

# Quarterly Commentary:

September 30, 2025



## Economic overview

The global economy continues to show resilience in the face of policy uncertainty, with GDP growth forecasts for 2025 and 2026 being revised modestly higher. This stability is largely driven by the ongoing boom in artificial intelligence (AI) investment, which is fueling capital spending worldwide. Global trade has also held up better than expected, despite tariff pressures.

## Canada's perspective

Canada's economy remains challenged, with less exposure to AI-driven capital expenditures. The Bank of Canada cut interest rates by 0.25% this quarter, emphasizing the need for scenario planning as fiscal policy and U.S.–Canada relations evolve.

## Inflation & central banks

Inflation remains above target in most developed economies, with the U.S. running closer to 3% rather than the desired 2%. The Federal Reserve (Fed) has rejoined the global easing cycle, cutting rates by 25 basis points in September. Markets expect further cuts, driven more by employment concerns than inflation. The Fed's focus is shifting toward supporting the labour market, which has shown signs of slowing, with payroll growth turning negative in June.

## Policy watch

A notable development was the appointment of Fed Governor Stephen Miran, who projects lower rates than his peers. This raises questions about the Fed's independence as Chair Powell's term ends in early 2026. We are monitoring these changes closely for potential impacts on markets.

## Bond markets

Canadian and U.S. bond markets rallied modestly in Q3, supported by expectations of central bank rate cuts and signs of moderating inflation.

- **Global Bonds:** Experienced a sell-off, especially in Europe and Japan, due to persistent inflation concerns.
- **Credit Markets:** Credit spreads remain well supported, narrowing to levels not seen since before the Global Financial Crisis. Demand for credit is strong, driven by fixed income inflows, attractive yields, and solid corporate earnings.

## Equity markets

Equity markets posted robust gains in Q3, led by ongoing strength in AI-related technology stocks and the potential for further monetary easing.

- **Canada:** The Canadian index was the strongest performer, boosted by rallies in the Materials sector and gold-linked equities.
- **Sectors:** Information Technology led most markets, while Materials benefited from rising gold and metals prices. Defensive sectors like Consumer Staples and Healthcare lagged as investors favoured cyclical sectors.
- **Valuations:** Sector performance diverged sharply, with leading sectors trading at peak valuations and defensive areas near historic lows.

## Investment Outlook

- **Labour Market:** Negative payroll growth often signals recession, but this cycle is different. Corporate profitability is at record highs, and U.S. unemployment remains low at 4.3%. The slowdown in labour growth appears linked to corporate uncertainty and demographic shifts, not economic collapse.
- **Fed Policy:** The Fed's dovish stance is expected to persist, likely resulting in one or two more rate cuts by year-end. Risk assets typically perform well in this environment, but ongoing rate cuts into 2026 could be challenging if labour conditions improve and inflation remains elevated. The appointment of a new Fed Chair may add to market volatility.
- **Portfolio Strategy:**
  - We continue to maintain a mindful approach to risk, recognizing that valuations are stretched in many speculative areas.
  - Our equity portfolios remain diversified, with an emphasis on quality and careful monitoring of exposures with elevated valuations.

- Our fixed income portfolios are conservatively positioned, overweighting shorter-duration credits and maintaining a cautious stance on corporate risk. If yields fall, we expect increased issuance could widen long-term spreads and impact returns.

## Our Approach

At Johnstone Wealth, we remain focused on helping clients navigate these dynamic markets with a disciplined, risk-aware approach. We continue to emphasize quality, diversification, and proactive portfolio management to help you achieve your long-term financial goals.

If you have questions about your portfolio or would like to discuss how these developments may impact your investment strategy, please reach out to our team.

## Contact our team of experts today!

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We have prepared this commentary to give you our thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects our opinions alone and may not reflect the views of National Bank Financial Group. In expressing these opinions, we bring our best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of our informed opinions rather than analyses produced by the Research Department of National Bank Financial. The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete.