases. With uncertainty around tariff implementation, many firms held off on price adjustments to avoid risking market share. Now, as tariff conditions stabilize and lower priced inventories are drawn down, we can expect gradual normalization in supply chains.

So far this year, Canada's trade balance has significantly deteriorated, with the widening deficit largely driven by a sharp decline in exports to the U.S. As of August, U.S.-bound exports are down nearly 22% compared to January, led by major declines in sectors such as base metals and transportation. While exports to non-U.S. destinations have shown little growth so far this year (+0.7%), they remain insufficient to offset the broader weakness in trade volumes.

A notable development has been the sharp rise in Canada's USMCA compliance rate for exports to the U.S., which increased to 85% in July, up from 56% in June, and 34% at the start of this year (Chart 11). While this uptick suggests that a greater share of Canadian goods are now exempt from tariffs, it also coincides with a decline in overall export volumes (Chart 12). This implies that part of the increase in the compliance rate may be driven by a reduction in non-compliant shipments, which lowers the total export volume and, in turn, raises the proportion of USMCA-compliant goods within the overall exports.

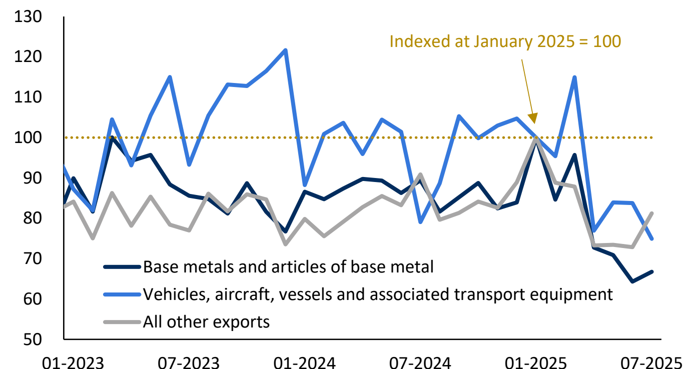
Looking ahead, the weakness in U.S.-bound exports and persistent sectoral tariff headwinds suggest that trade flows may remain weak in the near term. Given Canada's long-standing reliance on the U.S. market, it may prove challenging to fully offset these losses through increased exports to other regions.

Chart 11 - USMCA Compliance Rate Has Increased Significantly



Source: U.S. International Trade Commission, Raymond James Ltd.; Data as of July 31, 2025.

Chart 12 - But the Value of Exports to the U.S. Has Dropped Too



Source: Statistics Canada, Raymond James Ltd.; Data as of July 31, 2025.

BoC Cuts Rates as Growth Slows and Inflation Stabilizes

The Bank of Canada (BoC) reduced its policy rate by 25 basis points to 2.5% in September, bringing it below the midpoint of its 2.25%-3.25% neutral range estimate for the first time since early in the pandemic. According to the Bank's statement, the decision was guided by three key factors. First, the domestic economy showed further signs of softening, particularly in the labour market. Second, recent monthly inflation data pointed to a moderation in core price pressures. Third, the federal government's decision to roll back most retaliatory tariffs helped reduce upside risks to future inflation.

From the Bank's communications, two notable points emerged. First, the Governing Council expanded its assessment of inflation beyond the traditional preferred measures, CPI-trim and CPI-median. Members reviewed a broader set of indicators and concluded that underlying inflation remains close to 2.5%. Supporting this view were readings such as CPI excluding food, energy, and taxes at 2.4%, CPIX (excludes the eight most volatile components of the CPI and adjusts the remaining components for the effects of indirect taxes) at 2.6%, and the fact that the share of CPI components growing above 3% was 39%, a level historically consistent with inflation near 2.5%. Second, the Bank removed language from its previous statement that had signaled the potential for further rate cuts. Instead, it emphasized a more data-dependent approach, focusing on how trade-related weakness may spill over into business investment, employment, and household spending, and how inflation expectations evolve.

Looking ahead, we continue to expect one additional rate cut before year-end, bringing the policy rate to 2.25% (Chart 13). The Bank's emphasis on a data-dependent approach supports this view, as economic growth remains muted, labour market conditions continue to soften, and core inflation pressures appear to be under control.

Population Growth Slowing

Canada's population reached approximately 41.65 million as of July 1, 2025, with a quarterly increase of just 0.1% in 2Q25. This marks the slowest second-quarter growth rate since the early pandemic period in 2020, and excluding that anomaly, the slowest pace for a second quarter since comparable records began in 1946.

The slowdown reflects ongoing policy efforts to limit temporary residents. The number of non-permanent residents declined for the third consecutive quarter, falling by nearly 59k in 2Q25, the second-largest quarterly drop on record. After peaking at 3.15 million in October 2024 (7.6% of the population), the total fell to 3.02 million (7.3% of the population) by July 2025 (still far away from the 5% target). The decline was primarily driven by lower numbers of study and work permit holders. Meanwhile, asylum claimants and protected persons rose significantly, reaching a new high of 497k, and now representing roughly 1.2% of the population.

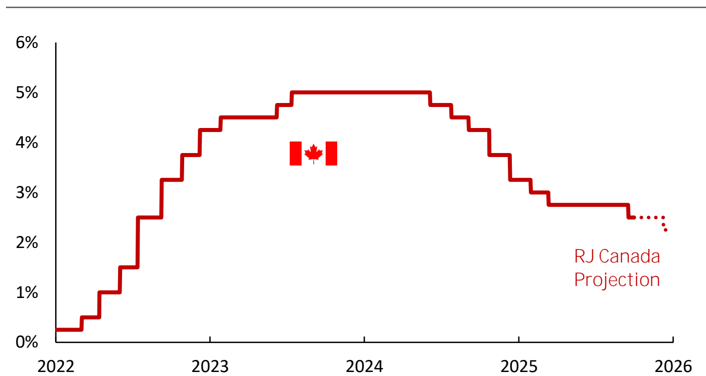
While immigration remains a key driver of population growth, the composition of newcomers matters. A shift away from students and temporary workers toward skilled professionals and entrepreneurs could yield more immediate economic benefits. At the same time, the rapid population growth seen from 2022 to 2024, without a proportional expansion in housing and infrastructure, has contributed to persistent affordability challenges in key urban centres.

Housing Market Recovery Continues, Rental Market Remains Soft

Canada's housing market maintained its upward momentum in August, with national home sales rising 1.1% m/m. This marked the fifth consecutive monthly increase, bringing cumulative gains to 12.5% since March. Price trends remained relatively stable. The MLS Home Price Index edged down 0.1% m/m and was down 3.4% y/y. On the supply side, new listings increased by 2.6% m/m, outpacing the rise in sales. As a result, the national sales-to-new listings ratio eased slightly to 51.2%, from 52.0% in July (Chart 14). While still below the long-term average of 54.9%, the ratio remains within the 45–65% range typically associated with balanced market conditions.

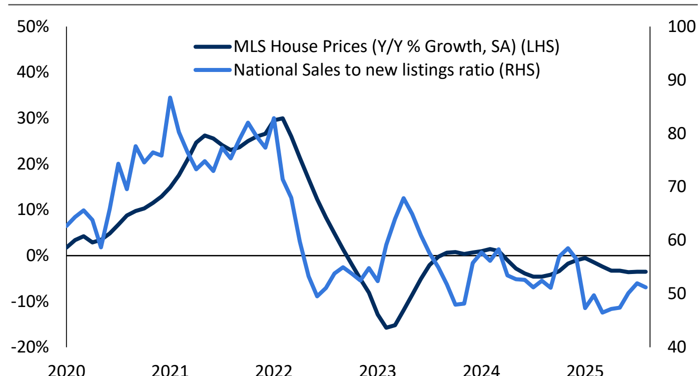
On the rental side, market conditions remained soft in August, with average asking rents down 2.3% y/y according to data from Rentals.ca. The combination of elevated inventories, particularly from newly completed but unsold units, and a slowdown in net immigration continues to weigh on rental demand. These factors suggest that rental prices may remain under pressure in the coming months.

Chart 13 - BoC to Further Lower Interest Rates



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025

Chart 14 - Sales-to-New Listings Ratio Eased Slightly, Still Within Balanced Range



Source: CREA, Raymond James Ltd.; Data as of August 31, 2025

U.S. 2Q25 GDP Revised Higher, as Attention Shifts to Potential Softening in 2H25 and Tariff Impacts

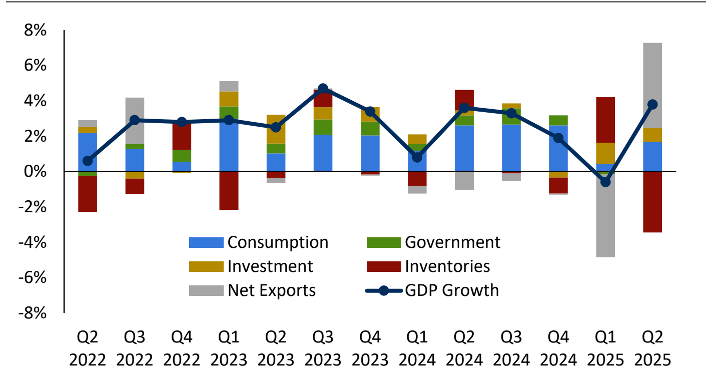
U.S. real GDP growth was revised higher again, to an annualized rate of +3.8% (from +3.3%) in the second quarter, a sharp rebound from the -0.6% (revised from -0.5%) contraction in 1Q25 (Chart 15). Some of the massive swing can be attributed to imports that surged as companies rushed to stockpile inventories ahead of tariff implementations. Net exports' contribution to GDP growth swung from a -4.6% drag in Q1 to a +4.8% boost in Q2 (Chart xx). Consumer spending continues to support growth, at +2.5% (revised up from +1.6%) in Q2, after a +0.6% (revised from +0.5%) gain in Q1. Given the volatility induced by companies shifting purchasing patterns and managing inventories to avoid or minimize tariff impacts, it's probably most useful to look at GDP over 1H25 as a whole, which was +2.1% annualized. Our U.S. Economics team is forecasting full year 2025 GDP growth of +1.8%, which would be down from +2.8% in 2024, but certainly nowhere near recession territory.

PMIs Contracting

Widely followed indicators of the U.S. economy include the Institute for Supply Management (ISM) Purchasing Manager Index (PMI) for both Manufacturing and Services. The ISM Manufacturing PMI rose slightly to 49.1 in September, but has remained below the 50 level, which indicates neither expansion nor contraction, for seven months now (Chart 16). A reading above 42.5 has generally been consistent with overall U.S. GDP growth, even if manufacturing is weakening, so the takeaway is for still positive, but decelerating growth in the U.S.

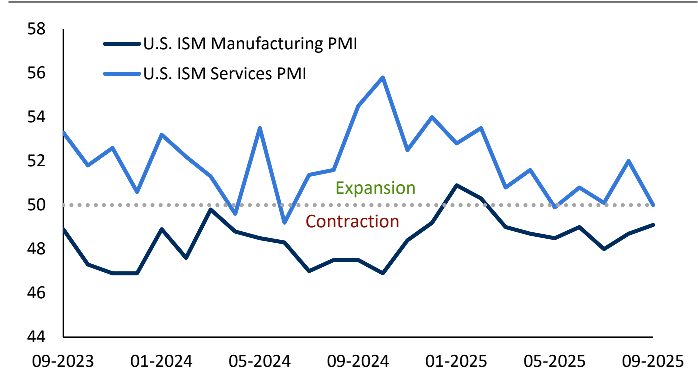
On the non-manufacturing side, September U.S. ISM Services PMI was 50.0, which was down from 52.0 in August after 3 months above 50. The reading was disappointing against consensus expectations of 52.0. New orders were still expansionary at 50.4, but down from 56.0 in August.

Chart 15 - U.S. GDP Rebounds in 2Q25



Source: Bureau of Economic Analysis, Raymond James Ltd.; Data as of June 30, 2025.

Chart 16 - Manufacturing PMI Remains in Contraction Territory



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.

Consumer Spending Remains Resilient

U.S. consumer spending remained solid in August, with both retail sales and personal consumption data pointing to continued momentum. Retail sales were up 0.6% m/m in August, while July's figure was revised slightly higher to 0.6% from an initial 0.5%. Strength was broad-based, with core retail sales (excluding autos and gasoline) up 0.7% m/m. Control group sales, which feed directly into GDP calculations, posted a gain of 0.7% m/m, up from 0.5% in July.

Personal consumption data echoed this momentum. Real personal spending rose 0.4% m/m in August, driven by strength in discretionary categories including transportation services, food services & accommodation, and recreation services. However, this continued strength in spending has outpaced income growth for three consecutive months. In August, real disposable personal income grew 1.9% y/y. In contrast, real personal consumption expenditures accelerated to 2.7% y/y, suggesting that households are making use of savings to sustain higher levels of spending.

While the labour market has shown signs of cooling, consumer spending still continues to be strong. However, with spending running ahead of income, and as tariff-related price pressures continue to build, the durability of this momentum may be tested in the months ahead.

Inflation Edges Higher While Signs of Tariff Pass-Through Begin to Emerge

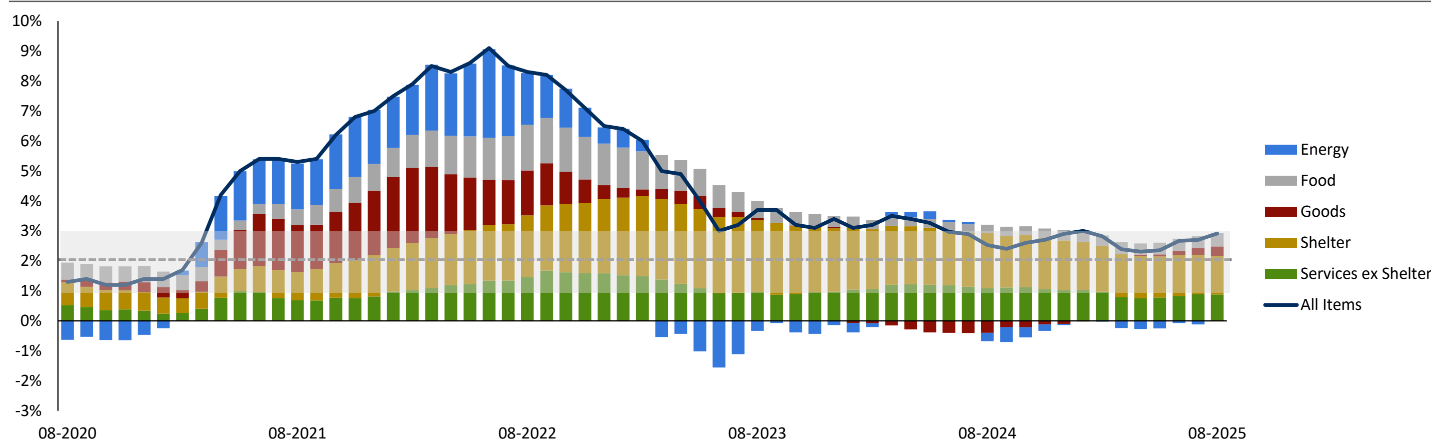
U.S. inflation picked up modestly in August, with the headline Consumer Price Index (CPI) rising 0.4% m/m and accelerating to 2.9% y/y, up from 2.7% y/y in July (Chart 17). The pickup was driven by a combination of rising food and shelter costs, alongside early signs of tariff-related pressures beginning to filter through to core goods prices. Energy prices also reversed course, increasing 0.7% m/m after a 1.1% m/m decline in July, led by a 1.9% m/m rise in gasoline prices. Core CPI rose 0.3% m/m for a second consecutive month, while keeping the annual rate unchanged at 3.1%.

Some evidence of tariff pass-through has started to emerge in August. While core goods (all items less food and energy) prices rose 0.3% m/m, the increases were more pronounced in categories that are more exposed to tariffs. Apparel and appliance prices both rose 0.5% m/m, household furniture and bedding increased 0.4% m/m, and new vehicle prices edged up 0.3% m/m. Used vehicle prices also went up 1.0% m/m, potentially reflecting partial consumer substitution toward lower-cost alternatives to avoid tariff-related price hikes. These movements suggest that there is some gradual tariff pass-through emerging. Meanwhile, core services inflation also rose 0.3% m/m, but the composition shifted. Shelter prices, which had shown signs of cooling in recent months, firmed again with a 0.4% monthly gain, becoming a significant contributor to the upside surprise in August, given its heavy weight in the CPI basket.

The Fed's preferred measures, PCE (personal consumption expenditures) and core PCE, moved slightly higher in August (Chart 18). Headline PCE rose 0.3% m/m and 2.7% y/y, up from 2.6% y/y in July, while core PCE increased 0.2% m/m, but the annual rate remained unchanged at 2.9% y/y.

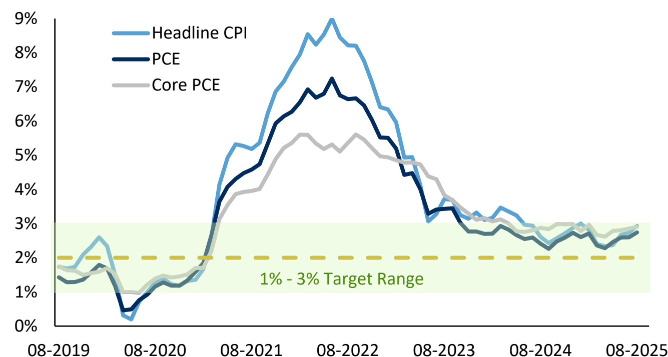
Looking ahead, further impact of the August 7 tariff hikes is likely to become more visible in the coming months. For certain categories, it seems that retailers have begun partially passing on the costs, but margin compression and pricing strategies may continue to delay the full impact on consumer prices.

Chart 17 - Major Components' Contributions to U.S. CPI



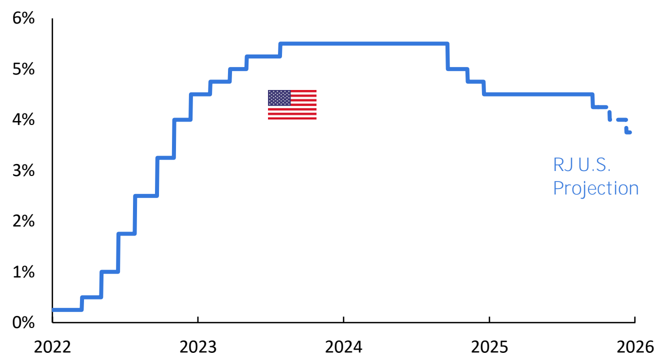
Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of August 31, 2025.

Chart 18 - Inflation Measures Remain Elevated Within Target Range



Source: FactSet, Raymond James Ltd.; Data as of August 31, 2025.

Chart 19 - Fed Expected to Continue Easing Rates



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.

Fed Resumes Rate Cuts Amid Rising Employment Risks

At its September meeting, the Federal Reserve resumed its rate-cutting cycle, lowering the federal funds target range by 25 bps to 4.00–4.25%. The move was widely anticipated, marking the first cut since December 2024. The policy statement reflected a shift in tone, with the Fed no longer describing the labour market as "solid". Instead, it acknowledged that "job gains have slowed" and that "downside risks to employment have risen", signaling growing concern over labour market softness.

The Fed's updated Summary of Economic Projections (SEP) showed some modest changes to the outlook of the U.S. economy as compared to the June projections. The real GDP growth forecast was revised upward from 1.4% to 1.6% for 2025, and from 1.6% to 1.8% for 2026. At the same time, PCE inflation expectations remained unchanged at 3.0% for 2025, but increased from 2.4% to 2.6% for 2026. The projected unemployment rate remained unchanged at 4.5% in 2025, but edged lower from 4.5% to 4.4% in 2026.

Additionally, the updated dot plot from the SEP showed a divided committee: 9 of the 19 participants now expect additional 25bp cuts in both October and December, while six anticipate no further cuts this year. One participant dissented against the September cut, while recently appointed Governor Stephen Miran projected a much lower end-2025 rate of 2.75–3.00%, implying a more aggressive path of easing. Our U.S. Economics team is now forecasting two more rate cuts this year, ending the year at a 3.50–3.75% range (Chart 19).

U.S. Labour Market is Cooling

September's employment report, which was originally expected October 3, will be delayed by the government shutdown. Market watchers will be looking for that data to provide further confidence for another rate cut on October 29. In August, non-farm payrolls rose by just 22k, pushing the unemployment rate up to 4.3%, its highest level in nearly four years, but still low compared to historical standards. The more concerning aspect in that report was the revision to June's figure, which was adjusted from a 14k gain to a 13k decline, marking the first month of negative job gains since December 2020. Without the September update, the three-month average job creation stands at 29k per month (Chart 20).

In the meantime, economists are turning to the Job Openings and Labor Turnover Survey (JOLTS) for insights. The latest preliminary data showed 7.227 million job openings in the U.S., up just 19k from July, and down 422k from last year. A low hiring rate likely puts more risk into the labour market as companies are now starting to plan for a more stable tariff environment where they can make more definitive decisions about investments and staffing needs, including considerations related to anticipated A.I.-driven efficiencies.

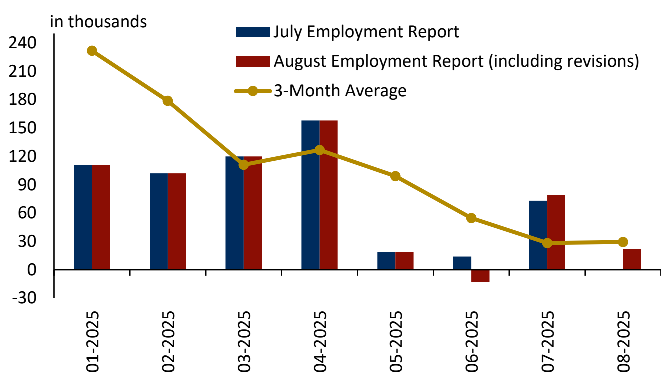
In the absence of government data, private data such as the ADP National Employment Report, based on payroll data encompassing 26 million U.S. employees, gains significance. The September data indicates that the U.S. private sector lost 32k jobs, versus expectations for a 50k gain (Chart 21). The report also showed that wages for the group that were in the same job a year earlier rose 4.5%, which has been a relatively stable level over the past few months, as expectations have been slowly declining since the peak in mid-2022.

The latest Challenger, Gray & Christmas report on October 2 announced 54,064 job cuts from U.S.-based employers in September, down 37% from 85,979 in August, and down 27% from September 2024. However, for the year-to-date, that amounts to 946,426 cuts, the highest since the 2020 pandemic fueled elimination of 2,082,262 jobs, and up 55% from the same period last year. The report also highlighted slowing hiring plans. So far this year, employers plan to add 204,939 jobs, which is 58% lower than the 483,590 announced hiring plans through September 2024.

One additional area to watch will be the impact of the roughly 150k federal workers that took voluntary redundancy packages earlier this year during the DOGE cutting. While we expect that most of these workers were likely already close to retirement, as they drop off the payroll in October, we will watch to see how many might return to the labour force looking for work. More could join them if President Trump delivers on threats to permanently sever more staff through the current government shutdown.

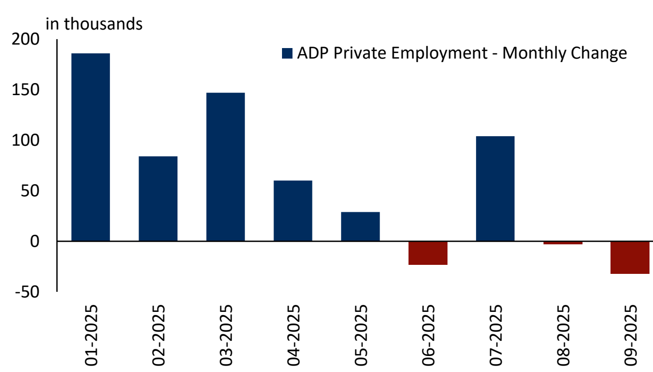
While the U.S. job market cools, we should also note a structural change that has come about from deportations and overall slower population growth. With a slowly growing labour force, the number of jobs that need to be created to balance out the number of unemployed is also falling. This breakeven rate was previously estimated at around 100k jobs per month, but with revised population and immigration projections, as retirements increase, we are seeing estimates in the 30-60k range. The takeaway is that the U.S. economy may find better stability in the current 'low hire, low fire' environment than we would have previously expected. We could still expect the unemployment rate to tick up to the 4.5% level by the end of 2025, aligned with the FOMC's forecast. Most forecasters consider the economy to be at full employment with an unemployment rate of 4.0-4.5%.

Chart 20 - Non-Farm Employment Growth (m/m)



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; Data as of August 31, 2025.

Chart 21 - Private Sector Shed Jobs for Two Consecutive Months



Source: ADP Research, Raymond James Ltd.; Data as of September 30, 2025.

Financial Markets

September saw continued strength in both the TSX Composite, Canada's main stock index, and the S&P 500, the benchmark for large-cap U.S. stocks. The TSX gained 5.1% in price and 5.4% in total return, pushing its year-to-date performance to 21.4% and 23.9%, respectively. The S&P 500 also had a solid month, rising 3.5% in price and 3.6% in total return, bringing its year-to-date gains to 13.7% and 14.8%, in local currency.

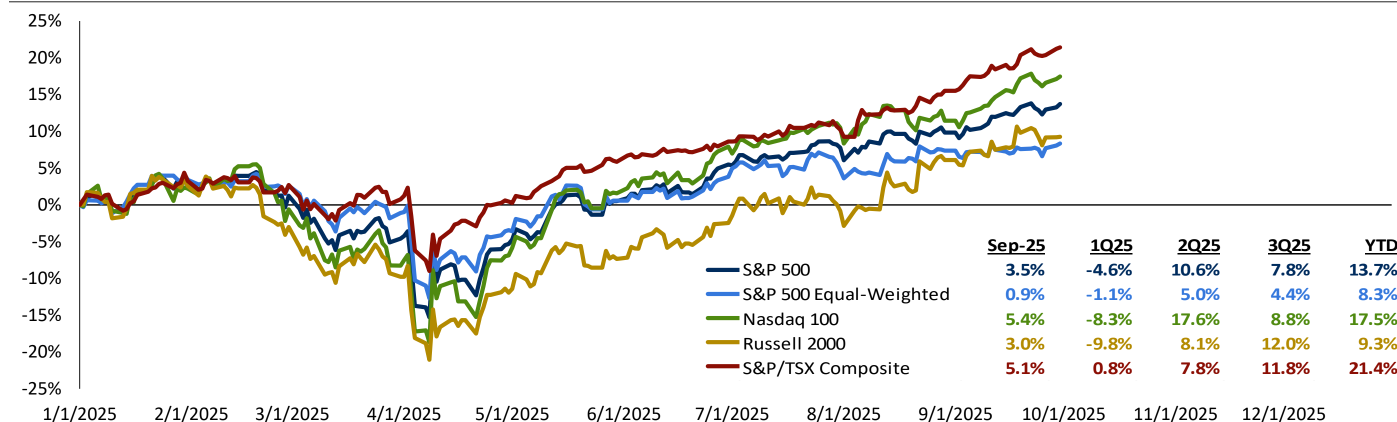
Within the TSX Composite, materials, energy and financials were the top-performing sectors in September. Gold prices have been rising, supported by multiple macro tailwinds, and this increase has been driving stronger profitability for gold miners. The energy sector has been catching up in 3Q25, buoyed by earlier positive surprises in revenue and earnings, "nation-building projects" announced on September 11, as well as the recent and expected rate cuts from the BoC. Financials and utilities have also benefited from the lower policy rate, as they are traditionally high dividend-paying sectors.

In the S&P 500, we continue to see strong cyclical momentum and enthusiasm around A.I., with information technology, communication services, and consumer discretionary ranking among the top-performing sectors. Utilities also outperformed, rebounding from August losses, with recent and expected rate cuts from the Fed providing an additional tailwind.

In September, the strong performance of the technology-related sectors helped the tech-heavy NASDAQ 100 outperform other major U.S. equity indices. The S&P 500, with its higher exposure to information technology, also outpaced the S&P 500 Equal Weight Index. Meanwhile, the Russell 2000, which tracks U.S. small caps, rallied following the Fed's rate cut announcement on September 17, ending the month with a slightly lower return than the S&P 500.

In 3Q25, U.S. small-cap stocks outperformed large caps and climbed back to their all-time highs, thanks to resilient economic growth, positive earnings revisions, and a more dovish stance from the Fed. Within the Magnificent Seven, four names delivered strong performances that helped lift the S&P 500 and NASDAQ-100 during the quarter. That said, performance across the group has become more mixed compared to 2023 and 2024. The gap between their returns and the broader market has narrowed, and a few are even lagging behind.

Chart 22 - Selected Indices Price Returns



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. Price return in local currency.

U.S. Equity Markets

September 30 marked the end of 3Q25, and the S&P 500 did not disappoint, chalking up 23 new record highs, matching the previous record in 1Q98. Even U.S. small caps, which have been mostly lackluster for the past 3 years logged their first record high since 2021. The return to rate cutting by the FOMC certainly helped set the tone for equities, especially small caps that are generally more sensitive to rate cuts, but a continuing driver has been continued enthusiasm around A.I. and the prospect for efficiencies and productivity gains.

Our U.S. Investment Strategy team continues to favour U.S. equities over other international developed equities, and prefers Info Tech, Health Care, and Industrials sectors. We see A.I. as a particularly powerful theme and believe it is still in its early stages: adoption is broadening, though value creation remains narrow, with demand outpacing supply.

A.I. Remains a Key Market Driver, Still in the Early Stages

According to McKinsey & Company's State of A.I. 2024 survey, 78% of organizations reported using A.I. in at least one business function (up from 56% in 2021), though only 16% apply it across five or more functions, highlighting the potential for deeper integration. Similarly, the 2024 Stack Overflow Developer Survey found that while two-thirds of professional developers use A.I. tools, only one-third fully trust the outputs, pointing to opportunities for improvement. Recent earnings calls from leading tech firms reinforce this view, highlighting supply constraints amid strong demand.

There are frequent comparisons between today's A.I. cycle and the dot-com bubble of 2000. Yet when we overlay the Nasdaq composite's performance from that era onto today's market, the chart suggests we are closer to 1998 than to the peak of 2000 (Chart 24). This perspective implies that leaving the market too early could mean missing a meaningful phase of the current rally. At the same time, the dot-com era offers valuable lessons: the signals that distinguished durable companies from fragile ones then remain relevant today and they also give us a way to gauge whether the A.I. cycle remains in its build-out phase or is beginning to tip toward speculative excess.

Looking back at 2000, the companies that endured shared a few defining strengths. They consistently converted profits into cash, showing that cash conversion is the ultimate measure of resilience. They invested with discipline, scaling capital spending in line with real demand, and they held large liquidity cushions, which gave them the flexibility to keep funding innovation through the downturn. These remain good signals to watch today: strong operating cash flow, capex discipline, and robust balance sheets.

The failures of that era also point to clear warning signs. Some companies inflated sales through customer financing or subsidies, masking weak demand, a reminder to be wary of business models that rely on giveaways to drive adoption without monetization. Others became overvalued on little more than grand narratives, with "Internet everything" fueling hype far beyond fundamentals. In today's cycle, the risk is that "A.I. everywhere" becomes the same kind of story unless revenue impact can be clearly demonstrated.

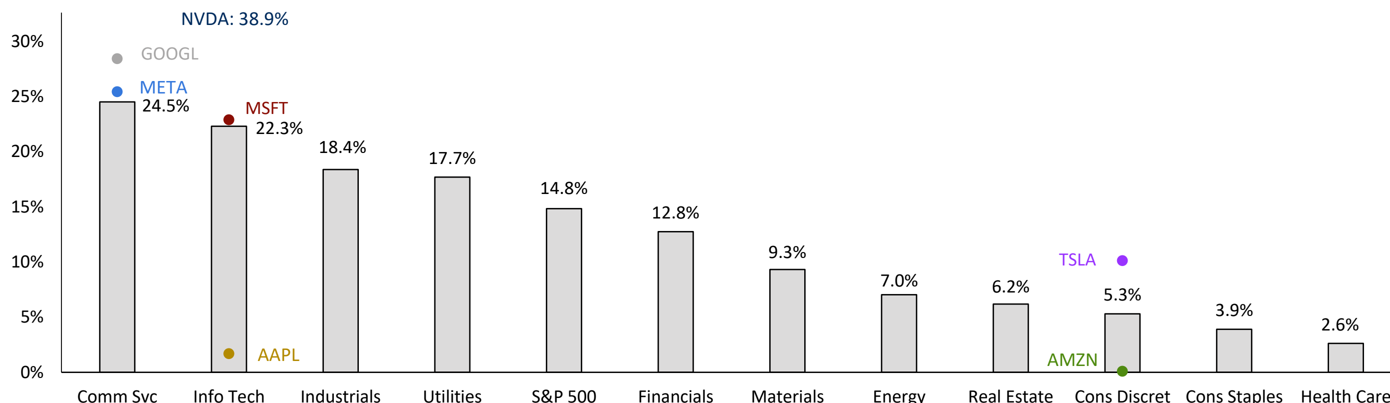
U.S. Small Caps Gaining Momentum

Small caps are another area of the market to watch. Both the Russell 2000, which tracks a broad range of U.S. small caps, and the S&P 600, which focuses on higher-quality companies that meet stricter fundamentals, outperformed the S&P 500 in 3Q25. The Russell 2000 delivered the stronger gains, reflecting its greater sensitivity to the economic outlook and shifts in investor sentiment.

The key question is whether this rally can last. As we've highlighted before, the outlook really depends on two things: earnings growth and whether the Fed moves in line with market expectations. We saw this play out in the second half of 2024, when optimism around Fed rate cuts and a resilient economy lifted small caps, only for the rally to fade as forward earnings turned negative and the Fed stayed relatively hawkish despite 100 bps of cuts.

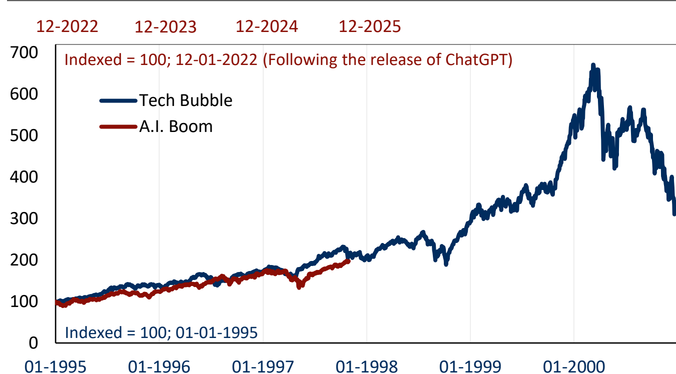
This time, conditions appear more supportive. Future rate decisions are expected to be more favourable for small caps, while forward-looking earnings growth has shown renewed momentum. If both factors hold, the small-cap rally has the potential to be more durable.

Chart 23 - S&P 500 Sector and "Magnificent Seven" Year-to-Date Total Returns



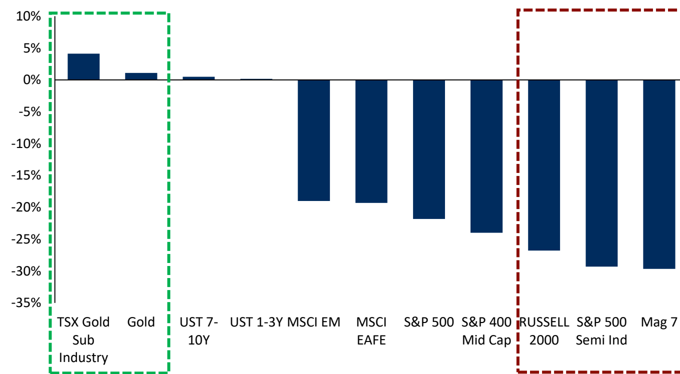
Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.

Chart 24 - Nasdaq Composite: Tech Bubble vs. A.I. Boom



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.

Chart 25 - Average Return During Recent 5 S&P 500 Corrections (>10%)



Source: Bloomberg, Raymond James Ltd. Five corrections occurred in Feb 2016, Dec 2018, Mar 2020, Oct 2022, and Apr 2025.

Canadian Equity Markets

The S&P/TSX Composite Index continues to stand out, reaching 13 new all-time highs in September and 32 in 3Q25. In 3Q25, Materials once again led performance, while Information Technology, Energy, and Financials were also among the top-performing sectors. In contrast, Industrials, Consumer Staples, and Consumer Discretionary lagged, reflecting ongoing concerns about the potential impact of tariffs and softer consumer spending. Encouragingly, forward earnings growth for the TSX Composite improved through 3Q25 (Chart 26), which is important given valuations remain relatively elevated, suggesting earnings will need to do most of the heavy lifting from here.

We've received many questions recently about gold. Gold prices have risen about 45% year-to-date, putting the metal on pace for one of its five best annual performances in more than a century. Naturally, investors are wondering whether this rally can continue. While the risk–reward trade-off has become less attractive, especially as inflation pressures ease and markets show greater tolerance toward tariff developments, several factors still support the longer-term bull case for gold. Falling real yields reduce the opportunity cost of holding gold, while central bank purchases are likely to remain well above pre-2022 norms, with consistent buying from China, Poland, and Turkey. In addition, institutional and retail demand is picking up, particularly through ETFs, as investors increasingly recognize gold's role as a portfolio diversifier.

This reinforces why having some gold exposure continues to make sense, even after the recent price surge. During the last five S&P 500 corrections greater than 10%, both gold and the TSX gold sub-industry (gold miners) delivered the strongest returns, while areas such as the Magnificent Seven, semiconductors, and U.S. small caps lagged (Chart 25). This suggests gold can provide effective downside protection within a portfolio that's otherwise tilted toward risk-on areas like A.I.-related tech and small caps.

It's also worth noting that the TSX gold sub-industry has historically shown a beta of around 1.5 to gold prices, meaning that for every 1% move in the gold price, gold-mining stocks have tended to move about 1.5% in the same direction. This sensitivity typically rises during periods of heightened volatility because production costs tend to remain stable, movements in gold prices can lead to even larger shifts in profitability. A good example came in 2Q25, when gold miners demonstrated that higher gold prices translated into stronger free cash flow generation, and their stocks rallied even more than the metal itself. In addition, gold-mining companies can offer potential income through dividends and share buybacks, a feature that physical gold or gold-backed ETFs generally do not provide. However, miners are also subject to business-cycle and operational risks, and their performance may deviate from the underlying gold price. These distinctions are important when determining how best to gain gold exposure. The right approach, whether through direct holdings, ETFs, or gold-mining equities, ultimately depends on an investor's risk tolerance, income objectives, and diversification needs.

Top 3 Sectors (3Q25):

- **Materials:** The sector delivered an impressive 37.8% total return in 3Q25. While the gold sub-industry was a standout, diversified metals, copper, and silver also posted strong gains, whereas containers and packaging and forest products lagged. For copper, despite the 50% U.S. tariff that took effect on August 1, prices were supported by operational disruptions at Grasberg (the world's largest gold mine and second-largest copper mine), political uncertainty in key producing regions, and structural industry constraints that have tightened supply. Similarly, silver has also shone, reaching a 14-year high of around US$47 per ounce, driven by robust investor demand. We remain constructive on the Materials sector, given that over 90% of its composition lies within metals and mining, which continue to benefit from favourable market dynamics and supply-demand fundamentals.
- **Info Tech:** Despite strong overall performance in the sector, gains were once again concentrated among a few names. The sector benefited from continued optimism around A.I., its substantial U.S. revenue exposure, and its cyclical nature, which positioned it well to capitalize on improving market sentiment. However, selectivity is important given the current state of the A.I. trend, particularly in the Canadian market, where the sector is primarily composed of software and services companies, unlike its more diversified U.S. counterpart. Technological innovation typically progresses from infrastructure and hardware to applications, which increasingly involve software. This helps explain why the S&P 500 Semiconductor industry and the TSX Composite Electronic Equipment industry significantly outperformed within their respective Information Technology sectors in 2023 and 2024. While many factors influence company performance, application-focused companies face an added layer of uncertainty. Success requires not only proven underlying technology but also market validation that the application delivers value and meets demand. In the context of the A.I. boom, software and application companies must also consider whether their core competencies or business models are vulnerable to creative destruction, such as from generative or agentic A.I. Looking ahead, the trajectory for these companies could vary widely. We favour those with well-established business models prior to the A.I. boom, a distinct competitive moat, healthy cash flow, and a disciplined approach to A.I. investment and integration.
- **Energy:** The sector delivered a much stronger performance in 3Q25 compared with the first half of the year. However, most of the gains came from multiple expansion rather than earnings improvement (Chart 26). Oil prices remained relatively muted, despite occasional spikes driven by geopolitical tensions. OPEC+ remains committed to gradually unwinding voluntary production cuts, and together with subdued global demand, this could continue to exert downward pressure on oil prices. The good news is that the first set of "nation-building projects", announced on September 11, included several major initiatives in the energy sector, such as Pathways Plus and LNG Canada Phase 2, which should support long-term investment, production capacity, and infrastructure development. In addition, the sector has also benefited from the BoC's rate cuts, as its dividend yields now appear more attractive.

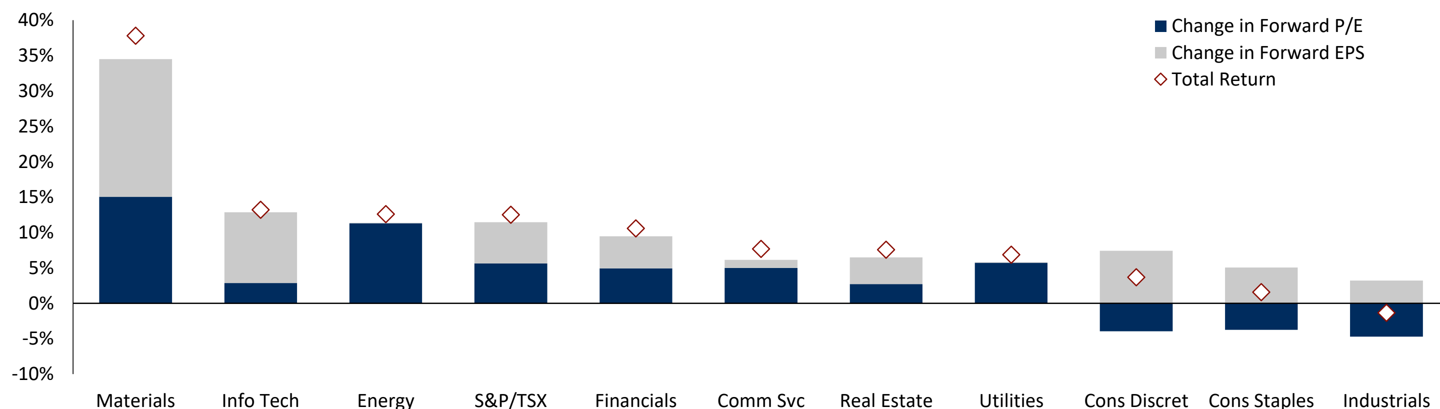
Bottom 3 Sectors (3Q25):

- **Industrials:** The sector has largely been in a consolidation phase since mid-May, with mixed performance across industries. Ground transportation, environmental and facilities services, passenger airlines, and machinery have lagged, while construction and engineering, aerospace, and defense have held up relatively well. As most of Canada's exports to the U.S. remain tariff-free under the USMCA umbrella, the impact of tariffs has so far been manageable. Although the initial enthusiasm around increased national defence and infrastructure spending,

which had boosted the Industrials sector, appears to be fading, companies well-positioned in these areas are still expected to benefit over the longer term. In the near term, however, given the sector's cyclical nature and its revenue exposure, performance remains closely tied to global economic and geopolitical developments.

- **Consumer Staples:** The sector continues to experience choppy performance. The food products industry delivered strong returns in 3Q25, supported by robust 2Q25 earnings, while grocers lagged. For grocers, the shifts in consumer behaviour toward discounts and promotions continue to weigh on their pricing power and profitability. Even though a stronger Canadian dollar helps reduce costs for U.S. imports, the increasing share of produce coming from other countries introduces FX-related uncertainties or costs that could offset those benefits. Looking ahead, the removal of counter-tariffs on most U.S. goods may help ease cost pressures for grocers. Additionally, a potential increase in at-home dining amid a slowing economy could provide a modest tailwind for the sector.
- **Consumer Discretionary:** Although this sector ranked in the bottom third of performers within the TSX Composite Index in 3Q25, it still delivered a decent total return of 3.7%. Earnings growth was the main driver of performance, while valuation multiples contracted modestly. There have been some concerns about slowing growth in broadline retail, but overall fundamentals remain solid. So far, there has been limited spillover impact from tariffs on Canada's economy, which has helped the sector remain more resilient than expected. However, households have begun drawing down savings, and if the savings rate continues to fall toward pre-COVID levels, consumer cyclicals and services may face increasing pressure in the quarters ahead.

Chart 26 - S&P/TSX Composite Sector 3Q25 Total Return Breakdown



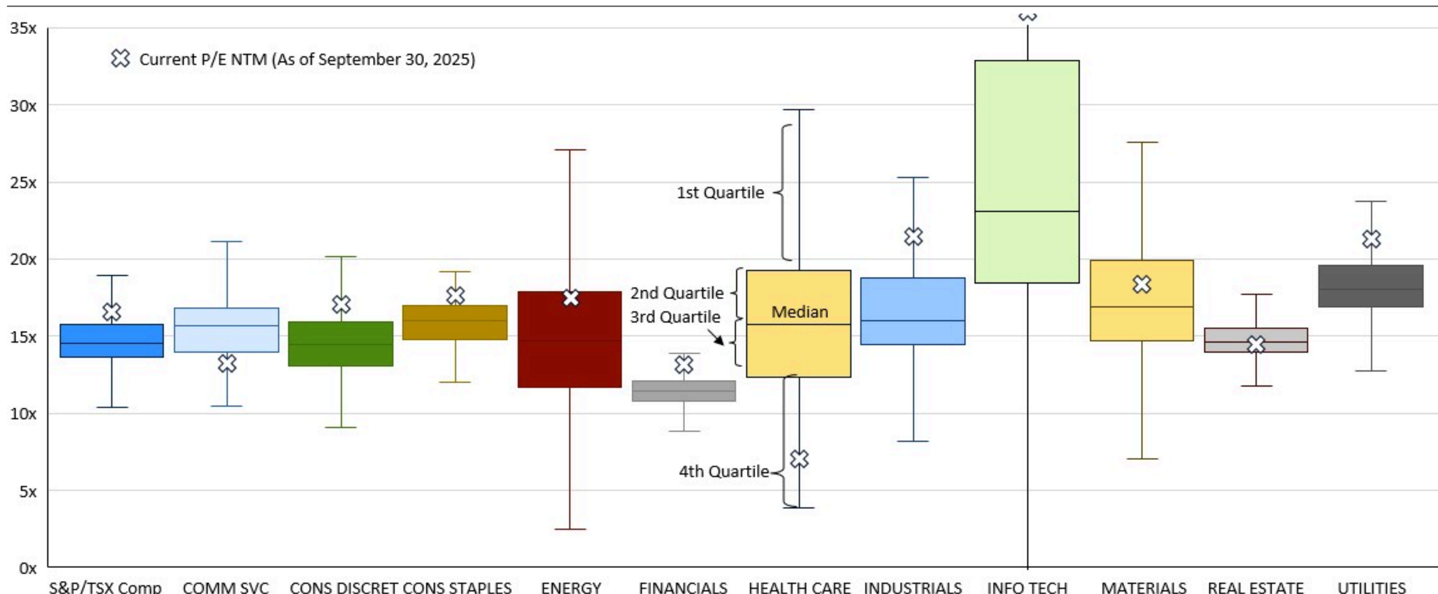
Source: Bloomberg, Raymond James Ltd.; Data as of September 30, 2025.

Table 3 - S&P/TSX Composite Sector Performance and Valuations (Ranked by 3Q25 Total Return)

Sector Name	Sector Weight	YTD Total Return	3Q25 Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Materials	16.9%	79.3%	37.8%	18.9%	18.3	16.9
Information Technology	10.1%	19.7%	13.2%	2.1%	39.5	23.1
Energy	15.6%	17.1%	12.6%	5.6%	17.4	14.7
S&P/TSX Composite	--	23.9%	12.5%	5.4%	16.9	14.6
Financials	31.9%	22.5%	10.6%	4.5%	13.0	11.4
Communication Services	2.1%	12.9%	7.7%	-1.8%	13.3	15.7
Real Estate	1.7%	11.1%	7.6%	-1.0%	14.8	14.6
Utilities	3.6%	17.5%	6.9%	3.9%	21.5	18.0
Health Care	0.3%	-1.0%	5.5%	3.0%	7.2	15.7
Consumer Discretionary	3.2%	18.0%	3.7%	0.9%	17.3	14.4
Consumer Staples	3.4%	5.7%	1.6%	0.3%	17.8	16.0
Industrials	11.3%	4.6%	-1.4%	-0.8%	21.9	16.0

Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 27 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. Historical P/E: 1/1/2000 – 09/30/2025. Excluding outliers.

Table 4 - Global Equities Performance

Select Global Equity Indices	Sep (in LCL)	Sep (in USD)	Sep (in CAD)	3Q25 (in LCL)	3Q25 (in USD)	3Q25 (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
Major Aggregates												
World (Global)*	3.3	3.3	4.7	7.2	7.2	9.4	17.7	17.7	13.9	20.2	16.0	4.2
EAFE (DM ex U.S. & Canada)*	2.4	2.4	3.8	4.6	4.6	6.7	25.9	25.9	21.8	15.1	13.6	1.6
EM (Emerging Markets)*	6.9	6.9	8.3	10.6	10.6	12.8	27.8	27.8	23.7	14.0	11.8	2.2
Selected Developed Markets												
Nikkei 225 (Japan)	5.9	5.3	6.7	11.8	9.3	11.5	14.7	22.0	18.1	19.8	16.8	2.9
Euro STOXX 50 (Europe)	3.4	3.7	5.1	4.6	4.4	6.4	16.1	28.2	24.0	16.1	13.3	2.8
FTSE 100 (U.K.)	1.8	1.4	2.8	7.5	4.9	6.9	17.7	23.0	19.0	13.0	12.4	0.6
CAC 40 (France)	2.7	3.1	4.4	3.3	3.4	5.4	10.3	25.2	21.1	15.9	13.5	2.3
DAX (Germany)	-0.1	0.3	1.6	-0.1	0.0	1.9	19.9	36.1	31.7	15.3	12.7	2.6
Hang Seng (Hong Kong)	7.6	7.9	9.3	12.5	13.5	15.7	38.2	38.0	33.5	12.5	11.8	0.7
Selected Emerging Markets												
CSI 300 (China)	3.3	3.5	4.9	19.1	19.8	22.4	20.7	23.7	19.7	16.4	13.8	2.6
Nifty 50 (India)	0.8	0.0	1.4	-3.2	-6.6	-4.6	5.3	1.4	-1.9	22.3	18.8	3.5

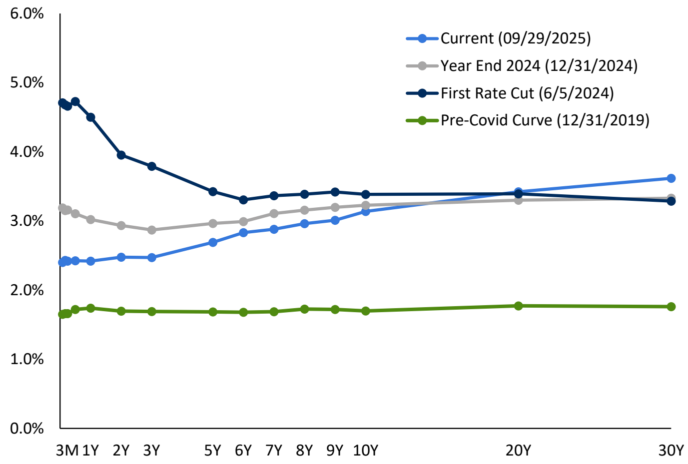
Source: FactSet, Raymond James Ltd; Total returns, data as of September 30, 2025. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 9/30/2025. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

Fixed Income & Treasury Yields

Despite periods of volatility, U.S. Treasury yields have continued to normalize year-to-date. The 10-year U.S. Treasury yield has been mostly range bound at 4.0-4.6% so far this year and was 4.17% at the end of September. The recent government shutdown had little market impact, as investors largely looked past the political noise. However, the absence of official payroll data increased reliance on alternative indicators, adding short-term uncertainty to the curve. Nonetheless, with the labour market cooling, the front end of the curve is expected to shift lower into year-end.

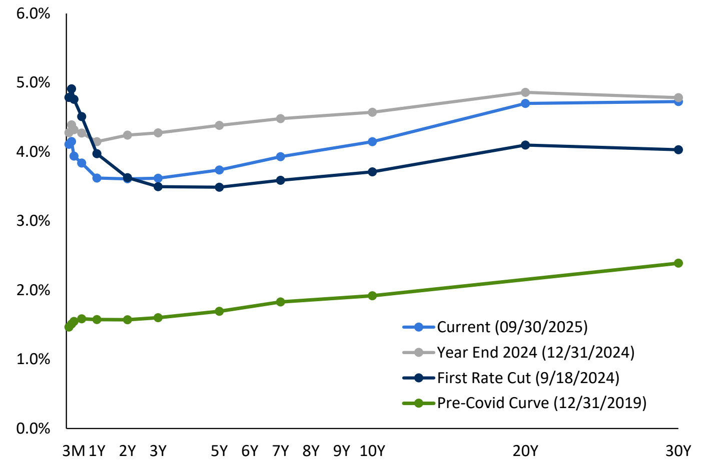
In Canada, the yield curve moved slightly lower across maturities in September, extending the normalization seen through 3Q25. A brief spike in yields followed the July 11 U.S. tariff announcement, reflecting higher inflation expectations and fiscal concerns, but this reversed as investors recognized the limited scope of the tariffs, applying only to non-USMCA-compliant goods.

Chart 28 - Canada Government Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of September 29, 2025.

Chart 29 - U.S. Treasury Yield Curves



Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.

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