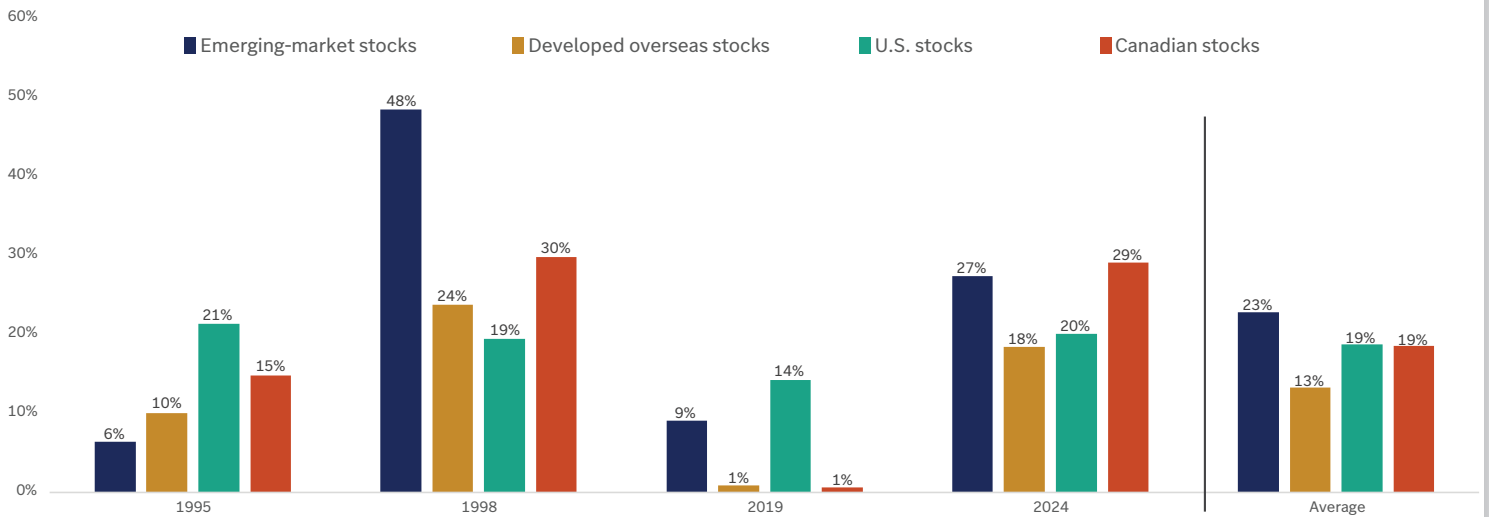


Quarterly market outlook: Fourth quarter 2025

International outlook

Emerging-market stocks tend to lead after non-recessionary Fed rate cuts
 12-month total returns after initial Fed rate cut in Canadian dollars


Source: Bloomberg. Emerging-market stocks represented by MSCI EM index, developed overseas stocks represented by MSCI EAFE, U.S. stocks by S&P 500 Total Return Index, Canadian stocks by S&P/TSX Composite Total Return Index. Past performance does not guarantee future results.

After a challenging start to the year marked by trade disruptions and heightened uncertainty, global economic activity is beginning to stabilize, and in many regions, accelerate. The Federal Reserve (Fed) renewed easing cycle, combined with a pickup in lending activity following 18 months of rate cuts by other major central banks, is improving the outlook for overseas equities¹. While the U.S. remains at the forefront of artificial intelligence (AI) innovation, competitive momentum and investment opportunities are increasingly expanding to other regions.

Global cyclical acceleration ahead, supported by lower rates – Global manufacturing, which has been in a prolonged slump, appears to be turning a corner, as evidenced by recent PMI surveys, returning to expansion territory¹. In the Eurozone, consumer spending remains resilient, and confidence is improving, bolstered by a series of rate cuts. We anticipate that increased demand for lending and looser credit conditions will help drive a cyclical rebound in developed markets. One area of continued softness is job growth, which has slowed across most economies. However, unemployment rates remain low by historical standards. The silver lining is that looser labour markets are likely to temper wage growth, contributing to more moderate inflation in the services sector.

Emerging markets gain tailwind from Fed pivot – Following a nine-month pause, the Federal Reserve restarted its rate-cutting cycle in September

shifting its focus from inflation to employment. Fed easing outside of recessionary periods has in the past supported equities and boosted investor appetite for risk, conditions that tend to favour emerging market (EM) stocks. In fact, EM stocks have historically outperformed their developed market counterparts in the 12 months following the initiation or resumption of Fed rate cuts¹. This environment also provides EM central banks with greater flexibility to ease monetary policy further. Another potential catalyst for EM equities may be the renewed surge in China's tech sector. A basket of Chinese interest stocks that are benefitting from AI have risen 40% this year through September, yet still trade at discounted valuations relative to their U.S. peers¹.

U.S. dollar on the defensive as rate differentials narrow – Other major central banks, including the Bank of Canada, have cut interest rates more aggressively than the Fed and may be approaching the end of their easing cycles. With the Fed now resuming rate cuts and possessing greater room to maneuver in returning policy to neutral, the interest rate differentials between the U.S. and other economies are likely to narrow. This shift could put downward pressure on the U.S. dollar relative to major currencies. While we do not anticipate a decline as sharp as in the first half of the year, even a modestly weaker dollar can benefit international equities, underscoring the importance of global diversification.

► Action for investors

As the global expansion continues, we favour emerging-market stocks and more cyclical developed-market equities to complement U.S. stocks. If exposure to developed overseas stocks is too low relative to an appropriate strategic allocation, we recommend rebalancing.

¹Bloomberg