

# Economic Commentary

Third Quarter 2026

## U.S./Iran Conflict Intensifies

Geopolitical risks flared up yet again as the cease fire between the U.S. and Iran failed to hold. Both sides have blamed the other for breaching the terms of the temporary agreement that had brought a brief pause to hostilities. As further military strikes by the U.S. failed to result in an easing of Iranian demands, President Trump has changed course to rely more on economic sanctions as apposed to military strikes in an attempt to isolate the Iranian regime. With both sides now dug in on their demands, investors have resigned themselves to the fact that a resolution to the conflict is not forthcoming. The political implications of another prolonged war in the Middle East could soon be felt as the U.S. looks forward to their mid-term elections in November. Early polling suggests Republicans are facing significant headwinds as President Trump's popularity sinks with voters facing higher costs at home in the form of higher gas prices, food prices and mortgage rates. The results of the mid-terms could have a significant impact depending on which party emerges with control over the House and Senate .

## Diesel Prices March Higher

While the conflict in the Middle East had the effect of initially driving benchmark oil prices like WTI and Brent higher, further strain on global energy markets has emerged from the global shortage of refining capabilities. Damaged infrastructure, shipping instability and fuel export bans have all contributed to reducing the global supply of refined products like diesel, gasoline and jet fuels. Due to these conditions even when oil prices have faded off their recent peaks, the reprieve has not been felt as much at the pumps for consumers or businesses. So far, the data points to inflation being contained to energy

prices for the time being. In Canada headline inflation rose slightly to 3% August while core measures remained grounded at approximately 2%. In the U.S. the headline rate was slightly higher at 3.4% for August while core was more inline at 2.4%. However, the longer the current energy price environment persists, the harder it will be to keep elevated prices from spilling over into the rest of the economy.

## Central Banks Begin Raising Interest Rates

Central banks around the globe took a hawkish tone during the third quarter. The U.S. Fed, European Central Bank, Bank of Japan and Reserve Bank of Australia were among those who raised rates during the quarter. The market is expecting that further hikes will follow before the end of the year. The Fed, which had cut rates by 75 bps last year, notably changed its tune in beginning with Chair Kevin Warsh's speech at Jackson Hole. In it he referenced underlying inflation trends not showing improvement in recent months while the job market remained stable with an unemployment rate of 4.2% in September and real GDP solid at 2.2% annualized in the second quarter. The Bank of Canada notably did not raise rates, opting instead to leave them unchanged during the quarter. The Canadian economy proved resilient with the unemployment rate holding steady at 6.5% through September while Q2 GDP growth bounced back at 3.3% on an annualized basis following a weak start to the year. However, trade headwinds returned over the summer as an agreement to extend CUSMA could not be reached. Further, President Trump implemented new tariffs on select Canadian good with Canada eventually reciprocating dollar for dollar against U.S. imports. With the tariffs only going into effect

(Continued ...)

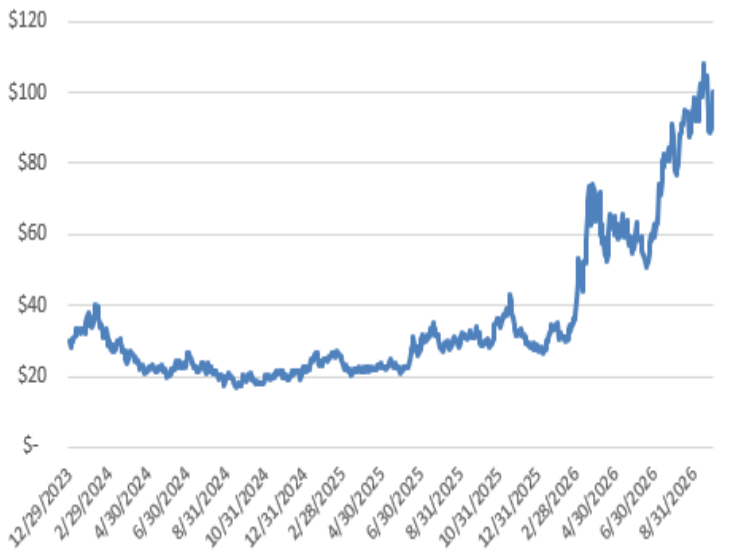
## Key Metrics

| Indicator                   | Value     | Chg Q3 | Chg 1Y  |
|-----------------------------|-----------|--------|---------|
| S&P/TSX Composite           | 35,235.87 | 1.6%   | 20.1%   |
| S&P 500 (USD)               | 7,651.54  | 2.3%   | 15.7%   |
| iShares MSCI EAFE ETF (USD) | 103.89    | 0.0%   | 15.1%   |
| USD/CAD                     | \$ 0.70   | -0.2%  | -2.2%   |
| WTI Crude (\$/bl))          | \$ 90.42  | 30.1%  | 44.97%  |
| GoC 10Y Bond                | 3.99%     | 61 bps | 81 bps  |
| GoC Deposit Rate            | 2.25%     | 0 bps  | -25 bps |
| Cdn CPI YoY                 | 3.0%      | 0.2%   | 0.6%    |
| US 10Y Treasury             | 5.29%     | 82 bps | 114 bps |
| Fed Funds Rate              | 4.00%     | 25 bps | -25 bps |
| USD CPI YoY                 | 3.4%      | -0.1%  | 0.4%    |

## Top Themes

- U.S./ Iran ceasefire proves short lived, conflict intensifies
- Energy prices spike with refined products (Diesel) leading the way
- Central Banks around the globe begin hiking interest rates

## Top Chart: Bloomberg FV Diesel-WTI Crack Spread



Source: Bloomberg, Morguard Lincluden

*(...Continued from page 1)*

at the end of the quarter, we will wait to see if the negative headlines impact a Canadian recovery. Despite the escalation in the trade war, markets are currently expecting the Bank of Canada to join the global trend of higher rates with at least one hike before the end of the year, with 3 more penciled in for 2027.

### **Bond Yields Move Higher While Equities Post Modest Gain**

Global bond yields moved higher during the quarter. The yield on the benchmark 10-year U.S. Treasury increased by 82 bp, ending the quarter at 5.29%. Yields in the Canadian bond market rose to a lesser extent, with the yield on the 10-year Government of Canada bond increasing by 61 bp, ending the quarter at 3.99%. Most equity markets posted modest gains during the quarter as the rise in rates tested investor risk appetite. The renewal of the U.S./Iran conflict led to a return of volatile market conditions with energy prices surging. The Canadian equity market experienced a small positive return during the third quarter, due primarily to the heavier weight in materials in the Canadian market.