

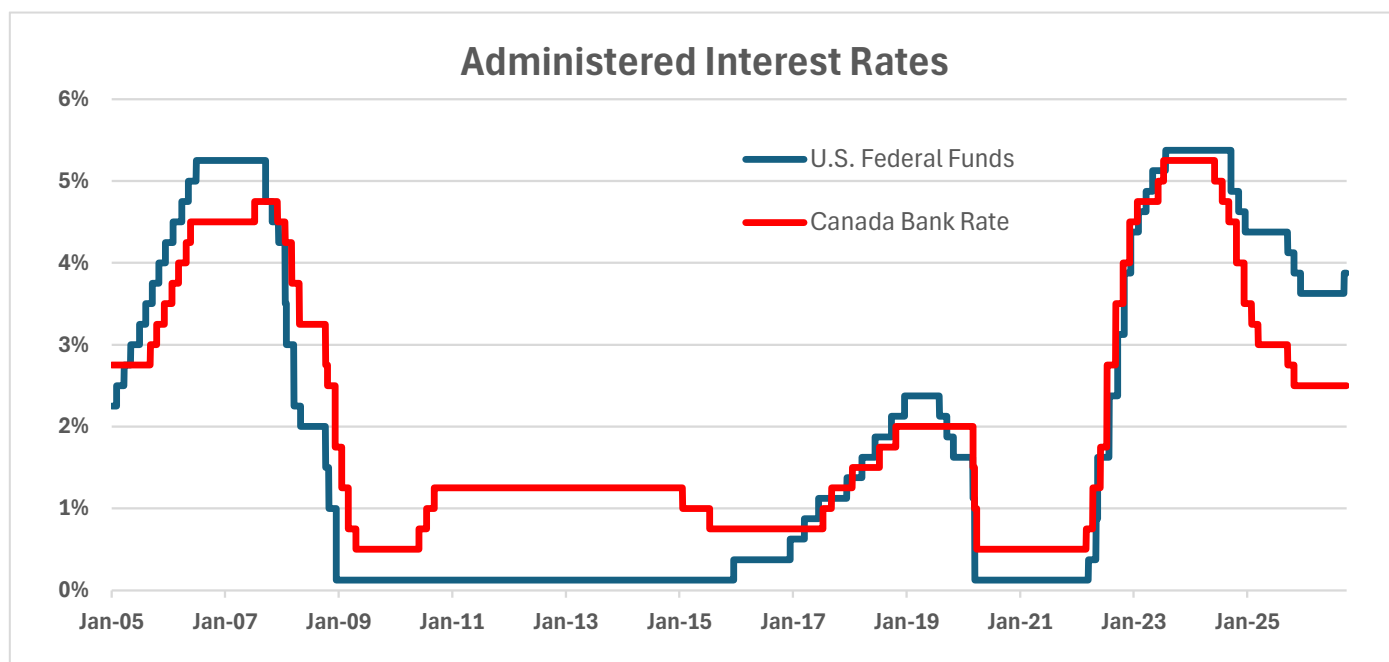
MONTHLY COMMENTARY

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Fed hikes rates.



Source: U.S. Federal Reserve; Bank of Canada

MARKET FOCUS

U.S. monetary policy shifts.

Following its latest two-day monetary policy meeting, the U.S. Federal Reserve (Fed) chose to raise interest rates by 25 basis points (a basis point is 1/100th of one per cent), moving the target for the federal funds rate to the range of 3.75% to 4.00%. As can be seen in the accompanying graph, this is the first interest rate hike since July 26, 2023. This move follows six interest rate cuts, which provided a cumulative reduction of 175 basis points, during the prior easing cycle. The adjustment pushed administered interest rates to their highest level since December 9, 2025. Importantly, the Fed statement contained text stating that “job gains have kept pace with the workforce, and the unemployment rate has changed little. Inflation remains elevated. Today’s policy action will support a timelier return to the Committee’s 2 percent (inflation) goal.” This clearly indicates that the



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Fed remains more clearly focused on inflation, rather than on unemployment. The annual growth of the consumer price index stood at 3.4% in August. The rate hike was the anticipated outcome, and the market will now begin evaluating the probability of an extended cycle of tightening monetary policy. Domestically, the Bank of Canada will also have to weigh the implications of a widening interest rate gap with the U.S., as this will attract liquid assets away from Canada and have a negative influence on the value of the Canadian dollar.

Canadian inflation remains elevated.

Statistics Canada reported that the consumer price index moved 0.1% higher (seasonally adjusted) in August. In addition, on a year-over-year basis, the CPI was up 3.0%. The elevated pace of inflation is largely due to higher energy prices. While the data show a 0.9% decline in gasoline prices during the month, they remain 22.8% higher than they were in August 2025. The broader energy sub-index stands with a 15.4% advance over the same period. However, energy prices alone are not the only problem, as food prices are up 2.8% (y/y). The three Bank of Canada core inflation measures ranged from 1.9% to 2.6% on a year-over-year basis in this report. CPI common, which the central bank says is most closely correlated with the output gap, moved from 2.7% to 2.6% in August. Core inflation remains stubbornly high. This may add to the pressure on the central bank to raise interest rates.

LONGER VIEW

Recent earnings trends and corporate profit margins suggest that the economy remains in the early stages of a growth cycle, supported by resilient business fundamentals and continued investment activity. At the same time, it is increasingly difficult to dismiss the transformative potential of artificial intelligence. While the pace and magnitude of adoption remain uncertain, we believe AI is a durable secular trend that is likely to have a meaningful impact on productivity, profitability, and economic growth over the long term. This creates a landscape that is rich with opportunities for investors, but one that also carries significant uncertainty as markets attempt to distinguish between near-term enthusiasm and sustainable long-term value creation.

Rising bond yields continue to present a challenge for many parts of the market, particularly sectors that lack strong earnings growth and are more sensitive to financing costs. We expect upward pressure on long-term interest rates to persist, with the U.S. 10-year Treasury yield sitting at 5% or higher in the coming months. In our view, ongoing fiscal deficits and the apparent lack of political willingness to materially reduce government spending will contribute to increased Treasury issuance and higher borrowing requirements, creating a structural backdrop that supports elevated yields even as economic growth remains positive.

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