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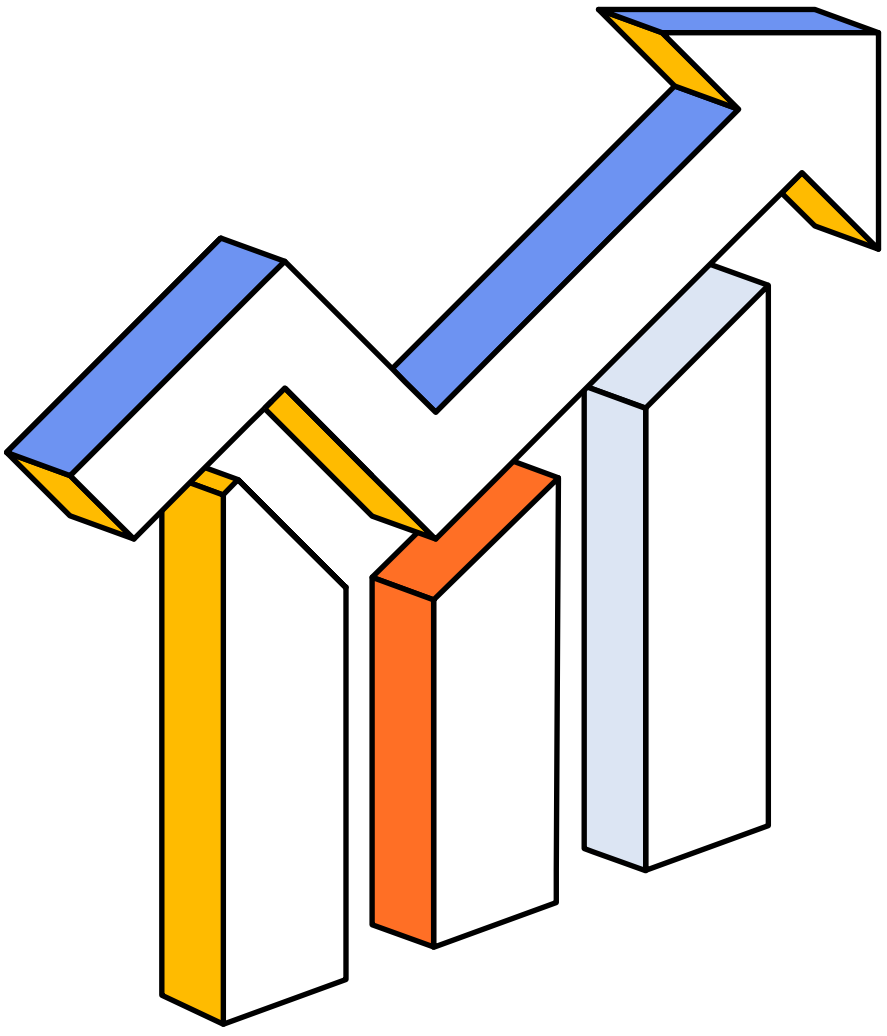


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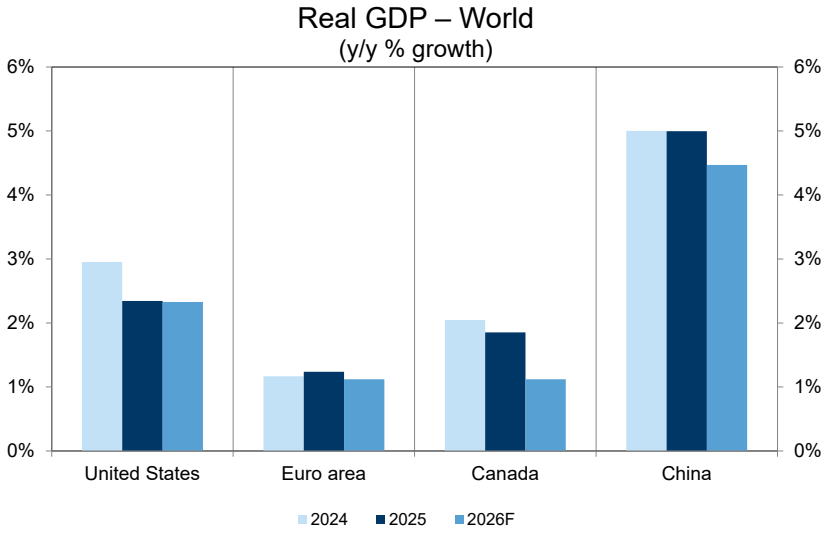
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Philippe Bergevin, Chief Economist
Alexandre d'Aragon, Senior Economist
Tessa Kintoumba, Economist
Nouhou Ballo, Financial Markets Specialist
Jean-Paul Calero, Financial Markets Specialist

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Highlights

- Geopolitical factors continue to shake up the global economy and financial markets, with rising tensions in the Middle East and the escalating trade war between Canada and the United States. Crude oil and gasoline prices remain high and could rise further if tensions with Iran persist.
- Despite the uncertainty, the U.S. economy has proven particularly strong since the start of the year, driven by consumer spending and investment, particularly in the AI sector. Persistently high inflation has prompted the Federal Reserve to tighten its monetary policy.
- The Canadian economy rebounded strongly in the second quarter, but the upturn may be short-lived given the intensifying trade war with the United States. For 2026 as a whole, growth is expected to reach only about 1%.
- Québec has fared less well, with low economic growth and job losses. The province is the hardest hit by U.S. tariffs due to its economic structure.
- Despite the uncertainty, global equity markets have remained remarkably resilient since the start of the year, posting strong returns. However, valuations and the financing needs of AI-related companies continue to be cause for concern.
- In the bond markets, yields have risen across the board due to high inflation, deteriorating public finances and expectations of higher policy rates. With inflation persisting, major central banks are expected to continue tightening their monetary policies.
- Between now and the end of the year, the economy and financial markets will be heavily influenced by the conflict in the Middle East, the trade war with the United States, and developments in connection with investments in AI.



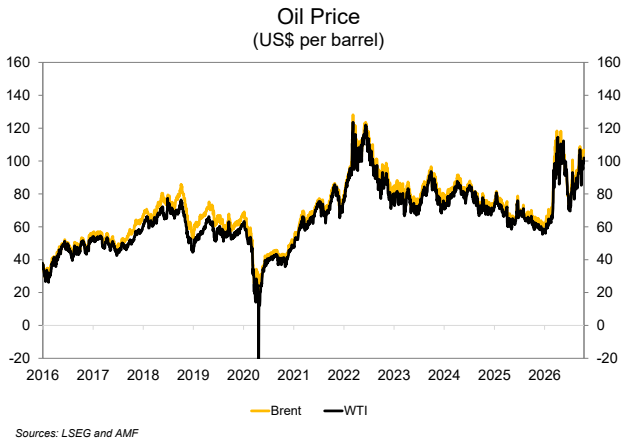
Sources: LSEG and AMF

N.B.: Text, data, and graphics as of October 9, 2026.

World

Geopolitical factors continue to shake up the global economy and financial markets. After a lull in early summer, the conflict in the Middle East flared up again as U.S. and Iranian military strikes resumed. Negotiations have stalled, with apparently no resolution in sight. Maritime traffic through the Strait of Hormuz remains largely blocked, although an increasing number of ships are managing to pass through the strait with the help of the U.S. military. Furthermore, the conflict is spreading, as Yemen's Iran-backed Houthi rebels are attacking Saudi Arabian ships and energy infrastructure and threatening to seize control of the Bab al-Mandeb Strait, on the other side of the Arabian Peninsula.

The escalating conflict continues to fuel global inflation and poses significant risks to economic growth. Oil prices—particularly gasoline prices—have indeed begun to rise again. The price of Brent crude now exceeds US$100 per barrel, while the price of diesel has surpassed US$6 per gallon in the United States. To bring prices down, G7 countries have agreed to release 100 million barrels of oil and diesel from their strategic reserves. Nevertheless, the longer the conflict drags on, the greater the risk of disruptions to oil supplies and a sharp rise in oil prices.



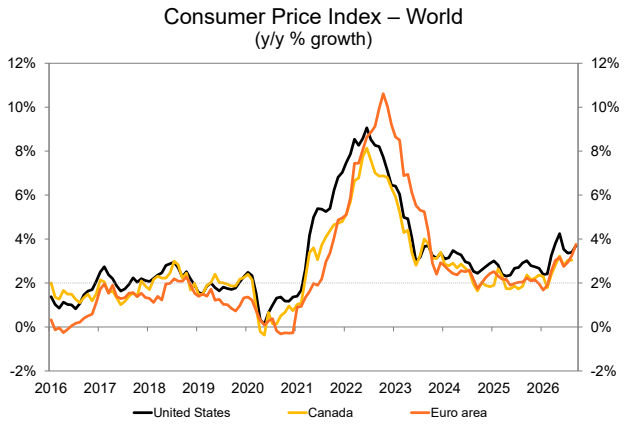
Sources: LSEG and AMF

Despite the uncertainty, the U.S. economy has proven particularly strong since the start of the year. Economic growth reached 2.5% in the first quarter and 2.2% in the second, driven by consumer spending and business investment, particularly from technology companies involved in artificial intelligence.

The U.S. labour market, however, appears somewhat less robust and is showing signs of slowing down, with an average of about 41,000 jobs created per month over the past 12 months. Employment rose by only 29,000 jobs in September, while the unemployment rate stood at 4.2%, up slightly by 0.1 percentage points from the previous month.

In September, the Federal Reserve raised its interest rates for the first time in three years, bringing the target range for the federal funds rate to 3.75%-4.00%. The decision aims to curb the surge in inflation triggered by the war in Iran and prevent rising energy costs from spreading throughout the economy. Inflation, at 3.7% in September, has remained above the Fed's 2% target for the past five and a half years. The vast majority of Fed officials anticipate another rate hike by the end of the year.

On the trade front, the Trump administration replaced the temporary tariffs imposed in February with new tariffs ranging from 10% to 12.5% in July. These new tariffs target some 80 countries that, according to Washington, are not doing enough to combat forced labour in their supply chains. The United States also refused to renew CUSMA. As a result, the free-trade agreement will be subject to annual reviews and will expire in 10 years if no agreement is reached by then. Lastly, Washington has intensified the trade war with Canada by imposing new tariffs, leading to an escalation on both sides.



Sources: LSEG and AMF

In the euro area, GDP growth rebounded in the second quarter, reaching 2.6% after zero growth in the first quarter, despite uncertainty and high energy prices. The euro's weak performance compared to the U.S. dollar contributed to export growth. Investments in AI and government spending were also instrumental in the recovery. The euro area's four major economies all posted growth, particularly Spain, the region's growth champion.

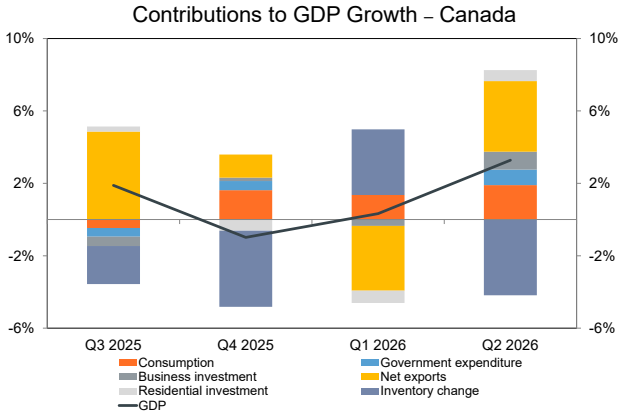
Price increases across the 21 member countries of the euro area have accelerated since the spring, largely due to soaring oil prices. At 3.8% in September, inflation has remained above the European Central Bank's 2% target for seven months now. To address high inflation, the ECB was the first major central bank to tighten its monetary policy, implementing two 25-basis-point rate hikes—in June and September—to raise its key interest rate to 2.5%. Markets expect the ECB to deliver a third rate hike by the end of the year.

Finally, China is facing a significant economic slowdown, with growth falling from 5.0% in the first quarter to 4.3% in the second, one of the lowest levels recorded in decades, falling short of the government's official growth target of 4.5% to 5.0%. Consumer spending and investment are showing signs of weakness. Despite U.S. tariffs, however, exports continue to grow, particularly exports of artificial intelligence-related equipment.

Canada / Québec

The Canadian economy continues to be resilient amid the trade war with the U.S. and the conflict in the Middle East, but is struggling to gain sustainable momentum. Without an agreement between the two countries, the United States imposed 50% tariffs on $28 billion worth of Canadian products in late August, to which Canada responded with counter-tariffs of nearly the same amount. Meanwhile, the Middle East conflict is putting upward pressure on inflation and interest rates.

The Canadian economy, nonetheless, bounced back strongly in the second quarter, recording 3.3% annualized GDP growth. Exports rebounded sharply, while household consumption remained firm. Business investment also stood out with a strong 12% increase, on the heels of several weak quarters. It is also worth noting that the purchasing managers' index suggests improved business confidence.



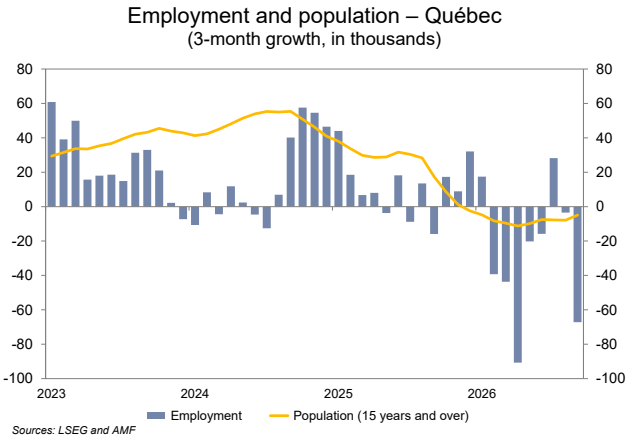
Sources: Statistics Canada and AMF

The upturn, however, is expected to be short-lived given the intensifying trade war. The latest rounds of tariffs will have a significant impact on Canada, shrinking GDP growth by several-tenths of a percentage point and adding somewhat to inflationary pressures. Furthermore, inflation and rising interest rates stemming from the conflict in the Middle East are expected to weigh on household consumption and cool the housing market. For 2026 as a whole, the Canadian economy is expected to achieve modest growth of around 1%.

In Québec, economic growth has been more stable since the start of the year, though it has lagged behind Canada's overall growth. After a stronger first quarter than for Canada as a whole (+1.4% vs. +0.3%), Québec's economy grew by a more modest 0.8% in the second quarter. As was the case across Canada, Québec's economy benefited from robust export growth in the second quarter and sustained growth in household consumption. Business investment, particularly in machinery and equipment, also grew at a solid pace.

For the remainder of the year, Québec's economy will bear the brunt of the escalating trade war, as it faces the highest U.S. tariffs of any province. This is expected to put pressure on Québec's exports and manufacturing sector, limiting growth potential.

On the labour market, employment has seesawed in recent months. In Canada, employment fell by 68,000 in September, bringing total job losses since the start of the year to 41,000. Québec fared even worse, shedding 130,000 jobs during the first nine months of 2026. That said, the unemployment rate remains relatively low, at 6.5% in Canada and 6.0% in Québec, due in large part to a marked slowdown in population growth.



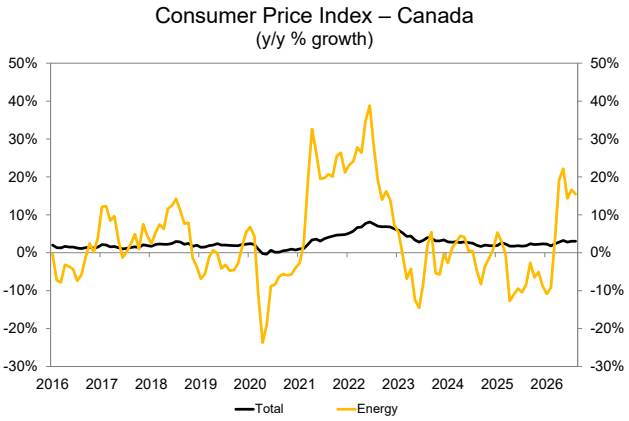
Sources: LSEG and AMF

In addition to the latest round of tariffs, uncertainty surrounding trade negotiations with the United States remains high. Negotiations to renew CUSMA have stalled, and the United States has threatened to raise tariffs on cars, trucks and automotive parts to 50% in January 2027.

For the time being, the value of goods targeted by the new tariffs represents only a relatively modest share of the Canadian economy. Moreover, governments have expanded their assistance programs for businesses and workers affected by the conflict. The federal government has announced $7.5 billion in new measures, adding to the $25 billion in economic support provided since the start of the conflict, while Québec has implemented similar measures and programs for businesses and small and medium-sized enterprises (SMEs). These measures will help mitigate the negative impact of U.S. tariffs on economic activity.

Furthermore, rising energy prices due to the conflict in the Middle East are benefiting Canada's economy—a major net exporter of oil—to some extent. For now, rising energy prices are having a limited impact on most components of inflation.

The Consumer Price Index has reached 3%, but measures of core inflation remain near the 2% target.

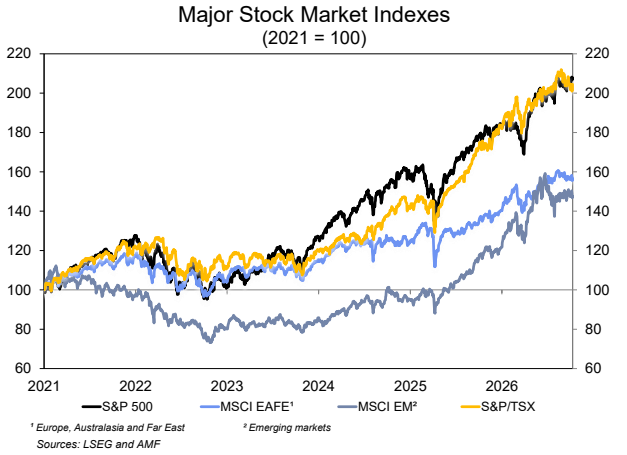


Sources: LSEG and AMF

Nevertheless, inflationary pressures spreading to a broader range of goods and services is a growing concern as the conflict in the Middle East drags on. Although economic uncertainty will prompt the Bank of Canada to proceed cautiously, this outlook should lead it to raise its key policy rate for the first time since 2023 by the end of the year or in early 2027.

Financial markets

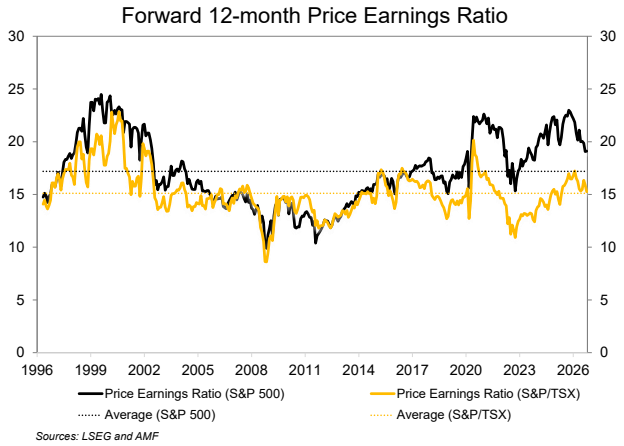
Global stock markets have remained remarkably resilient since the start of the year, despite an environment marked by geopolitical tensions and trade uncertainty. However, this resilience masks heavy concentration and elevated valuations in certain sectors, particularly in the United States.



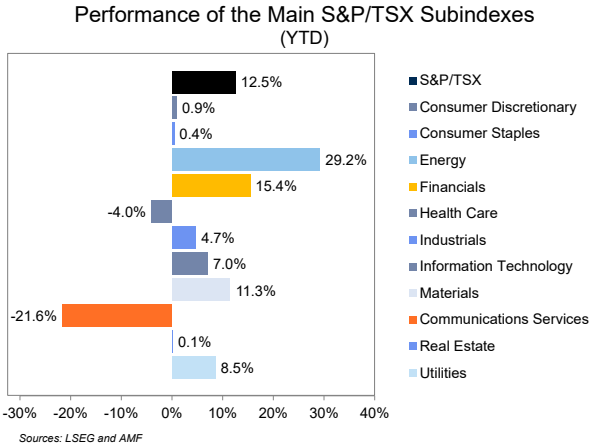
On the U.S. stock markets, the S&P 500 has climbed by about 14% since the start of the year, while the Nasdaq has gained nearly 18%. The markets continue to hover near record highs, buoyed in particular by enthusiasm surrounding artificial intelligence. Keep in mind that the "Magnificent Seven" account for about one third of the S&P 500, while Information Technology accounts for roughly 37% of the index—a level higher than its peak during the tech bubble in 2000.

This concentration makes the indexes more sensitive to the performance and outlook of a limited number of companies. Much uncertainty remains as to whether technology companies can generate the revenue and earnings needed to justify the massive expenditures incurred in AI, particularly in data centres.

Valuations therefore remain a point of concern, even though they have normalized relative to their 2025 peaks. The S&P 500's forward price-to-earnings (P/E) ratio stands at around 19, down from nearly 23 at its 2025 peak. The lower multiples partly reflect earnings growth, but expectations remain high for businesses involved in AI.



In Canada, the S&P/TSX has also posted strong gains (+12%), supported mainly by its two leading sectors, Financials and Energy.



This sector mix has so far helped limit the impact of Canada-U.S. trade tensions on the index's overall performance. As a result, the TSX is heavily influenced by earnings growth in the banking sector and the price of commodities, particularly oil. In fact, the Energy sector has provided strong support to the Canadian market, while also exposing the TSX to greater volatility in oil prices.

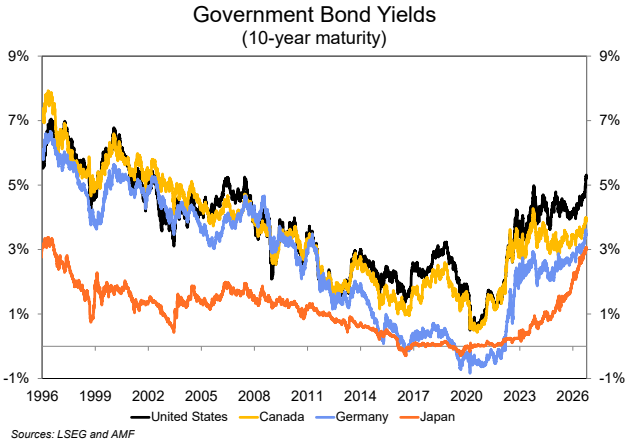
Lastly, Québec-based companies on the TSX posted more modest growth than the S&P/TSX

as a whole (+3%), reflecting, in particular, a lack of exposure to the Energy sector and less exposure to Financials, two of the main drivers of the Canadian market this year.

Over the coming months, AI-related technology companies will remain under scrutiny, particularly their valuations and financing needs. In Canada, the valuations of Canadian banks and energy prices will also need to be closely watched. Furthermore, strong market performance since the beginning of the year has made investors less tolerant of weaker earnings outlooks.

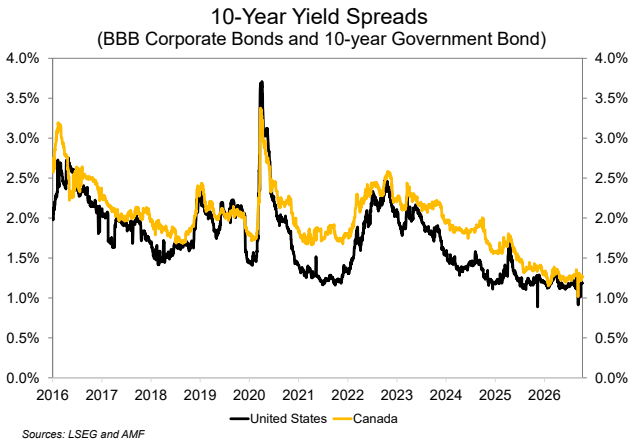
In the bond markets, yields have risen across the board. Rising inflation, deteriorating public finances and expectations of higher key policy rates are putting upward pressure on sovereign bond yields. Several other factors are at play, including robust investment demand in sectors such as defence and artificial intelligence, as well as declining global savings.

As a result, 10-year sovereign bond yields reached multi-decade highs in several developed countries. In particular, the 10-year Japanese sovereign bond yield rose to a 30-year high of nearly 3%, while the 10-year U.S. Treasury yield climbed to around 5.30%, a high not seen since 2002. Meanwhile, the Canadian 10-year government bond yield hit a three-year high, reaching about 4%.



Short-term yields have also risen, a sign that central banks have begun tightening monetary policy. Although the monetary tightening initiated by major central banks in developed countries could slow economic growth, it should help contain any runaway inflation and long-term bond yields.

Although sovereign yields are rising, corporate bond markets have so far shown no signs of stress despite trade and geopolitical tensions. In particular, yield spreads between sovereign bonds and BBB-rated corporate bonds remain narrow, at around 1%, in both Canada and the United States.



Rising bond yields are not without consequences and will slow economic growth and financial markets in the months ahead, putting direct pressure on mortgage rates, corporate and government financing costs, and the private credit market.

Market Performance

Stock Markets								
		Level	% change				Last 12 months	
		2026-10-09	1 month	3 months	6 months	1 year	Min.	Max.
MSCI All Country World Index		1,381	1.01	2.13	11.63	16.12	1,157	1,393
MSCI EAFE[1]		1,938	-1.11	-0.58	4.13	12.63	1,690	2,014
MSCI Emerging Markets		105,934	-1.72	-0.41	10.65	24.82	83,062	114,192
S&P 500		7,812	2.29	3.55	14.46	15.98	6,344	7,819
S&P/TSX		35,665	-0.67	1.32	6.53	17.82	29,778	36,958
Morningstar National Bank Québec Index		622	-2.83	-4.09	1.22	10.35	557	677
Bond Markets								
		Level					Last 12 months	
		2026-10-09	-1 month	-3 months	-6 months	-1 year	Min.	Max.
Québec	10-year	4.33	4.28	3.94	3.97	3.72	3.59	4.45
Canada	10-year	3.87	3.84	3.52	3.45	3.20	3.04	4.00
United States	10-year	5.24	4.84	4.55	4.28	4.14	3.94	5.31
Canada	BBB - 10-year Gov. spread	119.60	122.66	116.01	121.07	122.39	103.28	126.53
United States	BBB - 10-year Gov. spread	105.51	104.63	100.94	109.68	102.77	97.22	118.86

[1]Europe, Australasia and Far East

Sources: Bloomberg and AMF

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