

Economic Commentary

Third Quarter 2025

Bank of Canada and U.S. Fed Lower Interest Rates

Both the Bank of Canada and the U.S. Federal Reserve lowered interest rates by 25 bp at their meetings in September. This marked the first decrease in interest rates by the Bank of Canada since March of this year. The last rate cut by the U.S. Federal Reserve was in December 2024. Fed Chair Powell described this latest cut as a risk management tool as the Fed attempts to balance the risk between a weaker labour market and the threat of higher inflation due to the impact of the global trade tariffs. Powell's comments following the meeting were somewhat hawkish as he indicated the Fed would be cautious going forward and that any future rate cuts would be data dependent and would be addressed on a meeting-to-meeting basis. Economic projections are forecasting two more rate cuts in the U.S. by the end of the year. Bank of Canada governor Tiff Macklem was also non-committal with respect to future interest rate cuts as their latest statement omitted reference to further easing, which had been included in their comments following their previous meeting.

President Trump's ongoing attempts to try and influence U.S. Federal Reserve monetary policy continued, stating that the Fed needs to cut rates soon and that Chair Powell has been too slow to react to market conditions. Trump also attempted to fire a Fed governor, a decision that the Supreme Court will address in January 2026. Independence of the U.S. Federal Reserve is critical to the stability of global financial markets.

Inflation Levels Increase But Below Expectations

Even though North American inflation levels have improved dramatically from the peak levels reached in June 2022, more recent results have

started to gravitate higher. After hitting a low of 1.6% in September 2024, Canadian headline inflation has moved slightly higher and now sits at 1.9%. U.S. headline inflation hit a low of 2.3% in April of this year but has moved steadily higher and is now at 2.9%, still considerably above the Fed's 2.0% target. The core inflation reading in both countries is at 3.1%. Although inflation has moved upwards of late, current levels are still somewhat lower than what the market was expecting at this point, given the potential negative impact that the global tariffs were expected to have on the economy.

Labour Markets Soften in North America

After remaining resilient for an extended period, North American labour markets have begun to show signs of weakness. U.S. job growth has declined dramatically, with an average monthly increase of 75,000 new jobs in 2025, with a three-month average of only 29,000. This compares to a monthly average of 167,000 in 2024. In Canada, the average monthly job growth has been 5,000 in 2025, with a three-month average of (8,000). The unemployment rate has moved higher in both countries as well, with an August reading of 4.3% in the U.S. and 7.1% in Canada.

There is still a great deal of uncertainty on the tariff front as several countries have yet to formalize a new trade deal with the U.S. Pre-tariff purchases have declined as well, as countries front-loaded purchases in advance of the tariffs kicking in. In addition, lower courts have determined that Trump's extensive use of tariffs is illegal. If these tariffs were overturned it would have a dramatic impact on markets going

(Continued ...)

Key Metrics

Indicator	Value	Chg Q3	Chg 1Y
S&P/TSX Composite	30,022.81	12.5%	28.6%
S&P 500 (USD)	6,688.46	8.1%	17.6%
iShares MSCI EAFE ETF (USD)	93.37	4.5%	15.1%
USD/CAD	\$ 0.72	-2.2%	-2.8%
WTI Crude (\$/bl)	\$ 62.37	-4.2%	-8.5%
GoC 10Y Bond	3.18%	-9 bps	23 bps
GoC Deposit Rate	2.50%	-25 bps	-175 bps
Cdn CPI YoY	1.9%	0.0%	0.3%
US 10Y Treasury	4.15%	-8 bps	37 bps
Fed Funds Rate	4.25%	-25 bps	-75 bps
USD CPI YoY	2.9%	0.2%	0.5%

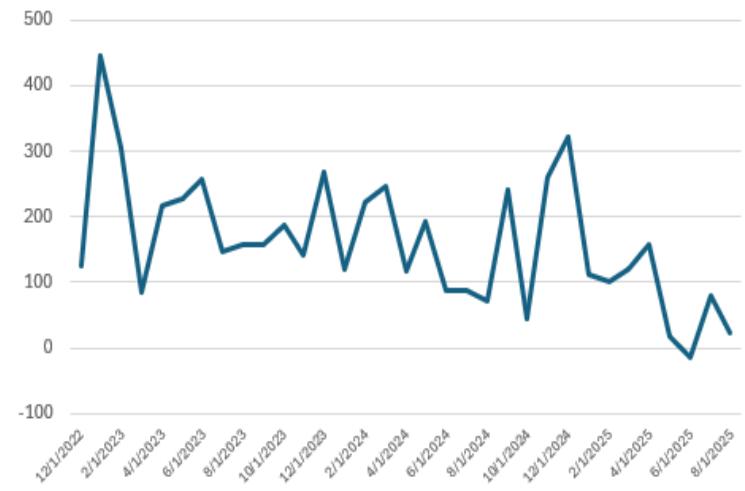
Top Themes

Central Banks lower interest rates after long pause

Inflation levels remain stubbornly above target

Labour markets beginning to show signs of weakness

Top Chart: U.S. Nonfarm Payrolls MoM Change



Source: Bloomberg, Lincluden

Economic Commentary

Third Quarter 2025

(...Continued from page 1)

forward. The issue will be decided upon by the Supreme Court which, to date, has been very supportive of many of Trump's actions. Fiscal and trade policy is expected to have a larger impact on economic growth going forward, with a lesser impact coming from central bank monetary policy.

Equity Markets Continue Higher While Bond Yields Fluctuate

Equity markets strengthened further during the second quarter as concerns about tariffs and the negative impact they could have on both the economy and inflation weren't enough to deter investors from driving markets higher. Equity markets have performed much stronger than anticipated given the high degree of uncertainty that still exists in the market. No progress has been made on tariff talks between the U.S. and Canada and despite negotiated settlements with other countries, the U.S. does not have any firm deals in place. Bond movements were much more subdued as the yield on the benchmark 10 year U.S. Treasury declined by just 8 bp, ending the quarter at 4.15%. Yields did move higher to start the quarter, with the Treasury bond peaking at 4.48% in mid-July before rallying through the balance of the quarter. Expectations of the U.S. Federal Reserve lowering interest rates at its September meeting helped drive yields lower. Weaker labour markets were also a contributing factor.