

Quarterly Market Review

Third Quarter 2026

Key Takeaways

- Global equity markets advanced modestly in the third quarter, supported by resilient corporate fundamentals. However, rising bond yields increasingly challenged equity valuations and contributed to a greater performance dispersion across sectors and regions.
- U.S. equities outperformed most major markets as strong earnings growth and continued enthusiasm around artificial intelligence “AI” supported the Information Technology sector. Higher oil prices also lifted Energy stocks, providing an additional tailwind to the U.S. market’s returns.
- Canadian equities started the quarter strong, but broad-based weakness in September, particularly in commodity-related sectors, limited overall market gains.
- Most bond markets globally experienced negative returns in the third quarter as interest rates moved materially higher. The Canadian bond market had a return of -3% in Q3. Corporate bonds didn’t fare quite as poorly due to their lower interest rate sensitivity, down 2%.
- Though the Bank of Canada continued to keep its overnight policy rate steady, in Q3 the U.S. Federal Reserve was the latest central bank to begin hiking rates. The Bank of Canada’s rate remains at 2.25%. Amidst a stronger economy, the U.S. Federal Reserve has had a sharper focus on inflation and raised its policy rate in September.

Economic and Market Update

Economic Summary:

In the U.S., economic activity remained resilient in the third quarter. Consumer spending continued to drive growth, while businesses invested in artificial intelligence and related infrastructure. The labour market remained stable, although hiring slowed somewhat. Inflation remained above the Federal Reserve’s 2% target, partly due to higher energy prices as a result of the on-going conflict in the Middle East. The Federal Reserve held rates steady in July but grew more concerned about persistent inflation. In September, the Fed raised its policy rate by 25 basis points to a range of 3.75%-4.00%, reinforcing its commitment to reducing inflation.

Economic activity in Canada moderated during the third quarter following a strong recovery in the second quarter. Labour market conditions improved modestly while headline inflation stayed near 3%, largely due to the conflict in the Middle East. Trade uncertainty increased after Canada-U.S. trade talks broke down, resulting in new U.S. tariffs and Canadian countermeasures. The Bank of Canada kept its policy rate at 2.25% at its meetings in both July and September. The Bank noted that inflation risks had increased and that tariffs could slow Canada’s economic recovery.

Bond Markets:

In corporate bond markets, sentiment remained resilient, with investors remaining focused on fundamentals despite geopolitical developments. As a result, credit spreads (i.e.

the extra yield on corporate bonds versus government bonds to compensate for their extra risk) remained largely unchanged quarter over quarter. The exception was short corporate bonds, which benefited from strong buying from investors, resulting in tighter spreads in this part of the market. In regard to new issuance of corporate bonds, while the new issuance market didn't see more hyperscalers (i.e. Alphabet or Amazon) as in the second quarter, issuance remained strong, with third-quarter volumes reaching a record high by value. Notable issuers during the quarter included IBM, the Big Six Banks (TD, RBC, CIBC, BNS, BMO, NA), Apotex Health Corp., National Grid and Sysco.

As of September 30, 2026	QTD	YTD
Canada Aggregate Bond	-3.0%	-0.8%
US Aggregate Bond	-3.5%	-2.9%
US High Yield Bond	-1.8%	0.1%

Stock Markets – Overview:

Global equity markets posted modest gains in the third quarter, supported by resilient corporate earnings despite a rise in long-term interest rates. The S&P 500 advanced 2.3%, led

by large technology and AI-related companies, while higher interest rates weighed on many other parts of the market. In Canada, the S&P/TSX Composite gained 1.6%, supported by strength in commodity-oriented sectors, although some gave back part of their gains later as bond yields moved higher.

Meanwhile, International equities also finished the quarter in positive territory, with the Europe, Australasia, and Far East (EAFE) Index rising 0.7%. While earnings remained supportive across regions, rising bond yields created a more challenging backdrop for the equity markets as the quarter progressed.

As of September 30, 2026	QTD	YTD
S&P 500	2.3%	12.7%
S&P/TSX Composite	1.6%	13.0%
EAFE	0.7%	12.9%

U.S. Equities:

U.S. equities navigated a volatile third quarter as investors balanced strong earnings growth against the headwind of rising interest rates. Market sentiment improved through much of August following another constructive earnings season, but higher Treasury yields weighed on equities in September. Despite increasing pressure from higher rates, corporate fundamentals remained resilient, with S&P 500 earnings expected to grow approximately 30% year-over-year. Consensus forecasts for earnings were revised higher throughout the quarter. While Technology stocks continued to be the key driver of returns, leadership narrowed considerably as investors became increasingly selective amid elevated valuations and tighter financial conditions.

Technology remained at the center of market attention. Semiconductor and AI-related stocks came under pressure in July as investors reassessed valuations, earnings expectations and the substantial capital commitments required to support the ongoing AI buildout. Sentiment improved in August as earnings results reinforced confidence in AI-related demand and spending trends. Investor interest in AI also continued to broaden beyond infrastructure beneficiaries toward companies positioned to monetize AI through enhanced products, services, and customer engagement. The rollout and rapid adoption of Meta's Muse AI agent renewed focus on the potential for AI to drive user activity, transaction volumes, and new revenue opportunities, while also prompting debate around the longer-term applications for traditional digital intermediaries across sectors such as travel and financial services.

Though the technology sector had a very solid return, the strongest-performing sector during the quarter was actually Energy, supported by higher oil prices. The price of oil surged from under US\$70 per barrel in early July to over US\$100 in September as concerns surrounding the Middle East supply

disruptions added to an already tightening market backdrop. Health Care also performed well, benefiting from attractive valuations and improving sentiment toward biopharmaceutical innovation following several years of relative underperformance. Financials, by contrast, weakened toward quarter-end as rising yields raised concerns around the impact of tighter financial conditions.

Canadian Equities:

Canadian equities finished the third quarter modestly higher, as the S&P/TSX Composite retreated in September, surrendering much of its earlier advance from a strong month of August. Over the full quarter, gains were supported by strength in commodity-oriented sectors through much of the period, reflecting higher metal and oil prices. However, a late-quarter reversal in commodity-related shares, combined with weakness in Financials, weighed on broader market performance, and limited the overall return.

Materials was the strongest-performing sector during the quarter. Gold prices advanced through July and August but reversed course in September as higher bond yields and rising energy prices promoted profit-taking. That said, the sector still finished the quarter higher and remained an important contributor to overall market performance. Energy also advanced as oil prices strengthened in response to renewed Middle East supply concerns. However, Canadian energy stocks generally lagged their U.S. counterparts despite the rise in global crude prices. Increasing domestic production, transportation constraints and weaker demand from U.S. refiners widened discounts for Canadian crude relative to global benchmarks, limiting the benefit of higher oil prices for producers.

Financials underperformed after a strong rally earlier in the year. Canada's major banks reported quarterly earnings that were better than expectations, supported by robust capital market activity, underwriting, and advisory businesses. However, much of the positive news appeared already reflected in valuations, resulting in a muted market response. Rising long-term yields further pressured sentiment by increasing concerns around funding costs, tighter financial conditions, and the outlook for credit growth.

Bottom line:

Overall, the third quarter highlighted the market's ability to continue advancing despite a more challenging backdrop of rising interest rates and ongoing geopolitical uncertainty. Although higher interest rates created a more challenging backdrop for both equities and fixed income, economic activity remained broadly constructive and corporate earnings continued to exceed expectations. Ongoing investment in artificial intelligence and digital infrastructure remained a significant source of market support. Looking ahead, the path of inflation, monetary policy, and earnings growth is expected to remain central to market performance in the next quarter.

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