

RJL PCS: INSIGHTS & STRATEGIES

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RJL Investment Strategy (Canada) | RJLInvestment.StrategyCanada@raymondjames.ca
Neil Linsdell, CFA, Head of Investment Strategy | 438.843.0150 | Neil.Linsdell@raymondjames.ca
Eve Zhou, CFA, Senior Investment Strategy Analyst | 647.577.8766 | eve.zhou@raymondjames.ca
Taha Aamir, Investment Strategy Associate | 647.837.2259 | Taha.Aamir@RaymondJames.ca

November 2025 Insights & Strategies: Federal budget sets the tone for more business investment in Canada

Macro Highlights for October

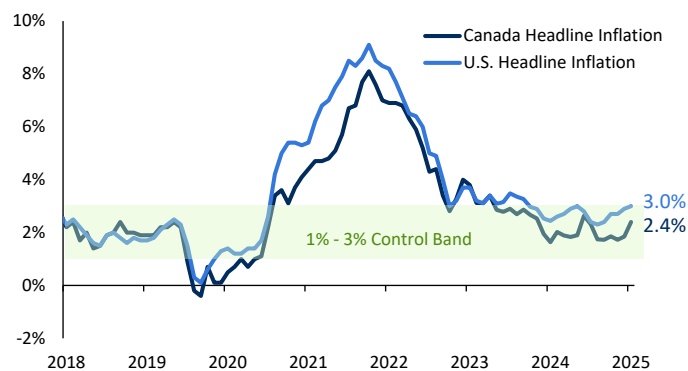
- There is a lack of official U.S. government data due to the shutdown, but the Atlanta Fed GDPNow estimate suggests that 3Q25 economic growth remained solid, up 4.0% in annualized gain over 2Q25. This follows the 3.8% growth that we saw in 2Q25, and a sustained rebound from the -0.6% contraction in 1Q25. Consumer spending continues to be a major driver, up 2.3%.
- The Canadian economy is being held back by a cloud of uncertainty, as consumers and businesses await definitive signals from on-again/off-again trade negotiations. Preliminary estimates are for annualized growth of 0.4% in 3Q25, avoiding a technical recession, but highlighting the fragility of the economy with growth slightly below the BoC forecasts. September looks to be offering a modest boost in GDP growth after the August contraction reversed the July gain.
- Labour markets continue to be a concern. While the U.S. unemployment rate remains low (4.3%), there is a growing concern of layoffs while the country is otherwise in a low-hire/low-fire environment. In Canada, the unemployment rate has remained higher (7.1%) as businesses continue to act cautiously and employers navigate the continuing trade uncertainty and lower growth.

Financial Markets in October

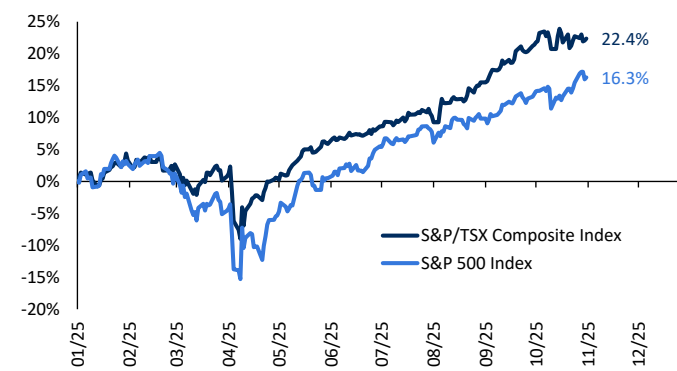
- In October, the S&P/TSX Composite gained 0.8% in price and 1.0% in total return, bringing its year-to-date gains to 22.4% and 25.1%, respectively. The S&P 500 posted a solid 2.3% gain in both price and total return, lifting its year-to-date performance to 16.3% in price and 17.5% in total return in local currency.
- After an impressive 56.1% rally since the end of July, the S&P/TSX Composite gold sub-industry underwent its first notable pullback in the latter half of October, with a 16.2% drawdown following an over 8% drop in gold prices, a pullback not unexpected after such a strong run. Nonetheless, we remain long-term constructive on gold and the TSX Materials sector, supported by enduring structural tailwinds.
- Over 78% of S&P 500 companies have reported results this earnings season, and aggregate earnings remain on track for another quarter of double-digit growth (currently at 12.5%). Cyclical sectors, such as, Information Technology, Financials, and Materials, are leading in earnings growth. However, the bar for positive market reactions has clearly risen, as strong headline results alone have not been enough to impress investors.

Upcoming

- With October rate cuts behind us, financial markets will be looking for signals about the potential for cuts at the next BoC and FOMC announcements on December 10. A weakening labour market suggests one more cut in the U.S., while the BoC rate, already at the low end of the estimated neutral rate will be more influenced by upcoming trade negotiations and further weakening in the economy and labour market.
- The U.S. Supreme Court has held oral arguments on the legality of President Trump's use of IEEPA to impose broad tariffs. We do not expect a decision until early in 2026, but a ruling that overturns these tariffs could throw fresh uncertainty on government revenues and policy.
- The ongoing U.S. government shutdown could inject even more uncertainty and volatility into markets as participants turn to alternative data sources, and unpaid federal workers, including impacts such as reduced flights, could introduce drags on the economy.

Chart 1 - Canada and U.S. Headline Inflation

Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025. Not seasonally adjusted.

Chart 2 - S&P/TSX Composite and S&P 500 2025 Performance

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025. Price return in local currency.

Executive Summary

Equity markets continue to climb, but higher valuations yield more volatility as gains are digested. The stock market generally likes interest rate cuts. This easing can make equity valuation calculations more favourable, and shift investor sentiment away from the declining yields of fixed income and money market investments, towards the higher returns of equities. Of course, there has to be a reasonable attractiveness to the stock market in both earnings growth and valuation multiples. October, typically one of the months with the strongest seasonal headwinds, saw both Canadian and U.S. equities hold up well. The S&P/TSX Composite Index gained 0.8% in price and 1.0% in total return, despite some intra-month volatility, bringing its year-to-date gains to 22.4% and 25.1%, respectively. The S&P 500, the benchmark for large-cap U.S. stocks, also posted a solid 2.3% gain in both price and total return, even after an almost 3% drawdown earlier in the month following Trump's threats of steep new tariffs on China. This marked the first time since July that the S&P 500 outperformed the TSX Composite on a monthly basis, lifting its year-to-date performance to 16.3% in price and 17.5% in total return (in local currency).

High equity valuations are inspiring some investors to wait for a pullback in stock prices before deploying cash into a market that appears to otherwise have plenty of tailwinds. As we advance through 3Q25 earnings season, investors are watching for earnings growth to support equity valuations that are in the high 90th centile, which means that the price-to-earnings (P/E) valuation multiples are rarely as high as they are currently. This is causing more and more commentators to caution that a 10-15% pullback in share prices would not be unusual and should not be unexpected. Few commentators however are suggesting selling equity positions, likely since markets can continue to move higher, even in the face of high valuation multiples. Remember that the P/E valuation multiple has two components, with the denominator being the earnings from the market, and earnings are still looking pretty good. As we write this, S&P500 earnings growth this quarter is coming in around 12% higher than last year, versus expectations of around 8% before earnings season started, and over 78% of companies that have reported have beat expectations. The best advice is probably to remain invested, while ensuring that your asset allocation and stock selections are suitable for your return objectives and risk tolerance. Be prepared for volatility, which includes prices going down, and use pullbacks opportunistically to add to positions that you want to hold for the long-term. Trying to time the market will probably lead to more anxiety and missed opportunities than necessary.

Interest rates were lowered in October as both the Bank of Canada (BoC) and the Federal Open Markets Committee (FOMC or Fed), lowered their policy rates by 25 basis points (bps). In Canada, this was in response to a weakening economy that has been battered by U.S. tariffs and general economic and trade uncertainty, against the backdrop of relatively controlled inflation and a deteriorating labour market. In the U.S., economic growth has been still relatively strong and the unemployment rate is historically low, although signs are pointing to the economy weakening somewhat and employment growth slowing, with the fear of more layoffs on the horizon. Despite inflation remaining stubbornly above target, the FOMC is more willing to look past the slightly elevated inflation, with the expectation that some of it will be tariff-driven and transient, in order to preemptively avoid any rapid deterioration in employment with this "risk management" rate cut. The prospect for further cuts in December still exist, yet both central banks seem to have cautioned about expectations for further cuts before year-end. Our U.S. chief economist continues to expect one more cut in December, and at least one cut in 2026. For Canada, the BoC has delivered on all the cuts that we had expected for 2025, and is now at the lower end of its neutral rate forecast, yet we see lingering trade concerns, potential upward movement in the unemployment rate, and still weak business confidence leaving the potential for further easing early in 2026.

The Canadian government tabled its 2025 budget on November 4. While analysis of the 493-page document is ongoing, there was relatively little that was unexpected, from a modest reduction in federal workforce, to higher military spending, and incentives to entice more business investment. The budget deficit of \$78.3 billion, was also within the \$70-100 billion range expected by most economists. Projections put the deficit edging lower through the forecast period to \$56.6 billion by 2029-30. The deficit-to-GDP ratio would then decline from 2.5% this year, to 1.5% in 2029-30.

Tariff concerns are not as pronounced as earlier in the year. The tariff story is far from over, yet fears of tariffs that would decimate the Canadian economy and drive up U.S. inflation are fading somewhat. Even threats of another 10% tariff on Canadian goods as President Trump halted trade talks as he lashed out at a TV ad from the Ontario government, failed to rattle the markets. Canadian exports to the U.S. have been relatively shielded by the USMCA agreement, despite certain industries, such as automotive, steel, and aluminum being put under significant strain. The U.S. has also given numerous exemptions after chaotically announcing broad tariffs in April, such that the actual tariffs collected have been much lower than would be expected from headline announcements and effective tariff rate calculations. As businesses initially stockpiled inventories to avoid tariffs, they have now started to adapt to a more stable tariff regime. While the extra revenue that the U.S. government is collecting is primarily coming from U.S. companies and U.S. consumers, impacts so far have not been as devastating as feared, and while we can still expect some inflation impacts to come, policymakers are generally willing to accept that they will be transient and manageable when determining monetary policy.

Attention is turning to 2026. As investors somewhat shrug off tariff pressures and economic uncertainty, a lot of attention is turning now to the benefits of the One Big Beautiful Bill Act (OBBBA) in the U.S. Benefits to consumers could be larger tax refunds (no tax on tips, no tax on overtime), while businesses could benefit from fixed business investment (immediate expensing). The offset is that the OBBBA will add over US\$4 trillion to the deficit over the next 10 years, and raise the deficit to over 7% of GDP. Tariff collections however could ease that to 6.2-6.5% of GDP over the next few years. As we watch for central banks to reduce rates affecting the shorter end of the yield curve, we will also be watching the longer-end as the bond market reflects concerns about government debt, economic growth, and inflation.

Tariffs

We had a number of new U.S. trade deals in October, mostly around the APEC Summit. Meetings between Trump and Xi also yielded a halving of fentanyl tariffs on China, from 20% to 10%, which significantly reduces the U.S.'s effective tariff rate by approximately 1.3%, given that 13% of U.S. imports came from China last year.

Tariffs remain a concern for investors, but the erratic roll-out has lost much of its shock value. As tariffs are threatened, imposed, delayed, re-imposed, and scaled back, markets have been on a roller-coaster ride for most of 2025. Tariffs however, are certainly here to stay. Tariffs collected by the U.S. government represented approximately US\$30 billion in September and US\$174 billion YTD. (The October update is not yet available.) Overall, the average actual tariff rate is estimated to be ~11.5% as of August up from 9.5% in July, although we will need to wait for the resumption of data releases to validate that. As announced tariffs come into effect, that rate is expected to settle into the 15-20% range (currently 17.9% according to the Yale Budget Lab, up from 17.4% last month, but dropping to 9.1% if IEEPA tariffs are completely invalidated).

Canada is faring relatively better than most countries, with an effective rate of 5.4% based on 85% of goods continuing to cross the border tariff-free due to exemptions under the USMCA. This puts increasing importance on the renegotiation of this deal in 2026. Trump threatened to raise the rate on non-USMCA goods from 35% to 45% in retaliation for the anti-tariff TV add run by the government of Ontario, although he has not yet acted on that threat.

Below, we include brief updates on key tariff-related items.

IEEPA-based tariffs being scrutinized by SCOTUS

The U.S. Supreme Court (SCOTUS) is currently hearing oral arguments on the legality of the use of the International Emergency Economic Powers Act (IEEPA) to impose unlimited global tariffs. While the questioning may yield interesting indications of which way the court may rule, we do not expect any clear decision until early in 2026.

IEEPA is by no means the only tariff mechanism in President Trump's toolbox, and the other sector-specific tariffs, such as against the automotive, steel, and aluminum industries, that were implemented using Section 232, are unaffected by these rulings. Country-specific Section 301 authorization has also been used against China, and new investigations using Section 301 and 232 are likely to be used against various countries. Table 1 summarizes current and expected Section 232 investigations. Overall, although the mechanisms might change, we see this Administration

continuing along the same tariff path regardless of this ruling.

Country-specific tariffs that were mostly imposed in April, and through IEEPA authorization, are summarized in Chart 4.

De minimis exemption

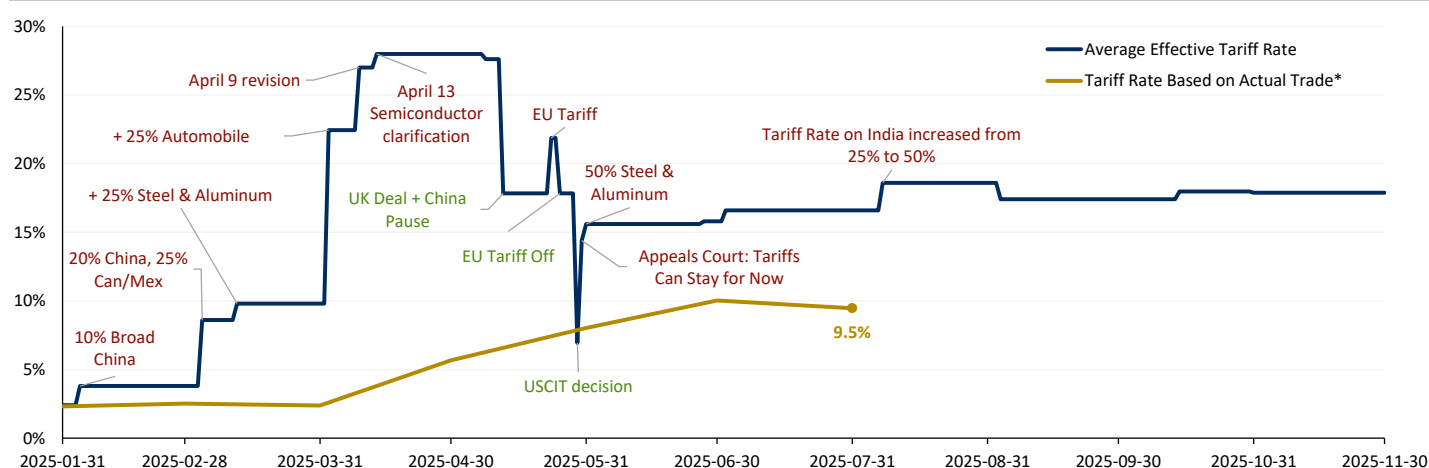
Wrapped up in the tariff discussion was the 'de minimis' exemption. A major tax-loophole for American consumers, it had a dramatic overhaul. Previously, shipments by mail that were valued under US\$800 were exempt from duties. Now, Americans using e-commerce sites, many of which were primarily sourcing from China, such as Temu and Shein, are going to have to cover taxes. In 2022, 80% of all U.S. bound e-commerce shipments were covered by the 'de minimis' exemption, with the vast majority coming from China, and last year, U.S. Customs and Border Protection (CBP) processed 1.36 billion 'de minimis' exempt packages.

Table 1 - Section 232 Tariffs Summary, as of November 5, 2025

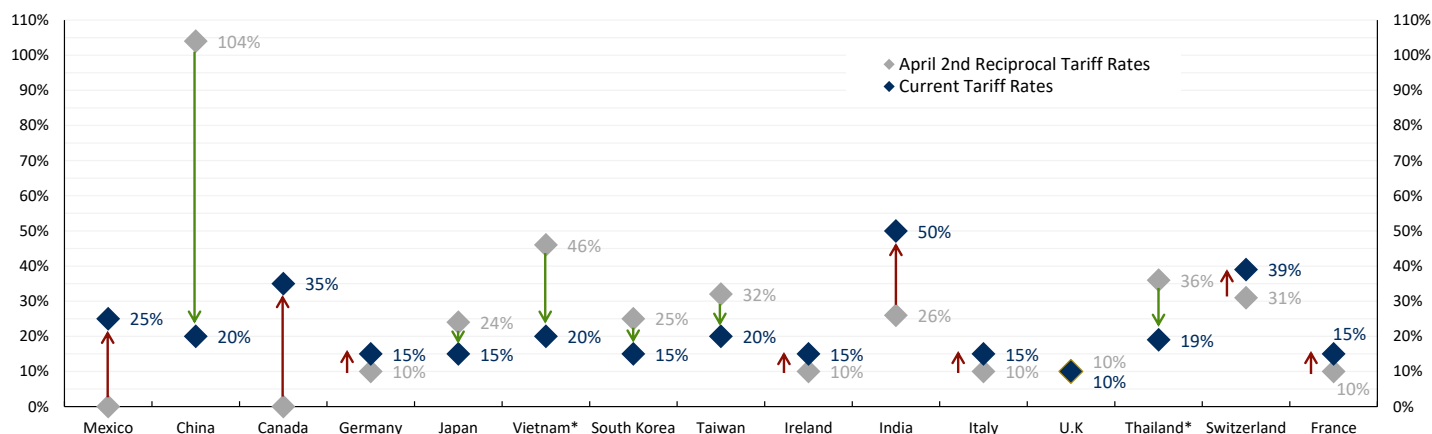
Sector	Status	Tariff Rate
Automobiles and auto parts	Effective May 3	25%
Steel and aluminum	Effective June 4	50%
Copper	Effective August 1	50%
Pharmaceuticals	Effective October 1	100%
Softwood timber and lumber	Effective October 14	10%
Wooden furniture	Effective October 14	25% (will increase to 30% on Jan 1, 2026)
Kitchen cabinets and vanities	Effective October 14	25% (will increase to 50% on Jan 1, 2026)
Medium/heavy duty trucks	Effective November 1	25%
Buses	Effective November 1	10%
Semiconductors and chip making equipment	Investigation initiated April 1	Threatened 100%
Processed critical minerals and derivative products	Investigation initiated April 22	-
Commercial aircraft and jet engines	Investigation initiated May 1	-
Polysilicon and its derivatives	Investigation initiated July 1	-
Unmanned Aircraft Systems (incl. parts/components)	Investigation initiated July 1	-
Wind turbines	Investigation initiated August 13	-
Robotics and industrial machinery	Investigation initiated September 2	-
Personal protective equipment, medical consumables/equipment	Investigation initiated September 2	-

Source: U.S. Department of Commerce, Raymond James Ltd.

Chart 3 - U.S. Effective and Actual Tariff Rate



Source: The Budget Lab at Yale. *Actual Trade Rate represents the customs duty revenue as a % of total value of U.S. imports.

Chart 4 - April 2 Reciprocal Tariff Rates vs. Current Tariff Rates - As of November 10, 2025

Source: U.S. Census Bureau, Raymond James Ltd. *USMCA-compliant goods remain exempt. **40% tariff rate on transshipments.

Economics

Canada — The federal budget to counter U.S. protectionism

On November 4, the federal government tabled its 2025 budget, designed to counter U.S. protectionism and stimulate a sluggish economy. While resulting in a doubling of the deficit from last year, it wasn't necessarily as transformative to the Canadian economy as one might have anticipated, but still provided incentives to move the country and business investment in the right direction.

New spending initiatives total \$89.7 billion over the next five years, while cost savings are expected to offset that by \$56 billion. The deficit for 2025-26 jumps to \$78.3 billion, from an estimated \$36.3 billion in 2024-25. As a percentage of GDP, the deficit will still average just 2.5% (Chart 5). Debt-to-GDP is expected to be just above 43% over the next few years, which would be up from 2024 forecasts that had it declining below 40% over that timespan.

For the first time, the budget is split into operational costs (to keep the government running) and longer-term capital investments. The operational portion of the deficit is estimated at \$33.0 billion in 2025-26, but declining to a slight surplus of \$1.7 billion by 2028-29. The capital spending portion is expected to increase from \$32 billion last year, to nearly \$60 billion by 2028-29 (Chart 6).

The incentives in the budget are expected to attract \$1 trillion of investment over the next five years and add \$15 billion to federal revenues. A 'productivity super deduction', a set of tax incentives allowing the immediate write-off of a larger share of business investments, appears to be a Canadian version of similar initiatives in the U.S. OBBBA, although only expected to cost the Canadian government \$1.5 billion to implement. The result would be the lowering of the Marginal Effective Tax Rate (METR) that businesses incur to 13.2% from 15.6%. This is projected to give Canada the lowest METR in the G7, including below the U.S., even after the OBBBA impacts, that the Finance Department is estimating to be 17.6%. The government seems to be targeting international businesses for investments in infrastructure projects related to natural resource development, artificial intelligence, scientific research, and energy conservation equipment.

Cost savings of \$56 billion over five years are expected to come partially from reductions of approximately 38k government employees, from a 2024 peak of almost 368k. This goal seems to include the 10k reduction already achieved since last year, approximately 16k full-time-equivalent jobs that are expected to be eliminated next, with another 12k reductions through attrition and voluntary retirement incentives. A reduction to a federal workforce to 330k by 2028-29 would bring us back to 2021-22 levels, and still above the 290k level before the pandemic.

\$84 billion is being pledged to rebuild and rearm Canada's military over five years, but with savings anticipated as aging equipment is retired in advance of new equipment being received. A quarter of the new spending is a pay increase for Canadian Armed Forces (CAF) and recruiting efforts. \$19 billion is for infrastructure and training, \$10.9 billion goes to digital infrastructure and cyber defence, and \$17.9 billion goes to items such as armored vehicles, counter-drone technology, and long-range strike capabilities.

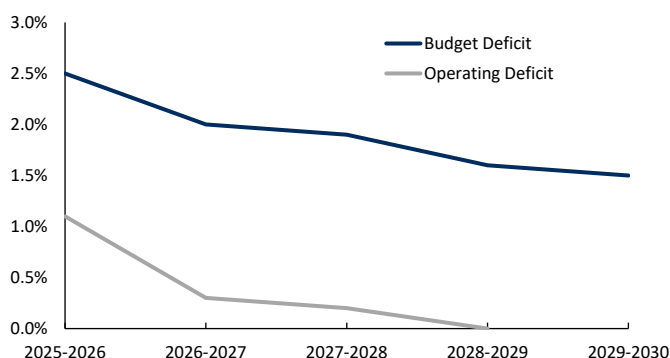
Other notable items in the budget included:

- \$51 billion goes into a new fund targeting local infrastructure such as housing and transportation over the next 10 years, starting in 2026-27.
- \$6.6 billion goes towards the government's defence industrial strategy, a sector said to employ 81,200 people.
- \$5 billion goes to accelerating 'nation building' projects over the next seven years, to support the doubling of non-U.S. exports by 2035.
- \$1.7 billion over the next 13 years in research funding seems designed to attract researchers that are being turned away from U.S. universities that have seen funding dry up for foreign scientists.
- \$1 billion goes into an Arctic Infrastructure Fund to support new airports, seaports, and all-season roads in northern Canada, that will have both civilian and military use.
- Foreign-aid budgets will be cut by \$2.7 billion over four years.

Further highlights on the 2025 federal budget, from Raymond James' Tax Planning Group, can be accessed here:

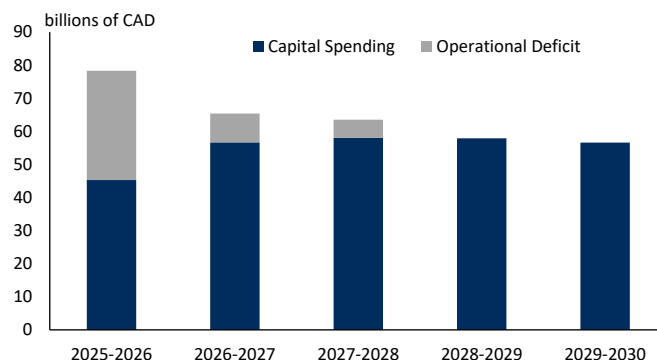
<https://www.raymondjames.ca/commentary-and-insights/tax-planning/2025/11/04/2025-federal-budget-highlights>

Chart 5 - Projected Deficit as a % of GDP



Source: Finance Canada, Raymond James Ltd.

Chart 6 - Breakdown of the Projected Budget Deficit



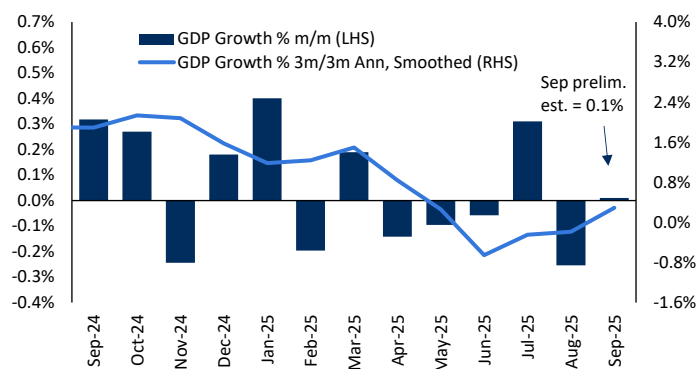
Source: Finance Canada, Raymond James Ltd.

GDP contraction in August reversed July gain, but slight growth in September expected to keep 3Q25 positive

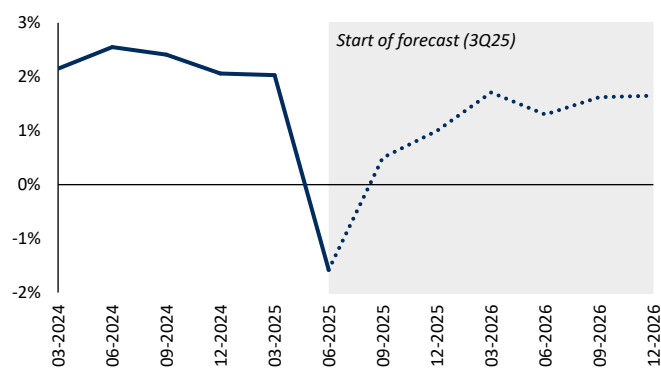
Canada's real GDP fell 0.3% m/m in August, reversing July's upwardly revised 0.3% gain (previously reported as +0.2%), but was weaker than the flash estimate of flat growth (Chart 7). The weakness was broad-based, as goods-producing industries declined 0.6% m/m, while services edged down 0.1% m/m, marking the first contraction in services output in six months.

Some temporary factors weighed on August's GDP. The Air Canada flight attendants' strike led to a 4.6% drop in air transportation, contributing to a 1.7% m/m decline in the broader transportation and warehousing sector. Meanwhile, drought conditions hampered hydroelectric generation, resulting in a 2.3% m/m contraction in utilities. However, these disruptions accounted for less than 0.1 percentage point of the overall decline. More notably, manufacturing (-0.5% m/m) and wholesale trade (-1.2% m/m) weakened, reflecting the ongoing drag from tariffs and softer external demand. Motor vehicle and parts wholesalers led the decline (-8.3% m/m), coinciding with lower trade volumes. Within manufacturing, durable goods output fell 0.8% m/m, with machinery (-2.8% m/m) and fabricated metals (-2.4% m/m) contributing most to the drop. Otherwise, retail trade offered a partial offset, rising 0.9% m/m on strength in motor vehicles, general merchandise, and clothing.

Looking ahead, the advance estimate for September points to a modest 0.1% m/m increase in GDP, with gains in manufacturing and oil sectors expected to offset declines in wholesale and retail trade. This suggests that real GDP grew by approximately 0.1% q/q in Q3, narrowly avoiding a contraction. On a q/q annualized basis, that translates to a 0.4% increase, just shy of the Bank of Canada's 0.5% projection outlined in its October Monetary Policy Report (Chart 8). While Canada continues to sidestep a technical recession under this scenario, the data highlights the fragility of the current economic backdrop, and the near-term outlook remains subdued.

Chart 7 - GDP Growth Remains Weak

Source: Statistics Canada, Raymond James Ltd.; Data as of August 31, 2025.

Chart 8 - QoQ % Change in Real GDP (Annualized)

Source: Monetary Policy Report - October 2025, Bank of Canada, Raymond James Ltd.

Retail sales rebound in August, but volatility persists

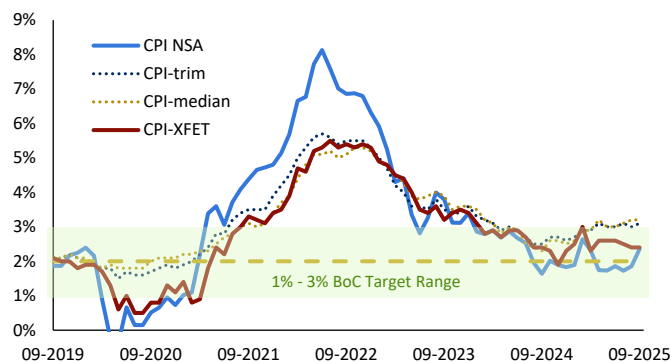
Retail sales rose 1.0% m/m in August, reversing the 0.8% decline seen in July. In real terms, retail sales volume was up 1.0% m/m, indicating that price effects were minimal. The rebound was broad-based, with six of nine subsectors posting gains, led by a 1.8% m/m increase at motor vehicle and parts dealers. Within the category, new car dealers saw a notable 2.3% m/m rise. However, with new U.S. tariffs on medium- and heavy-duty trucks effective November 1, the sector may face renewed pressure in the months ahead. Core retail sales, which exclude motor vehicles/parts and gasoline, rose 1.1% m/m, following a 1.2% m/m drop in July. Discretionary categories showed particular strength, including general merchandise (+2.4% m/m), clothing and accessories (+3.2% m/m), and electronics (+4.4% m/m), reaffirming the continued resilience in consumer spending.

For September, the advance estimate points to a 0.7% m/m decline in retail sales, continuing the recent pattern of monthly volatility. As these distortions fade, a moderation in retail activity appears likely, particularly as a weakening labour market begins to weigh on consumer spending. As we have been mentioning, the ongoing resilience in consumer spending may be partly explained by the wealth effect derived out of strong equity market gains, and a declining household saving rate. However, the sustainability of this dynamic remains uncertain. While higher-income households may continue to support discretionary spending in the near term, broader consumption is likely to shift toward a more cautious trajectory amid persistent economic headwinds.

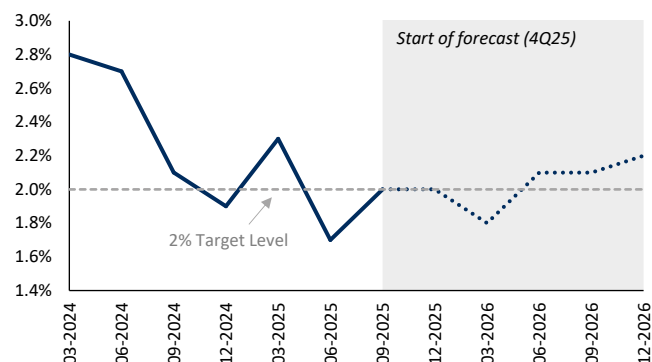
Headline inflation picks up in September, but underlying pressures remain mixed

Headline Consumer Price Index (CPI) inflation rose to 2.4% in September, up from 1.9% in August. The acceleration was largely driven by a rebound in gasoline prices, which contributed to a 0.9% m/m increase in transportation costs. Excluding gasoline, CPI inflation was up 2.6% in September, after being up 2.4% in August. Travel-related prices also surprised to the upside, with travel tours rising in September, leading to a 0.6% m/m gain in the recreation, education and reading category. Food prices remained firm, rising 0.5% m/m, while clothing prices fell 0.6% m/m, partially offsetting broader gains.

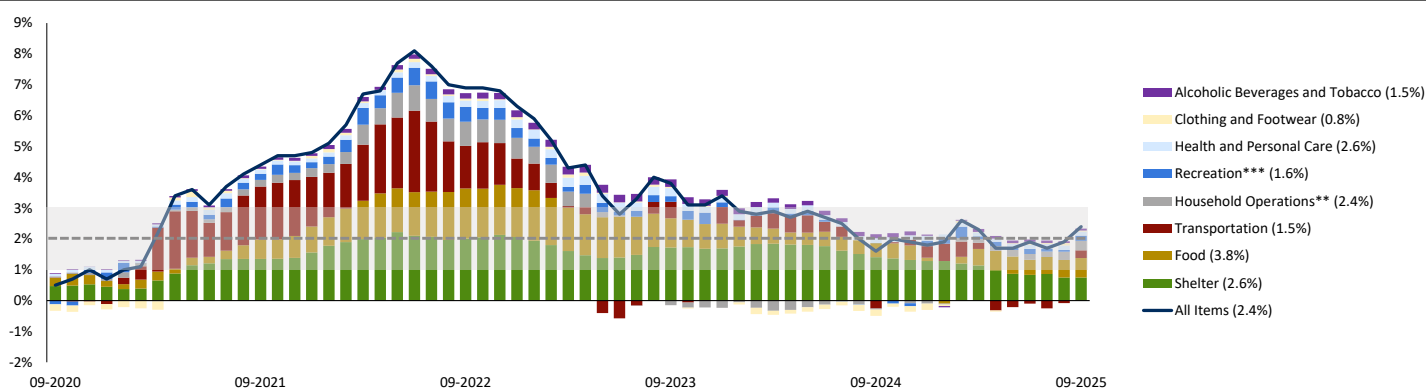
The Bank of Canada (BoC)'s preferred core measures, CPI-trim and CPI-median, continued to show monthly gains of 0.23%, above the 0.17% pace consistent with the 2% inflation target. The average annual rate remained steady at 3.1%, although the three-month annualized rate edged up to 2.7% from 2.6% in August, suggesting some persistence in underlying price pressures. That said, the Bank has recently emphasized alternative indicators, namely CPIX (excludes eight volatile components) and CPI-XFET (excludes food, energy, and the effect of changes in indirect taxes). These measures paint a more subdued picture. CPIX rose at an annualized pace of 2.8%, while CPI-XFET held steady at 2.4% for the second month in a row (Chart 9).

Chart 9 - Mixed Trends in Core Inflation Indicators

Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of September 30, 2025.

Chart 10 - YoY % Change in Inflation (Quarterly)

Source: Monetary Policy Report - October 2025, Bank of Canada, Raymond James Ltd.

Chart 11 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)

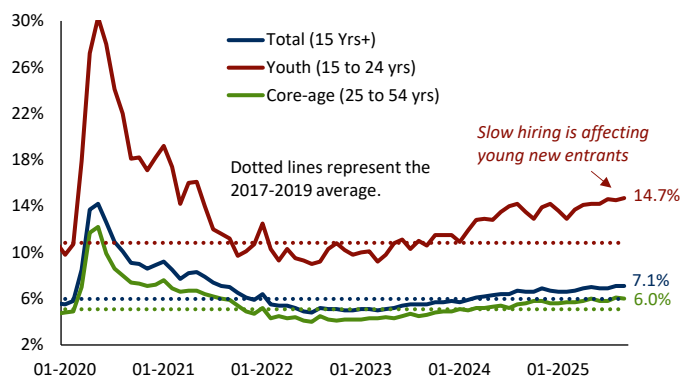
Source: Statistics Canada, Raymond James Ltd.; Data as of September 30, 2025. *Assumptions for both scenarios are in "Possible GDP impacts of tariffs in Canada" section; **Household operations, furnishing and equipment; ***Recreation, education and reading.

September job gains offer some relief to the labour market

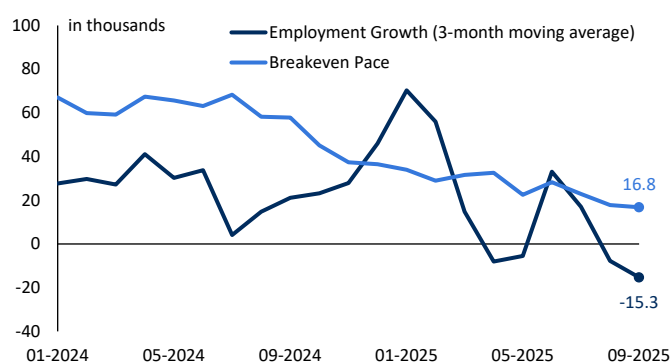
Following two consecutive monthly declines, the Canadian labour market showed some positive signs in September. Employment rose by 60.4k, partly offsetting the cumulative 106k drop over July and August. The employment rate edged up by 0.1 percentage points to 60.6%, while the unemployment rate held steady at 7.1%, as the labour force expanded by 72k. Encouragingly, September's rebound was driven by a strong increase in full-time employment (+106k), even as part-time positions declined (-46k). Employment among core-aged workers (25-54 years) also rose notably (+109k), reversing August's decline. These gains suggest that the recovery was concentrated in more stable job types and key working-age segments, despite continued softness in other age groups (Chart 12).

Industry-level trends were mixed. Manufacturing posted a notable gain (+28k), its first increase since January, a breather for the sector amid ongoing U.S. tariff pressures. Health care and social assistance (+14k) and agriculture (+13k) also contributed to the headline increase. However, employment in wholesale and retail trade fell by 21k, extending a soft trend as the sector has now recorded negative employment growth for three consecutive months.

While September's report was stronger than expected and helped stabilize recent labour market deterioration, the broader trend remains soft. Net employment growth since January stands at just +22k, and the unemployment rate remains elevated. With trade uncertainty lingering and economic momentum slowing, hiring activity is likely to remain subdued in the near term. However, it is worth noting that as employment growth weakens, population growth in Canada is also slowing, a trend expected to continue amid declining immigration. As a result, the pace of job creation required to maintain a stable employment rate has decreased. As of September, that breakeven pace stands at 16.8k jobs per month (Chart 13).

Chart 12 - Unemployment Rate by Age Group

Source: Statistics Canada, Raymond James Ltd.; Data as of September 30, 2025.

Chart 13 - Weakening Employment Growth

Source: Statistics Canada, Bank of Canada, Raymond James Ltd.; Data as of September 30, 2025.

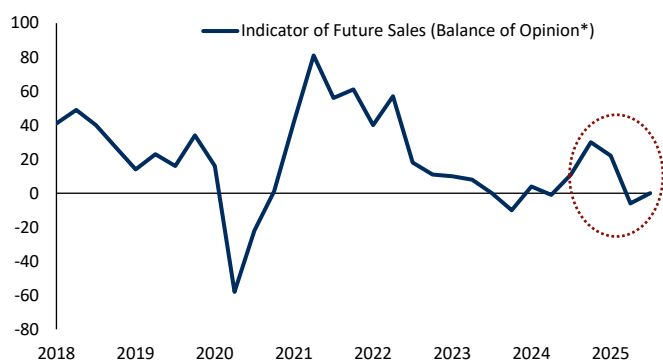
Business outlook remains clouded by uncertainty

The Bank of Canada's third-quarter surveys show that while business sentiment has improved modestly, uncertainty remains the dominant theme. The Business Leaders Pulse Survey indicated a fourth consecutive monthly rise in sentiment through September, as the turbulence of the first half of the year gave way to relative calm. However, trade uncertainty remains the most frequently cited concern in the Business Outlook Survey (BOS), with firms expressing hesitation to commit to expansion plans amid fears of renewed disruption.

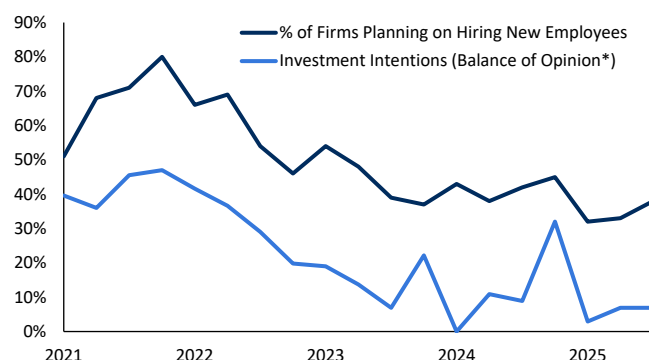
Sales expectations were largely unchanged, with the survey's "indicator of future sales" showing minimal movement (Chart 14). This stagnation reflects a cautious, wait-and-see approach, particularly among exporters who remain vulnerable to shifts in trade policy. Many firms reported deferring capital expenditures due to a lack of clarity on future demand and policy direction. This has led to no meaningful change in investment intentions, a continuation of the weak business investment concern that has weighed on the Canadian economy for a long time now. The muted investment outlook is especially pronounced among firms with deteriorating sales expectations. Hiring plans showed only a marginal improvement (Chart 15). While the net balance of firms intending to increase their workforce edged higher, the uptick was modest and insufficient to reverse the broader trend of slowing private sector employment growth.

The cautious sentiment is echoed by the CFIB Business Barometer which fell to a five-month low of 46.3, its weakest level since the tariff-related trade disruptions started earlier this year. The decline in the CFIB index shows the fragile confidence among small and medium-sized businesses, which are often more sensitive to policy and demand uncertainty.

Overall, the recent survey results suggest that while business sentiment may have moved past its lowest point and is beginning to stabilize, underlying confidence remains fragile. Businesses are prioritizing operational flexibility and cost containment over expansion, as they navigate an environment marked by elevated uncertainty and unresolved trade tensions. Until there is greater clarity on the direction of trade policy and macroeconomic conditions, business investment and hiring are likely to remain restrained.

Chart 14 - Muted Sales Expectations Continue

Source: Business Outlook Survey - 3Q25, Bank of Canada, Raymond James Ltd.; Data as of September 30, 2025. *% of firms reporting improvement minus the % of firms reporting deterioration (compared to 12 months ago).

Chart 15 - Investment and Hiring Intentions Remain Subdued

Source: Business Outlook Survey - 3Q25, Bank of Canada, Raymond James Ltd.; Data as of September 30, 2025. *% of firms expecting higher investment spending minus the % of firms expecting lower investment spending (next 12 months).

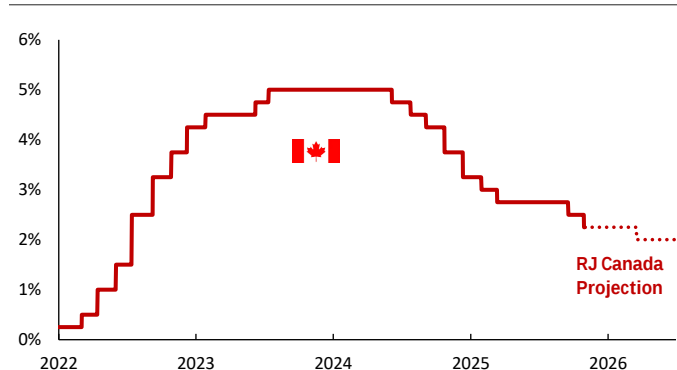
Bank of Canada cuts rates again, signals pause ahead

The Bank of Canada (BoC) lowered its policy rate by 25 bps to 2.25% in October, placing it at the bottom of the Bank's estimated neutral range of 2.25%–3.25%. The move was widely anticipated, with market pricing suggesting nearly 90% odds of a cut heading into the meeting.

In its statement, the Governing Council emphasized that if inflation and economic activity evolve broadly in line with the Bank's October projections, the current policy rate is "about the right level" to support the economy while keeping inflation anchored. This marks a return to forward guidance, after previous communications had removed signals of further easing. Governor Macklem reinforced this stance in the press conference, noting that Canada is undergoing a "structural transition" rather than a typical cyclical downturn. As a result, the Bank acknowledged that monetary policy has limited ability to stimulate demand in the economy.

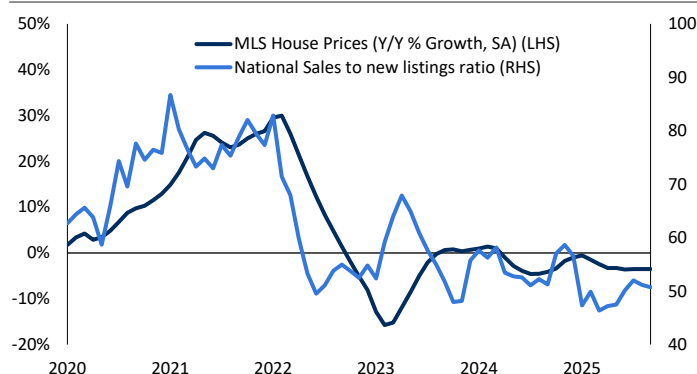
While the Bank's tone suggests a pause in further rate cuts, we see persistent trade-related uncertainty, a still-weak labour market, and further moderation in inflation, to prompt at least one more cut in early 2026 to take the policy rate to 2.0% (Chart 16). The Bank had previously identified a neutral range of 2.25-3.25%, but we see the policy rate falling below that level in order to provide stimulus to the economy, especially as the trade relationship with the U.S. takes time to settle and fiscal support measures unfold gradually.

Chart 16 - BoC Likely to Deliver Additional Rate Cut in Early 2026



Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025.

Chart 17 - Sales-to-New Listings Ratio Eased Slightly, Still Within Balanced Range



Source: CREA, Raymond James Ltd.; Data as of September 30, 2025

Momentum slows in housing market, but recovery persists

Canada's housing market slowed down in September, with national home sales declining 1.7% m/m, ending a five-month streak of gains. Despite the pullback, activity remained robust by historical standards, marking the strongest September for sales since 2021. Price trends remained stable. The MLS Home Price Index edged down 0.1% m/m and was 3.4% lower y/y, consistent with the pattern of price stabilization observed since April. On the supply side, new listings dipped 0.8% m/m, slightly less than the decline in sales, resulting in a modest easing of the sales-to-new listings ratio to 50.7% from 51.2% in August (Chart 17). This remains within the 45–65% range typically associated with balanced market conditions, although still below the long-term average of 54.9%. Inventory levels stood at 4.4 months nationally, unchanged from July and August, and below the long-term average of five months, indicating a relatively tight market.

Population growth slowing

Canada's population growth surged after the pandemic, peaking at 3.2% growth (~1.27 million) in 2023. International students were a significant portion of that growth as active study permits in Canada exceeded one million in 2023, a 29% increase over 2022. With the added strain on infrastructure, services, and housing, the federal government starting curbing immigration rules in 2024, primarily through new limits on international student permits. At the start of 2025, Canada's population was estimated to be 41.5 million, and grew extremely slowly through 1H25, to approximately 41.65 million by July 1. Excluding the pandemic period, Canada posted the slowest 2Q25 population growth rate, at 0.1%, since comprehensive record keeping began in 1946.

The lack of meaningful population growth has multiple effects, including hampering economic growth and reducing growth in the labour force. The supply constraint on workers has potentially dampen upward pressure in the unemployment rate as tariffs have put pressure on various Canadian firms. The weakening in the job market has also led to less pressure on wage growth, which slowed to 3.2% in August.

In the 2025 Budget, the federal government inserted an update on its immigration policy. Immigration targets are for 380k new permanent residents per year, out to 2028, down from the previously stated target of 395k. Temporary resident admissions will also be reduced to 385k, from 674k currently. There were ~3 million temporary residents in Canada as of July 1, representing 7.3% of Canada's population. Previously stated targets were to bring that representation down to 5% by the end of 2026.

U.S. 3Q25 GDP expected to be solid

The U.S. government shutdown has impacted the release of 3Q25 preliminary data, but the Atlanta Fed GDPNow estimate suggests that economic growth remains solid, up 4.0% in annualized gain for the quarter. This follows a 3.8% growth rate in 2Q25, and would be a sustained rebound from the -0.6% contraction in 1Q25 (Chart 18).

Consumer spending remains the primary driver of growth, with personal consumption expenditures (PCE) contributing approximately 2.3% to the overall estimate for 3Q25. The contribution from net exports, which showed volatility due to tariff front-running earlier in the first and second quarters of the year, is estimated to stabilize and contribute around 0.6% to 3Q25 growth (vs. -4.7% and +4.8% in 1Q25 and 2Q25, respectively).

It's worth noting that, in the absence of official government data, the GDPNow model relies on a narrower set of alternative inputs. Nonetheless, the current projection indicates that the U.S. economy continues to expand at a healthy pace, supported by resilient consumer spending.

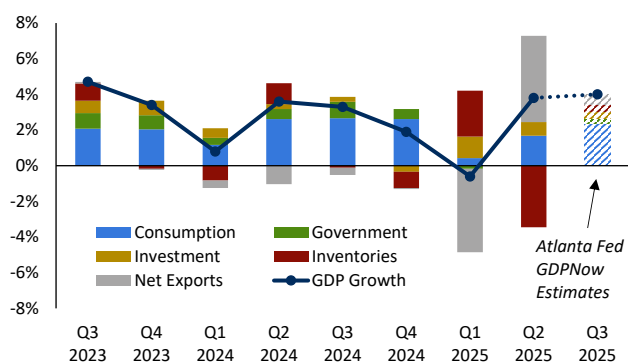
Manufacturing PMI contracts while services fares slightly better

Widely followed indicators of the U.S. economy include the Institute for Supply Management (ISM) Purchasing Manager Index (PMI) for both Manufacturing and Services. The ISM Manufacturing PMI dropped slightly in October to 48.7, reversing September's gain, and has remained below the 50 level, which indicates neither expansion nor contraction, for eight months now (Chart 19). A reading above 42.5 has generally been consistent with overall U.S. GDP growth, even if manufacturing is weakening, so the takeaway is for still positive, but decelerating growth in the U.S.

An encouraging data point in the October Manufacturing PMI was the 3.9 decline in the prices paid index, to 58.0. This is the lowest reading since tariffs were enacted and suggests a stabilizing trade environment, with the worst of trade disruptions to pricing in the past.

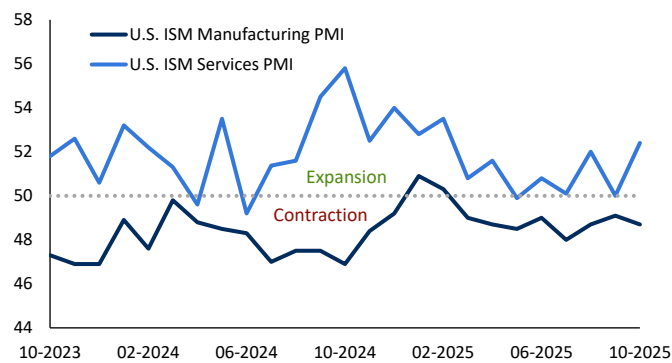
On the non-manufacturing side, the U.S. ISM Services PMI rose to 52.4 in October, up from 50.0 in September and stronger than expected. The improvement was driven by a rebound in business activity and new orders, with those sub-indices rising to 54.3 and 56.2, respectively. However, the 12-month average of 51.7 is still the weakest since August 2024 and the Employment Index remained in contraction territory at 48.2.

Chart 18 - Contributions to Quarterly GDP Growth (Annualized)



Source: US Bureau of Economic Analysis, Federal Reserve Bank of Atlanta, Raymond James Ltd.; Data as of June 30, 2025.

Chart 19 - Manufacturing PMI Remains in Contraction, While Services Pick-up



Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025.

The Beige Book

With the U.S. government shutdown and lack of official data, investors have been looking more at alternative sources such as the Fed Beige Book, which is also known as one of Jerome Powell's favourite reports. In it, nine out of 12 Fed districts reported flat to lower economic activity, with little meaningful growth and some districts reporting softening consumer demand with trading down to lower cost goods or deferring discretionary purchases. While employment is generally considered stable, several districts reported a "hiring chill", with few new hires, few layoffs, but more cutting through attrition. Certain sectors (hospitality, agriculture construction) have reported labour supply constraints, generally due to

immigration policy. Overall, this corroborates our general outlook of a softening U.S. economy with low job creation.

U.S. consumer spending remains resilient

The U.S. consumer has been curiously resilient. What is surprising is that as retail sales are up +5.0% over the last 12 months, the retail consumer has also been paying down debt, as credit card balances are in decline by -2.5%. We can possibly credit this to the equity wealth effect, as consumer feel richer as their portfolios have been increasing in value, yet we are not seeing profit taking to fund these expenditures. Still, revolving consumer credit has been in decline since the beginning of the year, providing ever more indication that the U.S. consumer, in general, remains in a good position to sustain spending. However, with signs of softening in the labour market, the resilience of recent spending momentum may be tested in the months ahead.

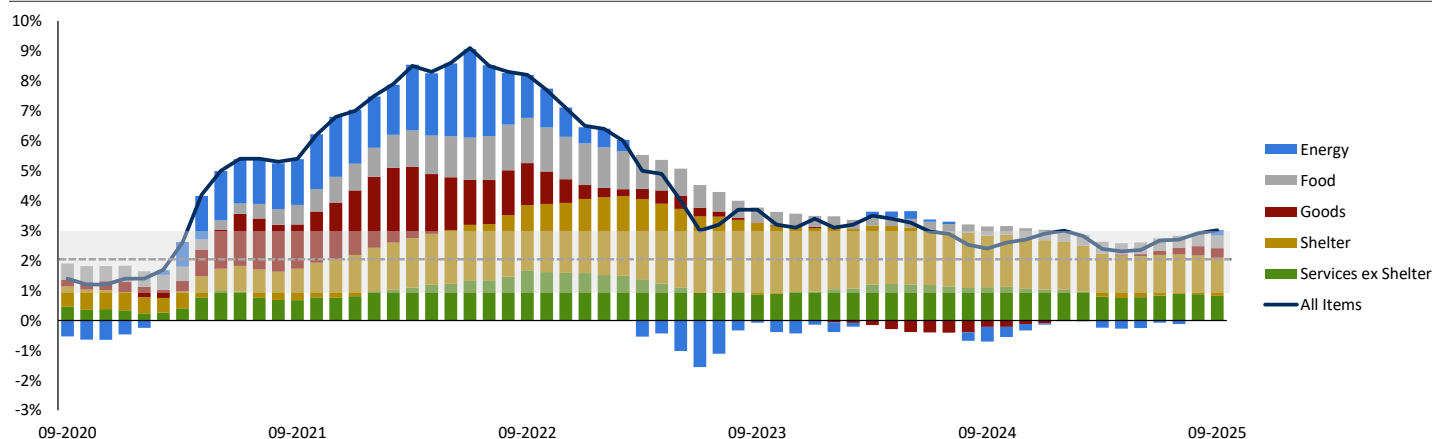
U.S. headline inflation rises again; core inflation stabilizes

Despite the government shutdown, U.S. September CPI was released on October 24 to satisfy Social Security requirements in calculating 2026 cost-of-living adjustments (COLA). Headline inflation rose 0.3% m/m, marking the fifth consecutive monthly increase. The y/y rate edged up to 3.0% from 2.9% in August (Chart 21). However, core CPI slightly eased from 3.1% y/y in August to 3.0% y/y in September.

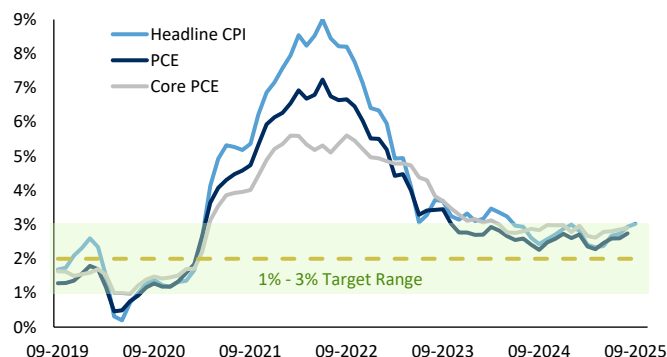
The headline increase was driven primarily by a surge in gasoline prices, which rose 4.1% m/m and accounted for the bulk of the monthly gain. Energy commodities rose 3.8% m/m, while food inflation moderated, rising just 0.2% m/m. Within the core CPI, price movements were mixed. In categories more exposed to tariffs, there was limited evidence of pass-through, with apparel prices rising 0.7% m/m and new vehicle prices increasing 0.2% m/m. However, the modest gain in new vehicle prices was partially offset by a 0.4% m/m decline in used vehicle prices. Notably, shelter inflation, which had surprised to the upside in August, slowed to 0.2% m/m in September, helping to contain core inflation.

The September data suggests that while headline inflation remains elevated, underlying price pressures are stabilizing. Tariff-related pass-through appears to be gradual, with only modest price increases observed in select exposed categories. For now, retailers seem more inclined to absorb the impact of tariffs through pricing strategies and margin compression rather than fully passing costs on to consumers, as they await greater clarity on trade negotiations and potentially recalibrate their supply chains.

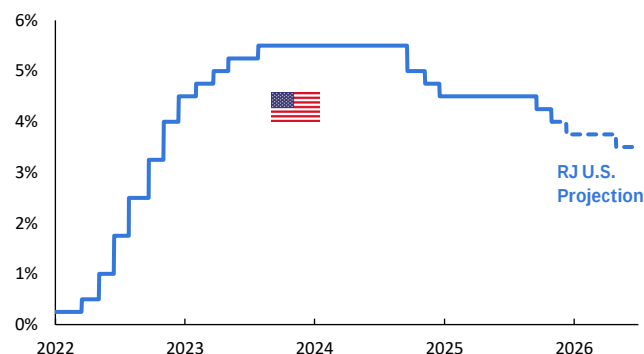
Chart 20 - Major Components' Contributions to U.S. CPI



Source: U.S. Bureau of Economic Analysis, Raymond James Ltd.; Data as of September 30, 2025.

Chart 21 - Fed's Preferred Inflation Measures Remain Elevated

Source: FactSet, Raymond James Ltd.; Data as of September 30, 2025.
 Note: Latest available data for PCE and Core PCE is as of August 31, 2025.

Chart 22 - Fed Expected to Cut Rates Again in December

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025.

Fed cuts rates again, but signals caution ahead

At its October meeting, the Federal Reserve lowered the federal funds target range by 25 bps to 3.75–4.00%, in line with market expectations. This marks the second consecutive rate cut in the current easing cycle. The Fed also announced an end to Quantitative Tightening (QT), effective December 1.

There were two dissents in October's meeting: newly appointed Governor Stephen Miran, who favoured a more aggressive 50 bp cut, and Kansas City Fed President Jeffrey Schmid, who preferred no change to the policy rate. The split highlights growing divisions within the committee over the appropriate pace of easing. Overall, the Fed acknowledged that "inflation remains somewhat elevated", but emphasized that uncertainty around economic activity played a larger role in guiding the October decision.

Looking forward, Chair Powell stated that a December rate cut is "far from" a foregone conclusion and that FOMC participants hold "strongly differing" views on the path forward. As a result, market-based odds of a December cut fell from nearly 100% to 65% after the meeting. However, despite the hawkish tone by the Fed, our U.S. Economics team continues to expect another rate cut in December, ending the year at the target range of 3.50-3.75%, given the continuing weakness in the labour market (Chart 22).

"Low hire, low fire" dynamic continues in the U.S. labour market

With the Bureau of Labor Statistics (BLS) unable to publish its scheduled non-farm payrolls report due to the ongoing government shutdown, market participants have turned to alternative data sources to assess the state of the U.S. labour market. Private surveys and real-time indicators have become increasingly important in filling the gap left by missing official data.

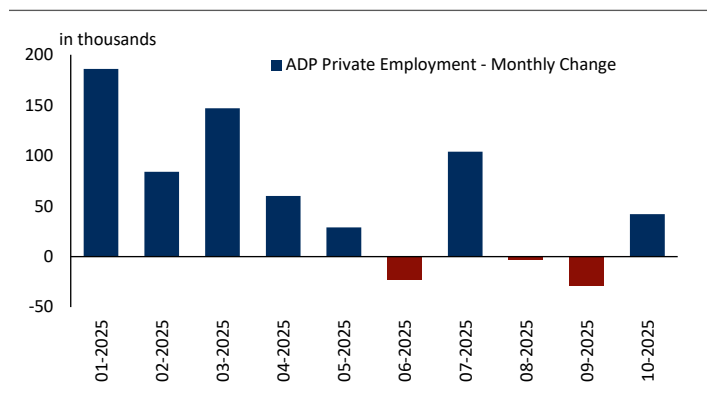
The ADP employment report showed a modest increase of 42k in private sector employment in October (Chart 23). However, the gains were not broad-based. Large firms (500+ employees) accounted for the bulk of the growth, adding 74k jobs, while small businesses (1–19 employees) shed 15k positions and mid-sized firms (50–249 employees) saw a net decline of 25k jobs. Industry-level data painted a similarly mixed picture. Job creation was concentrated in natural resources and mining (+7k) and construction (+5k), while the manufacturing sector shed 3k jobs. Within the services industry, trade, transportation, and utilities posted a stronger gain (+47k), while the information sector (-17k), professional and business services (-15k), and other services (-14k) experienced notable declines.

The much watched Challenger Report tracks layoff announcements, which may or may not be followed through on and can be highly volatile, threw further caution on the labour market this week. It cited 153k job cut announcements from U.S. employers in October, up 183% from September and 175% higher than last year - the highest October reading since 2003, when similarly disruptive technologies were impacting companies. Total layoff announcements year-to-date add up to 1.1 million, a 65% increase over last year. Explanations for these measures include correcting for over-hiring after the pandemic as well as efficiencies from A.I., cautious business investment, softening consumer spending, and corporate belt-tightening.

Looking at the real-time data, Indeed's Job Postings Index showed that hiring remains slow in the U.S. as job openings continued to decline in October, falling to their lowest level since early 2021. The index dropped to 101.9 by late October, marking a 3.5% decline since mid-August and the fourth consecutive monthly drop (Chart 24).

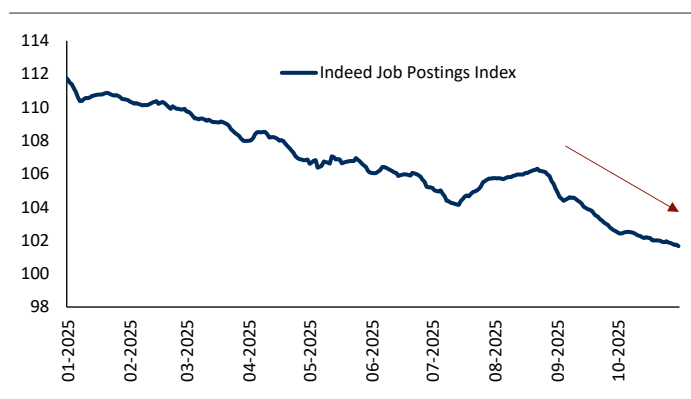
Overall, the data suggests that the U.S. labour market is in a relatively slower phase, as job growth has slowed and gains remain concentrated in a few industries. While layoff announcements become more concerning, the “low hire, low fire” dynamic continues to define the current environment, as businesses navigate the ongoing policy uncertainty.

Chart 23 - Private Job Creation Turns Positive After Two-Month Contraction



Source: ADP Research, Raymond James Ltd.; Data as of October 31, 2025.

Chart 24 - Real-time Data Shows a Slowdown in Hiring Activity



Source: Indeed, Raymond James Ltd.; Data as of October 31, 2025.

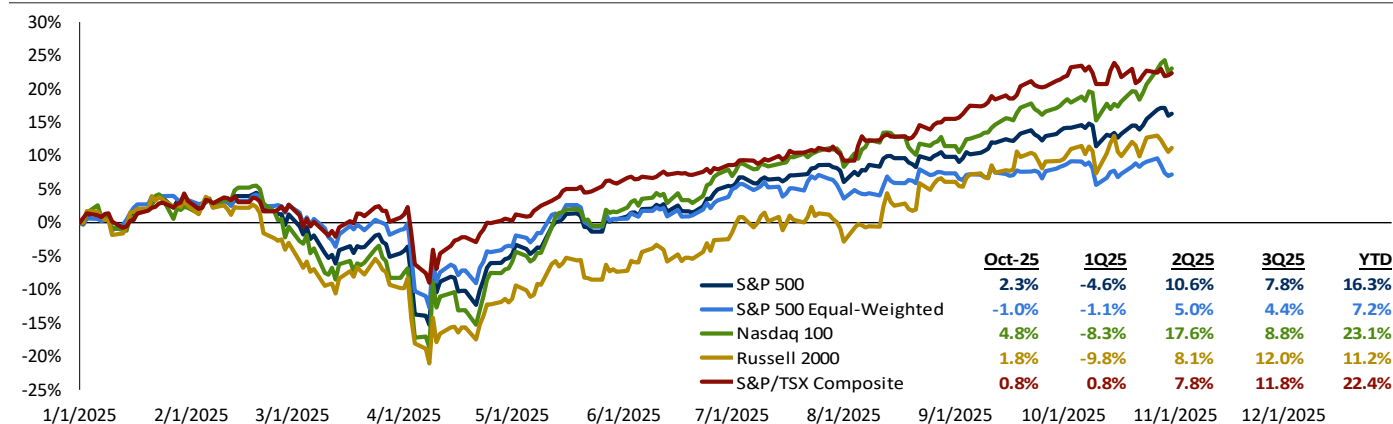
Financial Markets

October, typically one of the months with the strongest seasonal headwinds, saw both Canadian and U.S. equities hold up well. The S&P/TSX Composite Index gained 0.8% in price and 1.0% in total return, despite some intra-month volatility, bringing its year-to-date gains to 22.4% and 25.1%, respectively. The S&P 500, the benchmark for large-cap U.S. stocks, also posted a solid 2.3% gain in both price and total return, even after an almost 3% drawdown earlier in the month following Trump's threats of steep new tariffs on China. This marked the first time since July that the S&P 500 outperformed the TSX Composite on a monthly basis, lifting its year-to-date performance to 16.3% in price and 17.5% in total return (in local currency).

Within the TSX Composite, Information Technology was the notable gainer, while Utilities, Financials, and Consumer Discretionary sectors also outperformed. In contrast, the Materials sector was the largest laggard, with gold miners' performance weighed down by the decline in gold prices (further details discussed in later sections). Real Estate and Consumer Staples also underperformed during the month.

Within the S&P 500, we continue to see strong cyclical momentum and sustained enthusiasm around A.I., with Information Technology and Consumer Discretionary among the top-performing sectors. Health Care also outperformed, supported by upside earnings surprises and robust growth in the biotech and pharmaceutical industries so far this earnings season. In contrast, Materials was the worst-performing sector, reflecting its exposure as a globally integrated early-cyclical industry. Financials and Real Estate also lagged, as the U.S. economy undergoes a mild cyclical slowdown.

In October, the cap-weighted S&P 500 reached new all-time highs, but market breadth narrowed further, with gains increasingly concentrated in a small group of large-cap stocks. This lack of broad participation led the cap-weighted index to outperform its equal-weighted counterpart. The enthusiasm around A.I. and strong earnings from A.I.-related companies once again drove the NASDAQ 100, the tech-heavy index, to lead major U.S. benchmarks for the month. Meanwhile, the Russell 2000, which tracks U.S. small caps, underperformed the S&P 500 but held up relatively well, supported by the Fed's ongoing rate-cutting cycle.

Chart 25 - Selected Indices Price Returns

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025. Price return in local currency.

U.S. Equity Markets

October opened with the onset of the U.S. federal government shutdown, which initially had limited immediate impact on financial markets, as investors have largely looked through the political noise. However, as the shutdown extends, the risk of secondary effects on market liquidity is increasing. Signs of tightening funding conditions have already emerged, reflected in the uptick in the overnight borrowing rate (SOFR) and the heightened use of the Federal Reserve's Standing Repo Facility (SRF). These developments suggest that liquidity is being absorbed, with funds effectively trapped in the U.S. Treasury's General Account (TGA) rather than recycled into the broader financial system, a dynamic that could create short-term funding strains if the impasse persists.

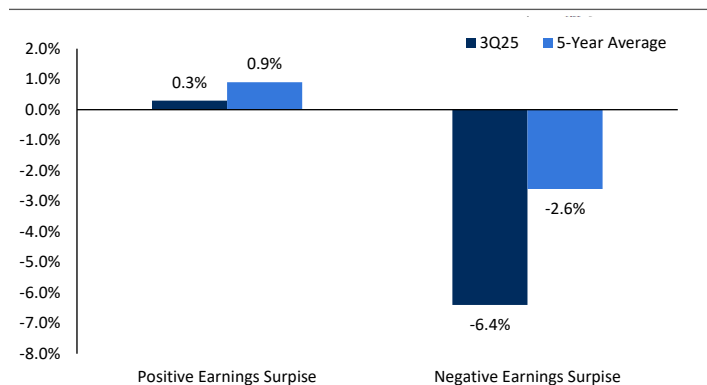
On October 10, renewed tariff concerns, following President Trump's threat to impose 100% tariffs on Chinese imports in response to China's restrictions on rare earth exports, triggered a sharp, one-day selloff of about 3%. As the U.S. and China resumed talks and struck new trade agreements, tensions temporarily eased, allowing equities to recover and climb to new all-time highs. A.I. enthusiasm remained strong and appears well-founded, supported by solid earnings that continue to validate the theme. Meanwhile, as the economy moves through a mild cyclical slowdown, defensive sectors such as Health Care and Utilities have gained momentum, with Utilities also benefiting from the ongoing A.I. trend.

Historically, in the final two months of the year, it's common to see earlier laggards outperform prior leaders, and together with the ongoing cyclical moderation, we expect mixed sector performance through year-end. Nonetheless, we believe that long-term overarching themes, such as A.I. adoption and reindustrialization, will continue to drive growth well beyond near-term volatility, making any pullbacks or corrections potential buying opportunities.

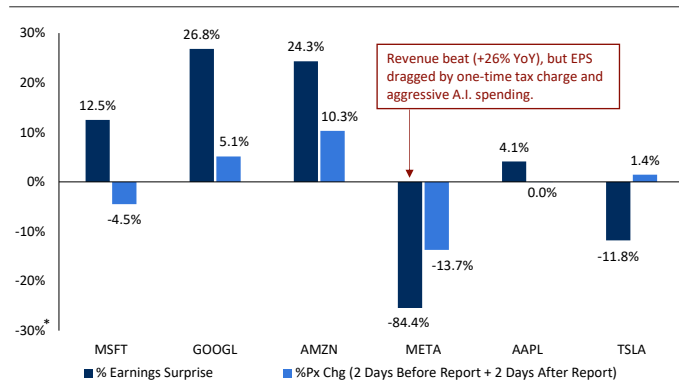
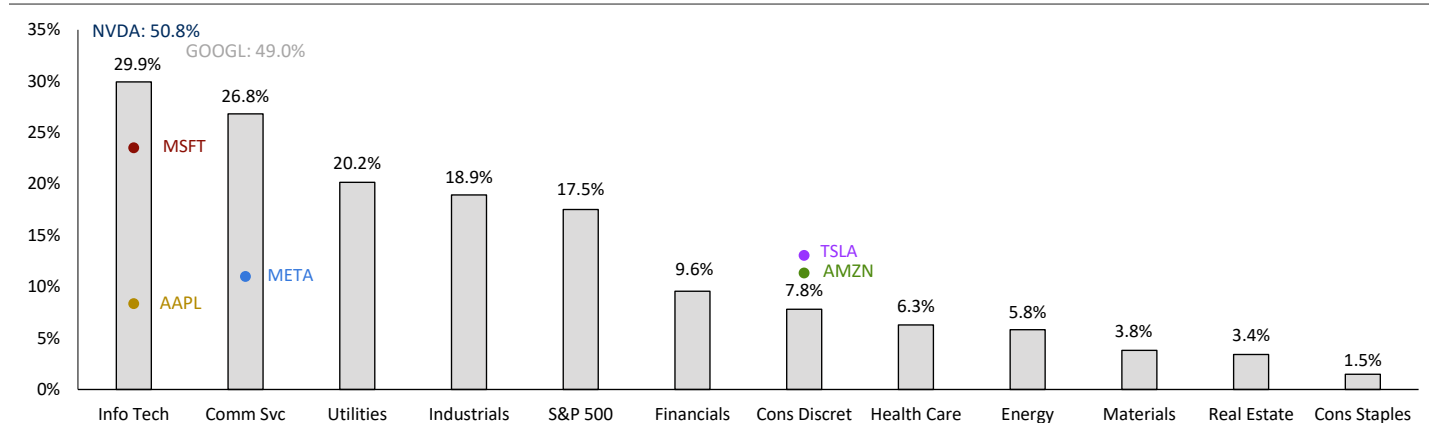
As of this writing, over 78% of S&P 500 companies have reported earnings for the current season, and results remain on track for another quarter of double-digit growth (currently at 12.5%). This is particularly important given that valuations are already stretched, meaning that further market gains will likely need to come from earnings growth rather than multiple expansion. Encouragingly, cyclical sectors, such as, Information Technology, Financials, and Materials, are delivering the strongest earnings growth, underscoring the resilience of the U.S. economy despite tariff pressures.

During the 3Q25 earnings season, the bar for positive market reactions has clearly risen, highlighting a degree of cautious sentiment beneath the rally. According to FactSet, the five-year average share price response for S&P 500 companies delivering an earnings beat, measured from two days before to two days after the report, is +0.9% (Chart 26). This compares with +1.9% in 1Q25, +0.9% in 2Q25, and only +0.3% so far in 3Q25, underscoring how much more selective investors have become.

A similar dynamic has played out among six of the Magnificent Seven that have already reported, where strong headline results were not enough to impress (Chart 27). Investors are rewarding credible execution, sustainable competitive advantages, and clear visibility into long-term growth, rather than short-term earnings beats. While the market remains cautiously supportive of A.I.-related capital expenditures, it is also placing increasing emphasis on viable paths to monetization and return on investment. Overall, we view this as a healthy sign. It signals that investors remain anchored to fundamentals and long-term technological potential, rather than simply chasing momentum.

Chart 26 - %Px Chg (2 Days Before Report + 2 Days After Report)

Source: FactSet; Data as of October 31, 2025.

Chart 27 - Strong Results Weren't Enough to Lift Mega-Cap Tech Stocks in 3Q25Source: FactSet, Raymond James Ltd.; Data as of November 3, 2025.
*Y-axis truncated for readability.**Chart 28 - S&P 500 Sector and “Magnificent Seven” Year-to-Date Total Returns**

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025.

Canadian Equity Markets

After a steady five-month rally, October marked the first pause for the S&P/TSX Composite Index. While seasonal weakness typical of October likely played a role, the 6.1% decline in the gold sub-industry was the primary drag on performance. Excluding gold miners, the TSX Composite would have posted roughly 70 basis point higher returns. At the same time, capital rotation out of the “Debasement Trade” (discussed below) appeared to benefit Information Technology, particularly the A.I. winners within the sector. Companies serving as A.I. infrastructure enablers or direct beneficiaries of rapid A.I. adoption delivered exceptional gains in October, which helped offset the weakness in the Materials sector and supported broader index resilience.

What is the Debasement Trade?

If you follow financial markets reporting you might have heard the phrase “debasement trade” as commentators have discussed the rally in gold over the last couple of years. As we have discussed before, we see multiple factors explaining the rise in gold this year specifically, that could very well continue, despite the more recent pullback in price. The “debasement trade” specifically relates to the idea that fiat currency, or what might be termed ‘paper money’ is eroding in value and making hard assets like gold more attractive. The idea is that as central banks expand money supply, essentially printing more money, keep interest rates low, and run continuing fiscal deficits building up national debt, the currencies of those countries can lose purchasing power.

We maintain a long-term constructive outlook on Gold and the TSX Materials Sector

After an impressive 56.1% rally since the end of July, the gold sub-industry saw its first major correction begin on October 17, with a 16.2% drawdown by October 27, following an over 8% decline in gold prices. The pullback was not entirely surprising given the sharp prior run-up. The decline in gold price was partly driven by a stronger U.S. dollar, as the two assets are typically negatively correlated. When the USD strengthens,

investors often rotate out of gold, and vice versa, consistent with the logic behind the “debasement trade”. Furthermore, with trade tensions temporarily easing, some investors who had bought gold for hedging purposes also trimmed positions, while profit-taking added to short-term selling pressure.

These short-term dynamics do not change our constructive long-term view on gold. We expect central banks to continue increasing gold purchases, partly as a means of diversifying reserves and reducing reliance on the U.S. dollar. While we do not view this as a signal that the USD is at risk of losing its reserve currency status, we believe persistent geopolitical tensions and the realignment of global alliances could serve as structural tailwinds for gold over the coming years, despite near-term volatility. Additionally, the rising demand for gold as a portfolio diversifier, evidenced by strong inflows into physical gold ETFs this year, should continue to provide support.

Within the Materials sector, the gold-mining segment remains highly sensitive to gold prices, with a beta of roughly 1.5, meaning that for every 1% move in gold, gold-mining stocks typically move about 1.5% in the same direction. This explains why the drawdown among gold miners was more pronounced than the decline in gold price itself. Looking ahead, once the market digests the recent correction, with gold prices still at historically elevated levels, we expect investors to refocus on improving profitability, as production costs remain stable while realized prices have increased. Notably, the negative return in the sub-industry during October was driven entirely by valuation multiple compression, while forward EPS estimates rose by 22% during the month.

Top 3 Sectors (October 2025):

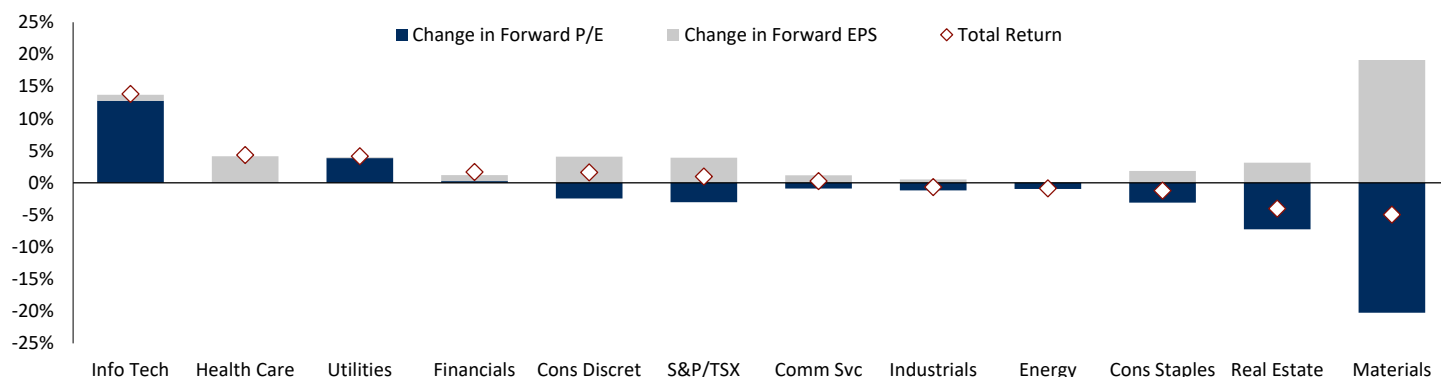
- **Information Technology:** The sector delivered an impressive return in October, although gains were once again concentrated in a handful of names rather than reflecting broad-based strength. As the A.I. trend continues to evolve, the performance gap between A.I. winners, those serving as infrastructure enablers or benefiting directly from rapid A.I. adoption, and A.I. laggards with uncertain strategies or limited exposure, has continued to widen. Given the consumer-oriented nature of the sector’s largest constituent, resilient spending trends in both the U.S. and Canada have also provided support. Looking ahead, while profit-taking and higher volatility are possible toward year-end, we expect the A.I. leaders within the sector to remain key beneficiaries of the overarching A.I. theme.
- **Utilities:** The sector carried some of September’s momentum into early October before losing steam and stabilizing toward month-end. Gains were broad-based, with the Independent Power and Renewable Electricity Producers industry leading performance. We remain constructive on the sector, as it is well positioned to benefit from long-term growth in energy demand. As a capital-intensive sector, utilities should also benefit from lower policy rates, which help reduce financing costs. In addition, the sector’s dividend yields are becoming increasingly attractive in the current lower-rate environment.
- **Financials:** The sector delivered a slightly higher return than the S&P/TSX Composite Index in October and has remained largely in line with the index year-to-date. At the industry level, banks and insurers performed solidly, with most constituents holding up well, supported by the widely anticipated 25 bp rate cut from the Bank of Canada on October 29. The capital markets industry has been moving largely sideways since August, but we expect gradual improvement as equity markets grind higher and investors show an increasing appetite for diversification, which should support demand for alternative investment solutions. Overall, the sector remains in healthy shape heading into year-end.

Bottom 3 Sectors (October 2025):

- **Materials:** The sector’s underperformance in October was driven mainly by gold miners, as noted earlier. Silver prices also declined, but silver miners held up better, supported by silver’s dual role as both a precious and industrial metal. Copper miners remained relatively resilient as copper prices inched higher, supported by operational disruptions at Grasberg, political uncertainty in key producing regions, and structural supply constraints tightening the market. Looking ahead, we view Materials as strategically aligned with Canada’s national priorities. We expect continued government capital investment and foreign direct investment, given that critical minerals (e.g., copper, nickel, lithium) are essential for manufacturing and infrastructure that underpin A.I. data centres, electrification, and advanced manufacturing.
- **Real Estate:** This sector saw broad-based weakness in October. The rate cuts reignited concerns about economic weakness, weighing on REIT performance. Residential REITs have struggled in recent months amid slower population growth, while industrial and commercial demand appears to be stabilizing after earlier weakness.
- **Consumer Staples:** The sector’s October performance was weighed down by its largest constituent, and overall, it continues to face headwinds. Grocery margins remain under pressure as food CPI continues to edge higher, squeezing profitability. Performance among grocers

has been mixed, largely depending on each company's pricing power and cost management in a challenging macro environment. A weaker Canadian dollar has pushed up import costs, while shifts in consumer behaviour toward discounts and promotions have further limited pricing flexibility. As a result, the sector remains under strain, with sustained inflation and changing consumption patterns likely to keep margin recovery gradual in the near term.

Chart 29 - S&P/TSX Composite Sector October 2025 Total Return Breakdown



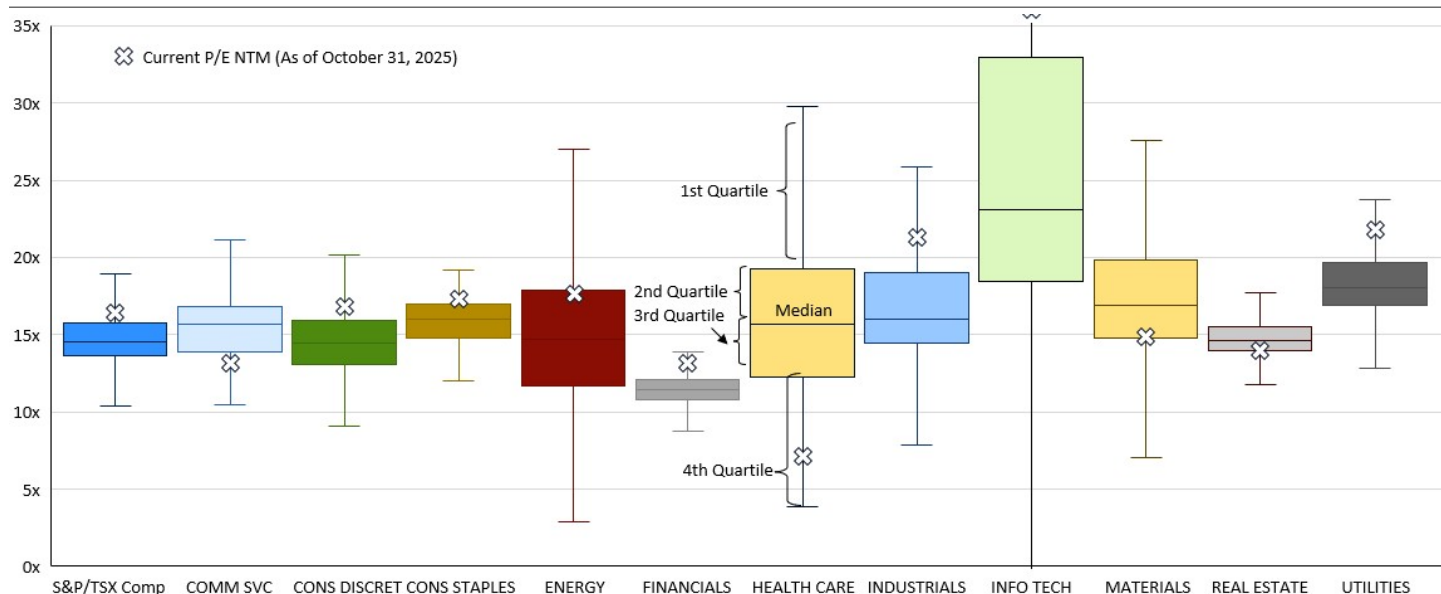
Source: Bloomberg, Raymond James Ltd.; Data as of October 31, 2025.

Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by QTD Total Return)

Sector Name	Sector Weight	YTD Total Return	QTD Total Return	1M Total Return	Current P/E NTM	Historical P/E NTM
Information Technology	10.8%	36.2%	13.8%	13.8%	43.1	23.1
Health Care	0.3%	3.3%	4.3%	4.3%	7.2	15.7
Utilities	3.7%	22.4%	4.1%	4.1%	22.2	18.0
Financials	32.7%	24.5%	1.7%	1.7%	13.0	11.4
Consumer Discretionary	3.2%	19.9%	1.6%	1.6%	17.0	14.4
S&P/TSX Composite	--	25.1%	1.0%	1.0%	16.5	14.6
Communication Services	2.1%	13.2%	0.3%	0.3%	13.2	15.7
Industrials	11.2%	3.9%	-0.7%	-0.7%	21.6	16.0
Energy	15.4%	16.1%	-0.9%	-0.9%	17.6	14.7
Consumer Staples	3.3%	4.4%	-1.2%	-1.2%	17.3	16.0
Real Estate	1.6%	6.6%	-4.0%	-4.0%	14.1	14.6
Materials	15.6%	70.4%	-5.0%	-5.0%	14.9	16.9

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 30 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025. Historical P/E: 1/1/2000 – 10/31/2025. Excluding outliers.

Table 3 - Global Equities Performance

Select Global Equity Indices	Oct (in LCL)	Oct (in USD)	Oct (in CAD)	3 Mo (in LCL)	3 Mo (in USD)	3 Mo (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
Major Aggregates												
World (Global)*	1.9	1.9	2.7	8.2	8.2	9.7	20.0	20.0	16.9	20.4	16.0	4.4
EAFE (DM ex U.S. & Canada)*	0.9	0.9	1.6	8.3	8.3	9.7	27.1	27.1	23.8	15.4	13.6	1.8
EM (Emerging Markets)*	3.8	3.8	4.5	13.2	13.2	14.8	32.6	32.6	29.2	13.9	11.8	2.1
Selected Developed Markets												
Nikkei 225 (Japan)	16.7	11.8	12.6	28.6	25.6	27.3	33.8	36.5	32.9	22.2	16.8	5.3
Euro STOXX 50 (Europe)	2.5	0.6	1.3	6.7	7.3	8.8	19.1	28.9	25.6	16.4	13.3	3.0
FTSE 100 (U.K.)	4.1	1.4	2.1	7.3	5.6	7.1	22.6	24.7	21.5	13.1	12.4	0.7
CAC 40 (France)	3.0	1.2	1.9	4.8	5.7	7.1	13.6	26.6	23.4	16.6	13.5	3.0
DAX (Germany)	0.3	-1.5	-0.8	-0.4	0.4	1.7	20.3	33.8	30.3	15.3	12.7	2.6
Hang Seng (Hong Kong)	-3.5	-3.4	-2.7	5.3	6.4	7.8	33.4	33.3	29.9	12.0	11.8	0.2
Selected Emerging Markets												
CSI 300 (China)	0.2	0.2	0.9	14.4	15.7	17.1	20.9	24.0	20.8	16.3	13.8	2.5
Nifty 50 (India)	4.6	4.7	5.4	4.1	2.7	4.0	10.2	6.2	3.5	23.5	18.9	4.6

Source: FactSet, Raymond James Ltd; Total returns, data as of October 31, 2025. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 10/31/2025. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

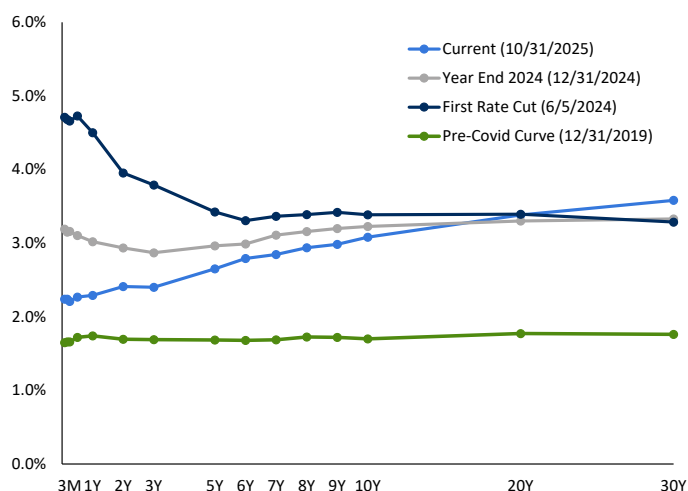
Fixed Income & Treasury Yields

U.S. Treasury yields moved modestly lower across most of the curve in October. On October 10, President Trump's threat to impose 100% tariffs on Chinese imports, in retaliation for China's restrictions on rare earth exports, triggered a decline in yields on maturities beyond two years. Yields continued to fall until October 22, when reports suggested that the U.S. and China might reach a deal on trade and economic relations. Following these developments, the curve inched higher, though yields remained below end-September levels. The U.S. 10-year yield briefly fell below 4% at the height of the tensions but rebounded to around 4.1% as immediate tariff risks eased. Our outlook for the 10-year yield to remain range-bound between 4.0% and 4.5% through year-end is unchanged.

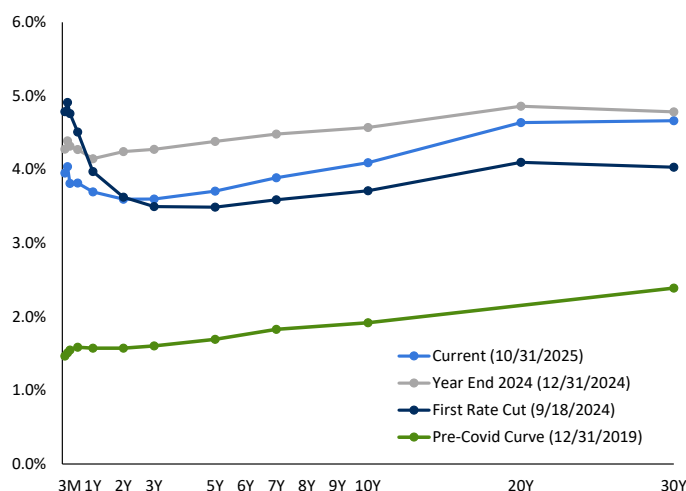
In Canada, the yield curve moved slightly lower across maturities in October, with a larger decline at the front end. With the policy rate now at the lower bound of the Bank of Canada's neutral range (2.25–3.25%), any further rate cuts would likely require a high threshold. As a result, attention is beginning to shift from monetary policy toward fiscal policy.

The curve barely reacted following the announcement of Budget 2025, reflecting both Canada's strong fiscal credibility, the lowest net debt-to-GDP ratio in the G7, and market uncertainty about the extent to which fiscal expansion can stimulate economic activity. If investors come to expect stronger growth and thus higher inflation, they may price in higher future interest rates, pushing long-term yields higher.

A key takeaway from the budget is that most new spending targets long-term defense and infrastructure projects, while operational expenditures will be reduced in the near-term, primarily through downsizing the public service. This approach could create short-term economic headwinds, potentially prompting the BoC to deliver an additional rate cut in 1H26, which would further lower the front end of the curve.

Chart 31 - Canada Government Yield Curves

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025.

Chart 32 - U.S. Treasury Yield Curves

Source: FactSet, Raymond James Ltd.; Data as of October 31, 2025.

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