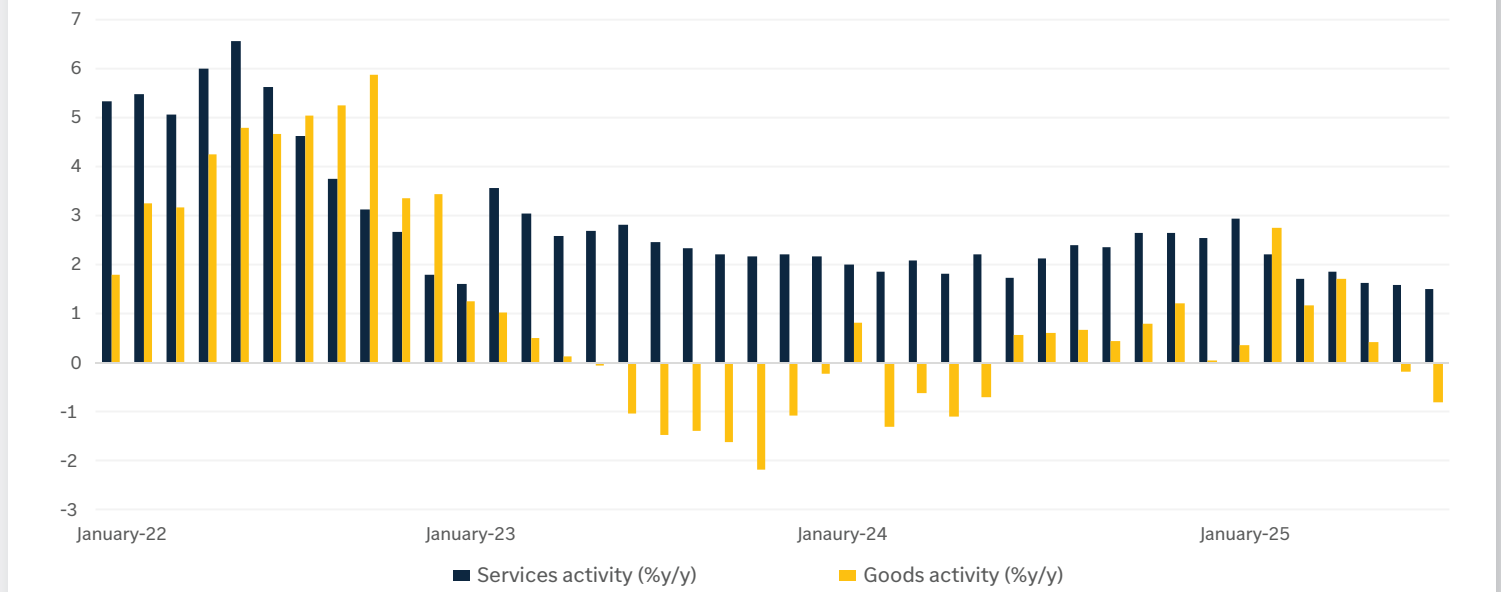


Quarterly market outlook: Fourth quarter 2025

Canadian outlook

The export sensitive goods sector is likely in recession, but services activity is faring better



Source: Haver Analytics

Trade tensions are clearly hitting the Canadian economy hard, although there are signs of resilience in sectors less exposed to the U.S. This slowdown should persuade the Bank of Canada (BoC) to cut again, while the upcoming budget has the potential to lift short- and long-term growth.

A major trade shock – Around three quarters of Canadian exports typically head to the U.S., with this trade accounting for around 16% of Canadian GDP and more than 2.6 million jobs¹. Therefore, it has been of little surprise to see this part of the economy struggle through this year's trade war, with employment in sectors with a significant reliance on exports falling sharply². The good news is that there has been limited contagion to other parts of the economy up-to-now. Services growth has slowed, but remains solid³, while hiring outside of export sensitive sectors has been stable². This resilience should provide some encouragement that Canada can avoid a recession, although we need to watch the data carefully for signs of further slowing.

Inflation sticky for now – Measures of Canadian inflation have accelerated this year, with the BoC's preferred gauges of underlying price growth having edged back above 3% in year-over-year terms. However, this reacceleration is likely to be short lived in our view, with inflation expected to move back into the BoC's

target range of between 1-3% over coming quarters. Helping this moderation should be a continuation of the easing in shelter inflation seen over recent months/quarters, the rollback of certain Canadian tariffs on U.S. imports and the slowdown in domestic growth this year.

Policy moving in a more helpful direction –

The BoC resumed its easing cycle in September, cutting rates by 25bps for the first time since March³. This reflected building concerns around rising unemployment, with these fears likely to spur another cut this year in our view, leaving interest rates at 2.25%. Otherwise, we look forward to more clarity around fiscal policy in the November budget, with Prime Minister Carney having flagged a focus on infrastructure investment, new home building and defense spending⁴. The devil will be in the details, but well targeted investment would support both short- and long-term growth in our view.

Diversification does not ensure a profit or protect against loss in a declining market. Rebalancing may result in a taxable event

¹Organization for Economic Cooperation and Development

²The Bank of Canada

³Haver Analytics

⁴Bloomberg

► Action for investors

While the economy has stuttered, we have seen Canadian equity markets hit new all-time highs this year, helped by a boost from gold prices for the local materials sector. This dynamic could have further to run, and we have removed our underweight to Canadian equities, although we continue to prefer an overweight allocation to U.S. large cap stocks in the near term given their exposure to the AI trade.