

Market in Review

The focus of the U.S.–Iran war, now in its eighth month, is the Strait of Hormuz, the narrow waterway that carries roughly a fifth of the world's oil. Q3 opened on a hopeful note for investors, with a ceasefire in place and peace talks underway. Within days, however, fighting resumed: Iran declared the strait closed, and attacks on commercial shipping continued through August and into September.

Against this backdrop, Brent crude rose about 42% over the quarter to roughly US\$103 a barrel. With energy prices climbing, inflation worries returned, and bonds took the hit. Long-term U.S. interest rates rose to their highest level in more than two decades, and because bond prices fall when rates rise, U.S. bonds lost about 3.5% in the quarter.

Stocks held up better than bonds, but the gains were concentrated in the largest companies. The S&P 500 finished the quarter modestly higher, yet the average stock in the index lost ground, and small-cap stocks fell more than 7%.

Risk factors

Inflation is now the market's main concern. In August, U.S. inflation held at 3.4%, well above the U.S. Federal Reserve's 2% target. As a result, the Fed and several other major central banks have started raising interest rates, and markets expect more increases into 2027. The Bank of Canada has held steady so far, but with Canadian inflation at 3.0%, also above its 2% target, that could change.

Higher interest rates can weigh on stock prices in two ways. They raise borrowing costs, which can slow the economy and cut corporate profits. And when safer investments like bonds and GICs pay more, investors may move money out of stocks.

Another risk factor is that the market's gains increasingly depend on a single sector. Technology stocks make up a growing share of the S&P 500, so a setback in that one sector can now move the whole index.

The biggest geopolitical risk remains the U.S.–Iran war, as further escalation could push energy prices—and inflation—higher still.

KEY TAKEAWAYS

- The U.S.–Iran ceasefire collapsed in July, the Strait of Hormuz closed again, and Brent crude rose about 42% to roughly US\$103 a barrel.
- Renewed inflation fears triggered a global bond sell-off, pushing long-term U.S. interest rates to their highest level in more than two decades.
- The Federal Reserve raised rates 0.25% in September to 3.75–4.00%—its first hike since 2023—and signaled one more increase this year.
- The S&P 500 gained about 2.3% in Q3, but the rally was narrow: the average stock in the index lost ground, and small-cap stocks fell more than 7%.
- Semiconductor stocks, Q2's star performers, plunged 21% in July, their worst month since October 2008.
- The S&P/TSX Composite returned 1.62%, its ninth consecutive quarterly gain, led by information technology and materials.
- U.S.–Canada trade talks collapsed in August, bringing new 50% U.S. tariffs and Canadian counter-tariffs effective September 8.
- The Bank of Canada held at 2.25% in July and September, while the ECB and Bank of Japan joined the Fed in raising rates.



Meanwhile, the Russia–Ukraine war continues to weigh on global investor confidence.

Here at home, the U.S. has threatened to raise tariffs on Canadian autos, auto parts and steel to 50% starting January 1, 2027. This poses a serious risk for some of Canada's most important industries.

Global Outlook

International markets were mixed in Q3, as the oil shock, rising interest rates and a sharp reversal in AI-related stocks weighed on investors. Overall, developed markets outside North America edged up less than 1%, while emerging markets slipped slightly. European stocks dipped about 1% in the quarter. As a major energy importer, the region is especially exposed to higher oil prices, and German inflation climbed to its highest level since late 2023.

Results across Asia diverged sharply. Japan's Nikkei 225 is up nearly 33% year-to-date, supported by chipmakers and by banks benefiting from higher interest rates. South Korea, by contrast, was the worst-performing major market in Q3, falling almost 19% as the AI chip sell-off hit memory makers Samsung and SK Hynix.

Chinese stocks fell 13%, their worst quarter since the 2022 COVID-19 lockdowns. Strong exports failed to offset weak spending at home, and investors judged Beijing's latest stimulus measures insufficient.

United States Snapshot

U.S. stocks posted a modest gain in Q3, with the S&P 500 up about 2.3%. Beneath the surface, however, the economy was pulling in two directions.

On one side is a historic boom in AI investment. Alphabet, Amazon, Meta and Microsoft are on track to spend a combined US\$720 billion or more on AI infrastructure this year. That spending is powering both economic growth and corporate profits.

On the other side, households are feeling the squeeze. Gasoline climbed to about US\$4.45 a gallon in September, and consumer confidence fell to its lowest level since 2014. The job market has also cooled, with employers adding just 29,000 jobs in September, and unemployment edging up to 4.2%.

Those crosscurrents shaped the market. Energy stocks jumped 17% on higher oil prices and technology gained 7%, while rate-sensitive sectors such as utilities and real estate fell. Even the AI trade had a scare, with semiconductor stocks plunging 21% in July on doubts about whether AI spending can continue at this pace.

Spotlight on Canada

Canada's stock market extended its winning streak in Q3, even as the economy lost momentum. The S&P/TSX Composite returned 1.62% in the quarter and 12.96% year-to-date



(all figures in CAD), marking its ninth consecutive quarterly gain, the longest such run on record.

After growing at a strong 3.3% annual pace in Q2, the economy slowed sharply over the summer. Canada lost 42,000 jobs in August, and inflation stood at 3.0%, driven largely by higher gasoline prices.

Trade remains a major headwind. After talks with the U.S. collapsed in August, Washington imposed 50% tariffs on a range of Canadian goods, hitting many Canadian exporters. Ottawa responded with counter-tariffs effective September 8.

Higher oil prices offered some relief to energy-producing provinces such as Alberta. On the TSX, information technology (+17.9%) and materials (+12.9%) led, while eight of 11 sectors declined.

The Bank of Canada held its policy rate at 2.25% in July and September, balancing a slowing economy against above-target inflation.

What's next?

In our last commentary, we noted that midterm election years have historically brought volatile third quarters. Q3 2026 lived up to that history, as war, an oil spike and a bond sell-off tested investors on several fronts.

Looking ahead, several questions stand out: Will the Strait of Hormuz reopen? Will inflation ease enough to let central banks pause? Can strong earnings growth continue to offset higher interest rates? The U.S. midterm elections on November 3 add another layer of uncertainty. Each possible outcome carries different implications for investors' portfolios.

Higher rates do have a silver lining for income-focused investors, as GIC rates moved higher across all terms this quarter (see table below). History also offers perspective. Periods of market turbulence are a recurring feature of investing, not an exception. The investors who tend to do best over time stay disciplined, diversified and focused on their long-term financial goals.



MARKET MONITOR (Returns in CAD)

MARKET INDICATORS	MARKET CLOSE*	2025 ANNUAL RETURN	2026 Q3 ACTUAL*	2026 YTD ACTUAL*
S&P/TSX Composite	35,235.87	31.68%	1.60%	13.0%
S&P 500	7,651.54	12.35%	2.40%	16.80%
Dow Jones	50,906.05	9.53%	-2.30%	11.00%
MSCI World	4,902.65	15.90%	2.00%	16.10%

*As of September 30, 2026

TOP GIC RATES

ACCOUNT TYPE	1YR	2YR	3YR	4YR	5YR
Non-Registered	3.63	4.05	4.25	4.28	4.38
RRSP	3.61	4.05	4.25	4.28	4.38
RRIF	3.61	4.05	4.24	4.28	4.38

*As of September 30, 2026

Getting Advice

Are you looking for additional perspectives on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.

