



Economic Outlook

Third quarter 2026



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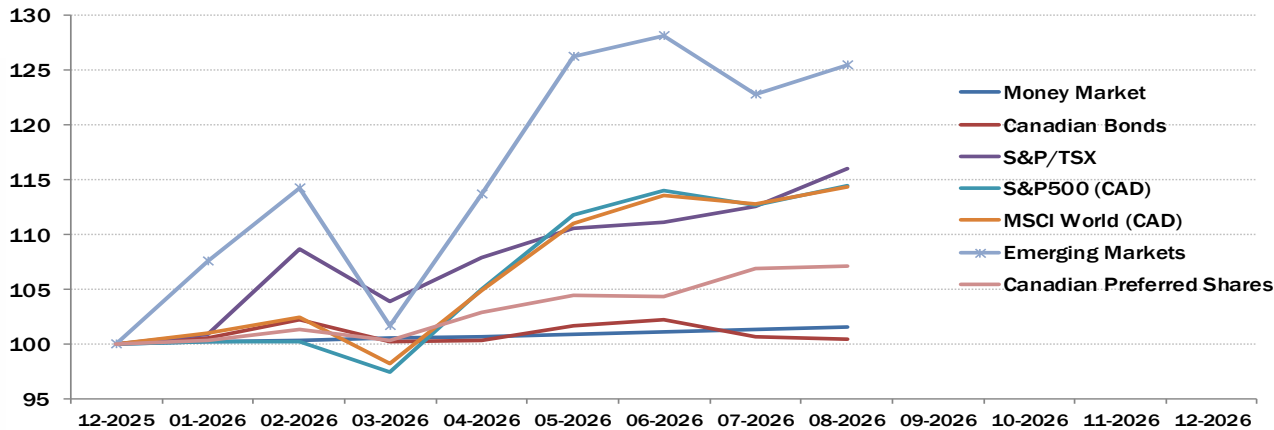
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SUMMARY

Financial market returns



Source: Bloomberg – Data as of August 31, 2026

Key takeaways

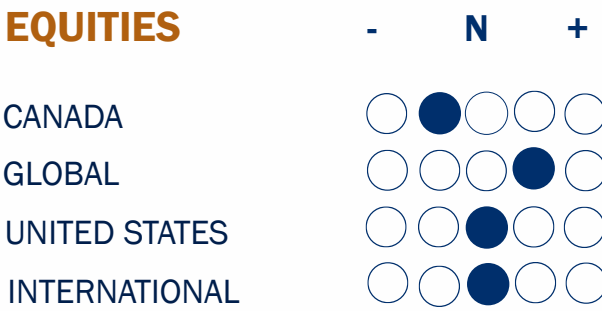
Overweight global equities, while maintaining a neutral stance on U.S. and international equities.

Underweight Canadian equities due to elevated price-to-earnings valuations.

Overweight alternative income strategies, as current yields provide attractive compensation for downside risk.

Underweight traditional fixed income given the prevailing upward trend in interest rates.

Overall portfolio positioning (3–12 month horizon)



N = Neutral

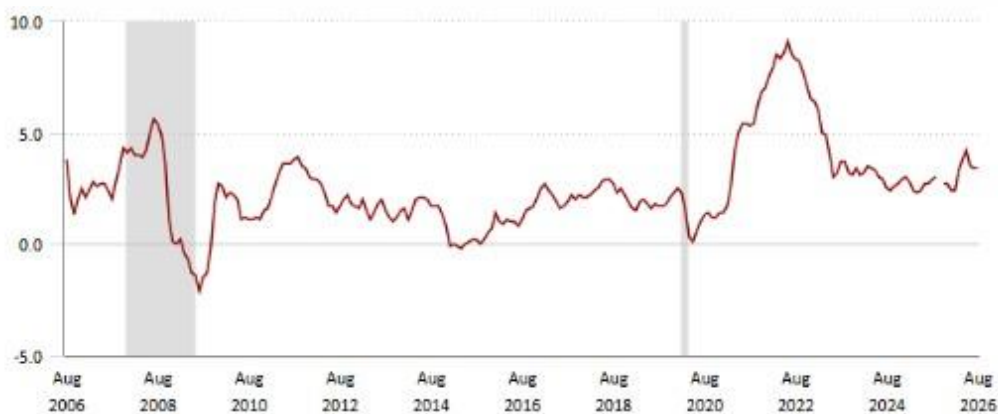


Global economic analysis

UNITED STATES

The U.S. economy remained resilient during the third quarter, supported by artificial intelligence (AI)-related investments and solid capital spending, despite increasingly concentrated growth. Inflation remained persistent, driven in part by energy prices, and the Federal Reserve (Fed) raised its policy rate for the first time in three years. The labour market continued to support economic activity, although tighter financial conditions and a less predictable monetary policy environment increased uncertainty.

U.S. inflation trend (%) (CPI, year-over-year change, August 2006 to August 2026)

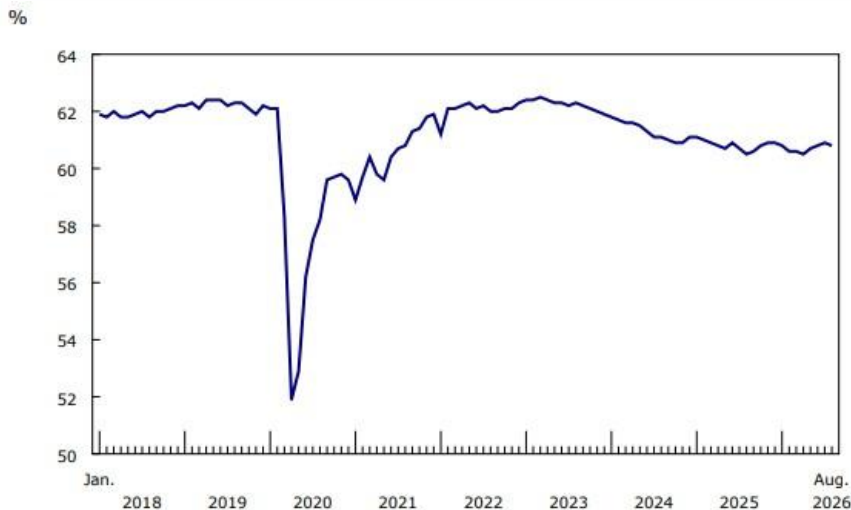


Source: U.S. Bureau of Labor Statistics (BLS), via CNBC. CPI year-over-year change, August 2006 to August 2026. Data as of August 31, 2026.

CANADA

The Canadian economy showed modest improvement in the second quarter following the technical recession experienced earlier in the year. However, momentum remains fragile. Growth continues to be constrained by trade uncertainty, weak investment, and a labour market that still exhibits excess capacity. Core inflation nevertheless continued to moderate. In this environment, the Bank of Canada maintained its policy rate at 2.25%, concluding that weak domestic demand reduced the need to follow the tightening cycle underway in the United States.

Monthly employment change, January 2018 to August 2026



Source: Statistics Canada, Labour Force Survey, August 2026, Table 14-10-0287-01.

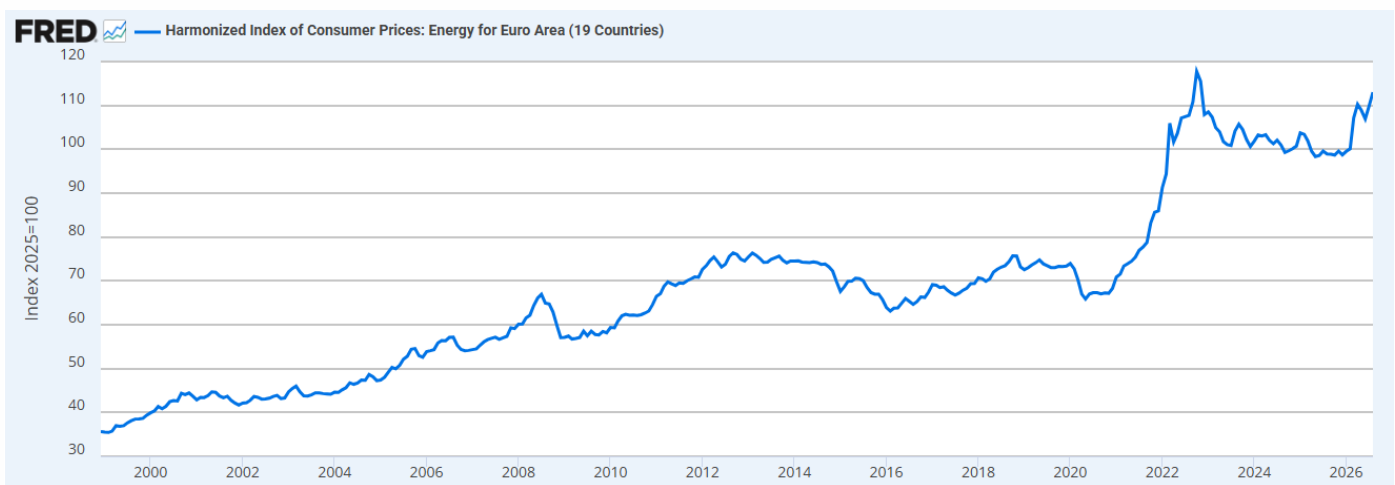


Global economic analysis

INTERNATIONAL

Global growth remained uneven but generally resilient during the third quarter. Asian economies continued to benefit from AI-related investment, while Europe recorded weaker expansion. The ongoing conflict in the Middle East and rising energy prices rekindled inflationary pressures and pushed several major central banks toward a more restrictive stance. Trade tensions and elevated public financing requirements remain significant sources of market volatility.

Eurozone energy price trend (2001–2026)



Source: Eurostat, via FRED (Federal Reserve Bank of St. Louis).

ASSET CLASS REVIEW

Fixed income

FTSE Russell index performance in the third quarter of 2026 (%)

Term	Federal	Provincial	Municipal	Corporate
Short	0.63	0.63	0.62	0.63
Mid	0.61	0.62	0.62	0.61
Long	0.46	0.50	0.49	0.47
Universe	0.61	0.55	0.56	0.58

Source: FTSE Russell, June 30 to September 28, 2026

Review

The third quarter was marked by a sharp rise in bond yields, driven by higher energy prices, persistent inflation, and a shift in tone from central banks. The Federal Reserve raised its policy rate, while the Bank of Canada remained on hold in the face of a more fragile economy. In Canada, higher U.S. and global interest rates tightened financial conditions despite the absence of domestic rate hikes.

Credit spreads remained relatively tight, but abundant issuance, particularly associated with AI-related investment, reinforced the importance of issuer selection.

Analytical framework:

- **Fundamentals:** Strong U.S., weak Canada
- **Seasonality:** Neutral
- **Sentiment:** Cautious
- **Technical:** Negative
- **Valuation:** Structurally attractive levels

Outlook

We maintain a modestly long-duration stance in Canada, where weak domestic demand and the gradual moderation of inflation are expected to limit the potential for further increases in policy interest rates. However, we remain cautious on U.S. rates, given more resilient economic growth and still-persistent inflation. In credit markets, current yields remain attractive, but tight valuations and elevated issuance warrant a selective approach focused on quality, liquidity, and less cyclical sectors.



Alternative fixed income



Review

The third quarter was supportive for carry strategies but presented a more mixed backdrop from a credit risk perspective. Bank loans and collateralized loan obligations (CLOs) continued to benefit from elevated coupons, strong refinancing activity, and declining default expectations. However, increased competition among lenders, rising hidden leverage, and looser documentation standards contributed to higher risk levels. In the United States, Business Development Companies (BDCs) remained under scrutiny as the use of payment-in-kind interest continued to increase, signalling growing pressure on borrowers' cash flows.

Emerging market debt continued to provide attractive carry and valuable diversification relative to developed-market credit, despite volatility in U.S. interest rates and the U.S. dollar. Canadian preferred shares remained supported by their attractive income characteristics and limited supply. Insurance-linked securities (ILS) maintained their structural appeal due to their low correlation with traditional financial markets, although premium compression has required greater discipline in risk selection.

Outlook

The outlook for loans and CLOs remains constructive, supported by carry and a gradual recovery in merger and acquisition activity. However, we continue to favour structures with stronger investor protections, as increased competition among lenders, weaker covenant packages, and rising levels of payment-in-kind interest have reduced margins of safety. BDCs are expected to remain under pressure, particularly those with significant exposure to weaker borrowers or limited dividend coverage.

Emerging market debt continues to offer an attractive source of carry and diversification, although it remains sensitive to the path of U.S. interest rates and the U.S. dollar. Insurance-linked securities (ILS) retain an attractive risk-return profile despite some softening in premium levels. Canadian preferred shares should continue to benefit from the ongoing contraction in supply, while the U.S.-to-Canadian dollar hedging carry remains supportive for U.S. dollar-denominated strategies.

ASSET CLASS REVIEW

Equities

Review

Since the beginning of the third quarter, global equity markets have advanced at a more uneven pace, as strong corporate earnings were partially offset by higher energy prices resulting from tensions in the Middle East, a resurgence of inflation, and a pronounced increase in bond yields.

In Canada, equities posted more modest gains than in the previous quarter. Strong performance from energy producers and technology companies was tempered by the sensitivity of more interest rate-dependent sectors.

In the United States, the market continued to move higher, supported by strong quarterly earnings results and broader participation from mid-cap companies, although expectations of further monetary tightening led to periods of volatility.

In Europe, equities were weighed down by rising energy costs, higher policy rates, and pressure on the financial and luxury sectors.

Across Asia and emerging markets, gains continued, driven by South Korea and Taiwan, where sustained demand for artificial intelligence-related components continued to support earnings growth despite more pronounced price fluctuations.

Analytical framework:

- **Fundamentals: Positive**
- **Seasonality: Positive**
- **Sentiment: Neutral**
- **Technical: Positive**
- **Valuation: Neutral**

Outlook

Within Canadian equities, we increased our exposure to the materials and technology sectors while reducing our exposure to industrials, utilities, and real estate.

In global equities, we increased our exposure to the technology, communication services, and energy sectors while reducing our exposure to financials, industrials, and real estate.

The energy sector continues to stand out globally, as the rebound in oil prices, driven by tensions in the Middle East and concerns over potential supply disruptions, has provided strong support for producer earnings.

Refiners, which we favour within portfolios, have particularly benefited from this environment. Their refining margins have reached unprecedented levels, driven by reduced global refining capacity and strong demand for diesel and jet fuel.

Conversion of a barrel of crude oil
Profit margin trend (%), 2009 to 2026

Diesel refining margin

Measure of the profit earned by a refiner from processing one barrel of crude oil



Source: Bloomberg, data as of September 29, 2026.



HISTORICAL ASSET ALLOCATION DECISIONS AND VALUE ADDED

Strategy evolution (deviation from target)

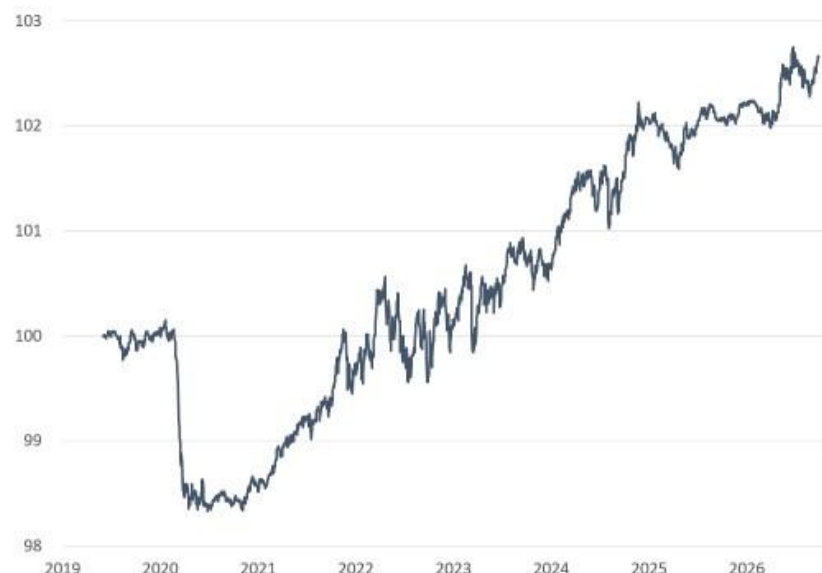
Date	Money market	Canadian bonds	Canadian equities	Global equities	Income private market	Income public market core+
2019-05-31	2%	-4%	5%	-3%	-1%	0%
2019-07-12	2%	-2%	5%	-3%	2%	0%
2021-02-16	0%	-4%	4%	-1%	1%	0%
2021-03-26	0%	-6%	5%	0%	1%	0%
2021-07-27	1%	-10%	5%	1%	3%	0%
2021-09-10	1%	-12%	5%	1%	5%	0%
2021-12-22	1%	-9%	5%	1%	1%	0%
2023-07-26	1%	-8%	4%	3%	0%	0%
2024-02-12	3%	-10%	4%	3%	0%	0%
2024-12-10	4%	-2%	-2%	2%	-1%	-1%
2025-01-09	4%	-7%	-3%	2%	2%	2%
2025-07-22	3%	-6%	-1%	3%	0%	0%
2025-12-05	4%	-6%	2%	0%	0%	0%
2026-02-11	2%	-9%	-1%	0%	4%	4%
2026-09-11	1%	-8%	0%	2%	3%	3%

This table illustrates the asset allocation decisions implemented over time for an actual private wealth management client portfolio. These decisions are determined by the Asset Allocation Committee based on sentiment analysis, macroeconomic assessments, and fundamental and technical analysis, with an investment horizon of 3 to 12 months.

Cumulative value added

Cumulative value added reflects the impact of asset allocation decisions implemented in an actual portfolio, as measured by deviations from the target weights established under the client's investment policy.

Cumulative value added – Asset allocation



Source: Bloomberg, Optimum Asset Management, data as of September 28, 2026.



Economic scenarios

> Base scenario

Artificial intelligence

The artificial intelligence (AI) investment boom is driving a massive wave of spending in data centres, semiconductors, and digital infrastructure. Companies and governments are investing hundreds of billions of dollars in AI, betting on its potential to transform productivity and support long-term economic growth.

1 Persistent inflation and higher interest rates

Global growth slows without falling into recession, while markets remain sensitive to the path of interest rates and cost pressures, making bonds increasingly attractive.

2 Economic slowdown

After several years of massive spending, the AI investment boom reaches a plateau, gradually reducing its role as a driver of growth. The normalization of technology investments could therefore contribute to a broader economic slowdown.

3 Geopolitical and trade shock

This scenario assumes a renewed escalation of geopolitical and trade tensions that could disrupt supply chains, intensify inflationary pressures, and weaken confidence. The result would likely be heightened financial market volatility and a significantly more fragile macroeconomic environment.

Expected returns by scenario	AI investment boom	Inflation and higher interest rates	Economic slowdown	Geopolitical and trade shock	Weighted average
Probabilities (internal assumptions)	35%	25%	20%	20%	-

Fixed income

Money market	2.75%	2.5%	1.5%	2.25%	2.3%
Canadian bonds	4.5%	2%	6%	4.5%	4.2%

Alternative fixed income

Diversified credit	7%	2%	-2%	0%	2.55%
ILS	7%	7%	7%	7%	7%

Equities

Canadian equities	10%	5%	-18%	-6%	-0.05%
U.S. equities	13%	0%	-12%	-9%	0.35%
International equities	10%	2%	-12%	-13%	-1%

Source: Internal Economic Research – Scenario and assumptions as of September 28, 2026.

Intended for an informed audience. The returns and probabilities presented are hypothetical and provided for illustrative purposes only. They are based on internal assumptions that may change without notice and do not constitute a guarantee of future performance. Past performance does not guarantee future results.



SPECIAL TOPIC: Financial market expectations

When the consensus repositions itself...

Since the publication of our previous Economic Outlook report, financial markets have significantly revised their expectations regarding the outlook for growth, inflation, and interest rates.

In the United States, the policy rate currently stands at 4.00%. At the time of our previous publication, markets were anticipating approximately two additional rate hikes over the subsequent 12 months. Since then, the Federal Reserve has increased rates by 25 basis points, and investors are now pricing in more than three additional rate hikes, which would bring the implied policy rate to 4.75% one year from now.

The market repricing has been even more pronounced in Canada. While the policy rate currently stands at 2.25%, markets were only anticipating limited monetary tightening at the time of our previous publication. Today, more than four additional 25-basis-point rate hikes are reflected in market pricing, implying a policy rate of 3.25% within the next 12 months.

This significant revision in expectations reflects the continued resilience of the U.S. economy, the rebound in oil prices, and the geopolitical risks associated with tensions in the Middle East. Investors now appear to assign a much higher probability to a scenario characterized by more persistent inflation and central banks being forced to maintain restrictive monetary policies for an extended period.

Continued economic strength

U.S. economic growth also continues to be supported by an exceptional investment cycle linked to artificial intelligence (AI). According to some estimates, spending on digital infrastructure, data centres, semiconductors, and energy networks associated with AI now accounts for more than half of recent economic growth in the United States. This trend remains a powerful engine of growth and helps explain why the U.S. economy continues to surprise on the upside despite elevated interest rates.

We do not fundamentally disagree with what markets are currently anticipating. The risks associated with more persistent inflation, elevated energy prices, and continued economic strength remain very real. As such, it is reasonable that investors have adjusted their expectations over recent months.

However, in investing, the challenge is not simply identifying the most probable scenario. It is equally important to assess what is already reflected in asset prices and determine whether investors are being adequately compensated for the risks they are assuming.



SPECIAL TOPIC: Financial market expectations

When the consensus repositions itself...

Yield curve: Opportunities at the short end

In our view, a significant portion of the inflationary and geopolitical risks is now reflected in bond markets. Investors are already pricing in an environment characterized by elevated oil prices, persistent tensions in the Middle East, and central banks that are expected to maintain restrictive policy rates for several more quarters.

Against this backdrop, we believe the risk-return profile is becoming increasingly attractive at the short end of both the U.S. and Canadian yield curves. Our conviction is not based on the belief that the market is necessarily wrong. Rather, it stems from the fact that the consensus has already undergone a substantial repricing.

If the scenario currently anticipated by markets materializes, we believe the potential for a further meaningful increase in interest rates is relatively limited given the magnitude of the move that has already occurred. Conversely, a number of plausible developments could lead investors to reassess their expectations, including a geopolitical de-escalation, stabilization in energy prices, a slowing economy, or a loss of momentum in the artificial intelligence investment cycle.

As a result, the most important change since our previous publication is not merely the rise in interest rates, but rather the evolution of expectations themselves. As investors, we pay particular attention to periods when consensus views shift rapidly, as these are often the moments when the most compelling opportunities emerge. In our view, the current environment offers a favourable asymmetry for investors positioned at the short end of North American yield curves.



Source: Bloomberg, Perspectives_economiques-20260930_F, data as of September 24, 2026.
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Performance is shown in Canadian dollars, before management fees, and is annualized for all periods longer than one year.

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