Autorité des marchés financiers

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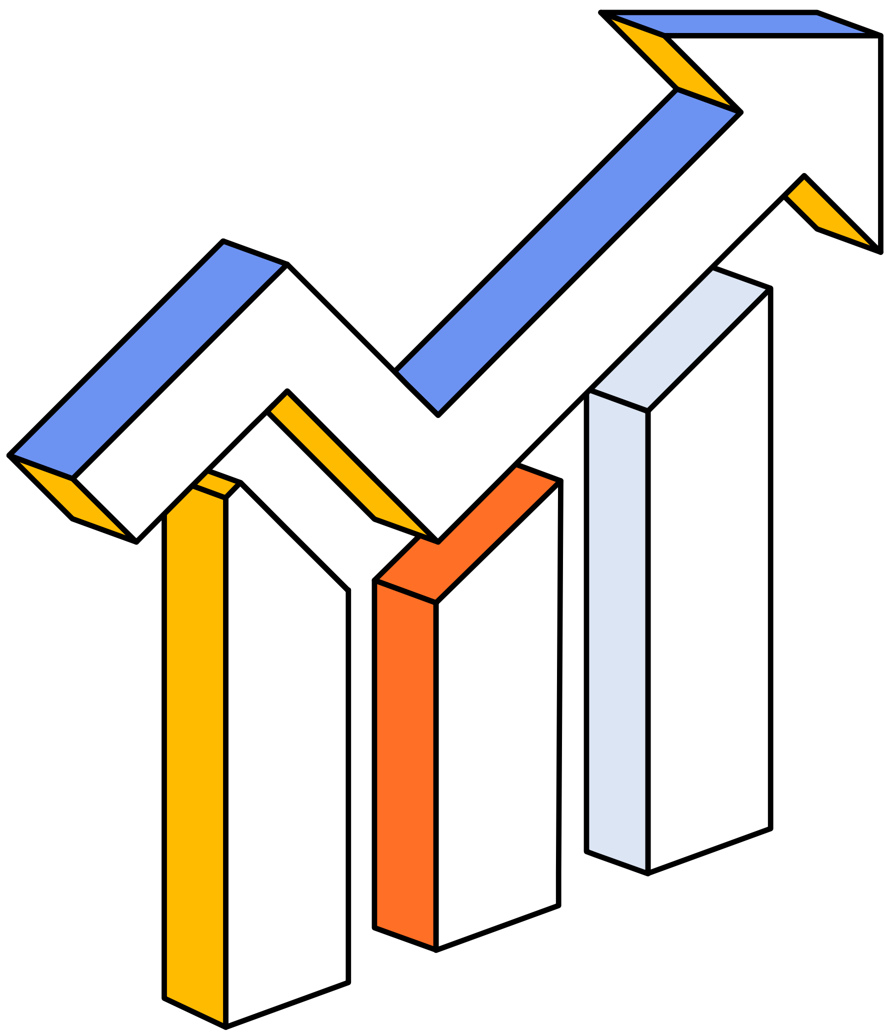

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Highlights

- Despite the uncertainty surrounding U.S. trade policy, the global economy is proving more resilient than initially anticipated, as the impact of the tariffs has yet to be felt.
- In most countries, inflation has decreased significantly, and policy rates have been reduced as a result. However, central banks are maintaining a cautious stance on monetary easing in the face of uncertainty.
- The U.S. economy is proving particularly resilient, reporting strong second-quarter growth of 3.8%, buoyed by household consumption. The labour market, however, is starting to show signs of weakness.
- In Canada, U.S. tariffs and prolonged trade uncertainty are dragging down the economy, particularly the manufacturing sector. GDP fell 1.6% in the second quarter owing to a sharp decline in exports and business investment.
- Similarly, Québec's economy shrank 2.4% in the second quarter. Exports and investments fell significantly, while household consumption remained relatively robust.
- Despite the uncertainty, the stock markets have posted significant gains since the beginning of the year, bolstered by some easing of trade tensions, a resilient global economy and the enthusiasm surrounding artificial intelligence.
- Bond yields have been on a downward trend in recent months owing to de-escalation of the trade war, the slowing economy and monetary easing.

	Real GDP			**Inflation**			**Unemployment Rate**		
% change	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f
United States	2.8	1.8	1.8	3.0	2.8	2.9	4.0	4.2	4.4
Euro area	0.9	1.3	1.1	2.4	2.1	1.8	6.4	6.3	6.3
Canada	1.6	1.2	1.2	2.4	2.0	2.0	6.4	7.0	6.8
Québec	1.3	0.9	1.2	2.3	2.1	1.9	5.4	6.0	5.9

f: forecast
Sources: Bloomberg and AMF

World

Despite the uncertainty surrounding U.S. trade policy, the global economy is proving more resilient than initially anticipated. The impact of the tariffs has yet to be felt, as businesses are absorbing the increased costs and selling the inventories they built up early in the year.

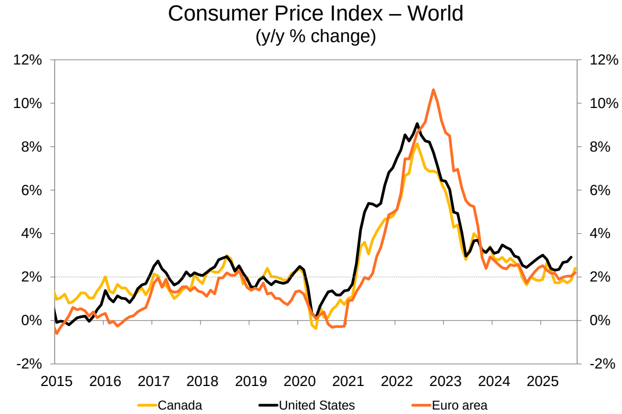
During the summer, deals were reached between the United States and a number of countries that brought tariffs down to less extreme levels than those announced in the spring and included some accommodations (quotas, exemptions, etc.).

However, with China threatening to increase control over exports of rare earths and the United States promising to impose additional tariffs of 100% in response, tensions could flare up again,

In the meantime, the U.S. Supreme Court must rule in the fall on the legality of the tariffs that have been imposed by invoking an "economic emergency"—that is, the "reciprocal" tariffs levied on all countries and the tariffs related to fentanyl trafficking that have been imposed on Canada and Mexico.

However, the matter of tariffs imposed by invoking "national security" (steel, aluminum, cars, copper, softwood lumber, furniture, etc.) will not be considered, and the Trump administration intends to continue invoking national security to shield itself from legal challenges.

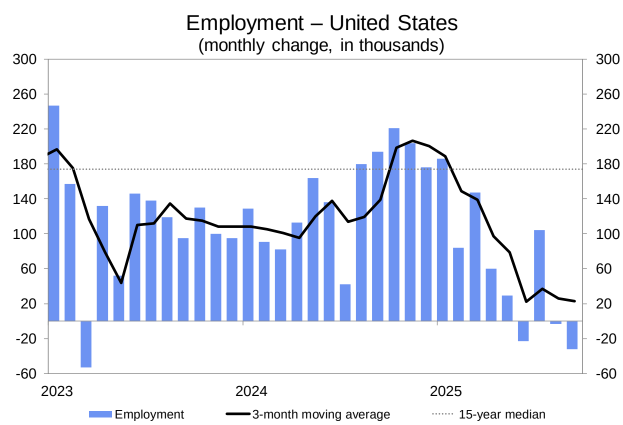
In most countries, inflation has decreased significantly from the highs reached during the pandemic, and policy rates have been reduced as a result. However, there is still much uncertainty regarding the future impact of tariffs on prices, and central banks are therefore maintaining a cautious stance on monetary easing.



Sources: LSEG and AMF

Despite these disruptions, the U.S. economy posted strong second-quarter growth of 3.8%, buoyed by household consumption. This rebound follows a 0.6% decline in GDP in the first quarter due to companies front-running the prohibitive tariffs on imported goods.

The labour market, however, is showing signs of weakness. The U.S. economy created only 22,000 jobs in August, much lower than the 79,000 jobs created in July and well below expectations.



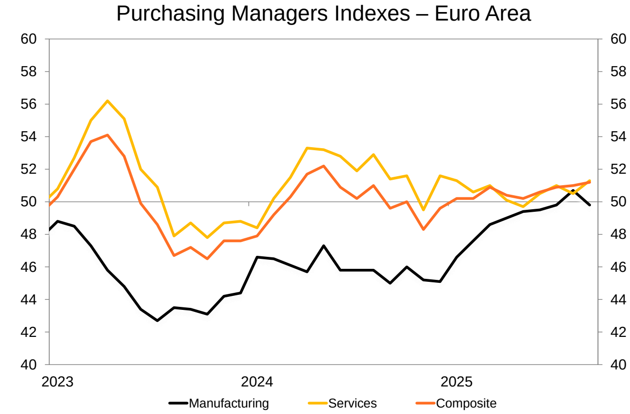
Sources: ADP and AMF

According to private sources (official statistics being unavailable due to the U.S. government shutdown), employment even declined in September. If confirmed, it would be the fifth consecutive month that job growth was below the economists' forecast of 100,000 jobs added. The jobless rate rose from 4.2% to 4.3% in August.

Faced with a slowdown in employment, the Federal Reserve lowered its policy rate by 25 basis points to 4.00%-4.25% in September, its first cut in nine months, and signaled the beginning of a gradual easing cycle. The Fed also updated its economic projections, with two 25-basis-point reductions in the policy rate planned by the end of the year. The Fed is still projecting an inflation rate of 3% by the end of 2025, well above its 2% target, while its economic growth forecast for the year is 1.6%. The Federal Reserve, therefore, finds itself in a difficult position in carrying out its dual mandate of price stability and maximum employment, with inflation risks on the rise because of the tariffs and the labour market having shown a marked decline for several months.

The euro area posted modest annualized growth of 0.4% in the second quarter, compared with 2.3% in the first three months of 2025. This slowdown reflects the growing caution of businesses and households faced with the entry into force of U.S. tariffs and the resulting economic uncertainty. Among the major euro-area economies, those of Spain and France experienced accelerating growth, while those of Germany and Italy contracted.

Despite the tariff war, the euro area is maintaining modest momentum. The composite Purchasing Managers Index reached 51.2 in September, a fourth increase in as many months. A level above 50 marks economic expansion. Whereas the services sector recorded some growth, manufacturing fell back into contraction territory.



Sources: S&P Global and AMF

Inflation rose slightly, to 2.1%, in August, but remains very close to the European Central Bank's 2.0% target. All signs suggest that the ECB will keep its rate unchanged in the coming months while it considers the impact of U.S. tariffs and the U.S. – E.U. trade deal on the euro area economy.

Lastly, China posted an annual growth rate of 4.8% in the third quarter, compared with 5.2% in the second quarter. The government's support measures are having a limited impact and the economy is starting to show some signs of weakness. In addition to the trade war, the challenges remain significant, given China's structural problems, including weak domestic demand, a protracted real estate crisis, high youth unemployment, persistent deflation and population decline.

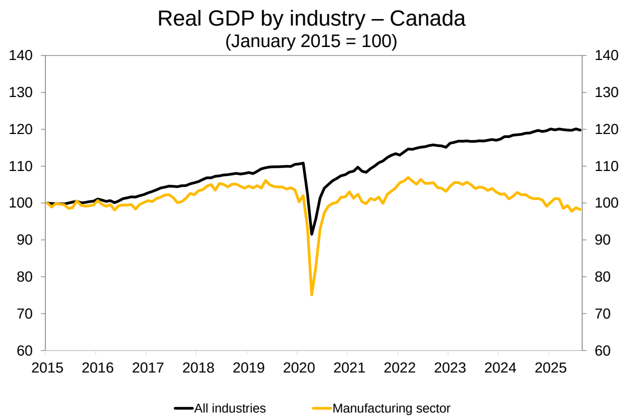
Canada

Uncertainty surrounding the trade dispute continued to drag down the Canadian economy. It impacted exports, manufacturing and labour market performance, in that order.

Canada has yet to sign a trade deal with the United States. but trade remains relatively unimpeded for the time being. The country is subject to 35% tariffs related to fentanyl trafficking, but CUSMA-compliant goods, which account for over 85% of Canadian exports to the United States, are exempt. Separate tariffs apply, however, to steel, aluminum and copper (50%), softwood lumber (45%) and non-U.S. content of vehicles (25%).

In September, Canada removed counter-tariffs on U.S. products except for steel, aluminum and automobiles. By doing this, Ottawa hopes to facilitate a trade deal ahead of the review of CUSMA scheduled for the summer of 2026.

GDP declined 1.6% in the second quarter owing to a sharp drop in exports and business investment. Canadian exports plunged 27%, while business investment fell 10%.

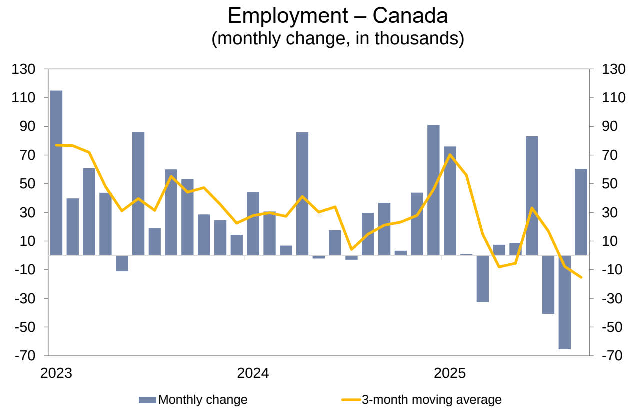


Sources: ISQ and AMF

The Canadian economy stalled in the first half of 2025, and the latest trend points to economic stagnation between now and the end of the year, rather than a recovery.

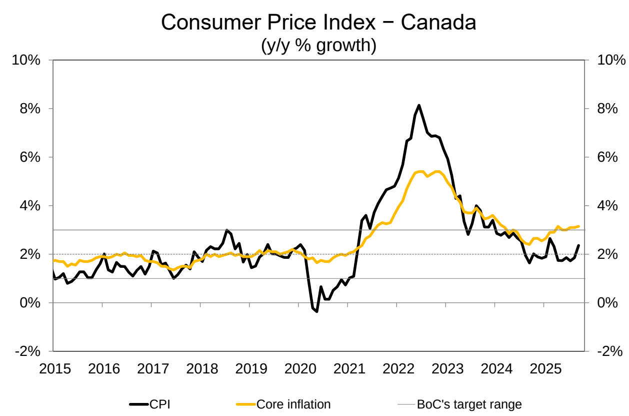
Despite ailing economic conditions and the rising unemployment rate, consumer spending has been relatively brisk. However, the weakening labour market can be expected to eventually impact household spending in the months ahead.

The labour market is going through a rough patch. Although employment has deteriorated in the past three months, the labour market has been treading water since the beginning of the year. The unemployment rate rose to 7.1% from 6.4% a year earlier and 5% from its cyclical low in 2023. In short, businesses are not engaging in mass layoffs but are not hiring either. Job losses are concentrated in manufacturing and transportation, which suggests that trade-dependent sectors are bearing the brunt of the damage.



Sources: LSEG and AMF

Inflation climbed again in September, to 2.4%, while core inflation remained near 3.0%. The rise in inflation has been largely fuelled by grocery prices and rent increases. Nevertheless, the ongoing economic slowdown and increasing unemployment rate are creating economic slack that should ultimately ease inflation pressures.



Sources: Statistics Canada and AMF

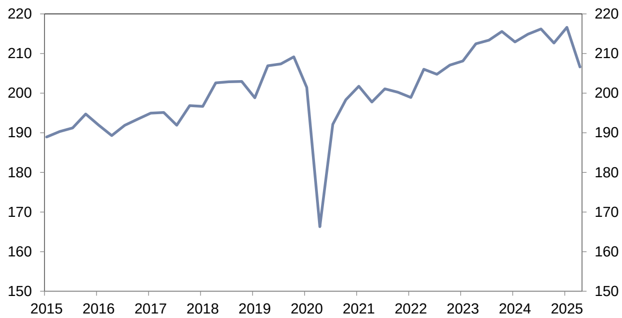
In this context, the Bank of Canada lowered its key policy rate in September to 2.50%. It was the first policy rate cut since March 2025. This monetary easing and the improved financial conditions that resulted from it are providing the Canadian economy with much-needed support in this time of uncertainty and major structural change.

A disappointing economic performance and relatively well-controlled inflation are increasing the likelihood of further policy rate cuts in the coming months, especially as the economy is not expected to improve significantly between now and the end of the year.

Québec

Québec is being particularly affected by trade uncertainty and rising U.S. protectionism, with GDP falling 2.4% in the second quarter. As in the case of Canada as a whole, this poor performance is largely due to the contraction of exports.

International Exports – Québec
(in billions $)



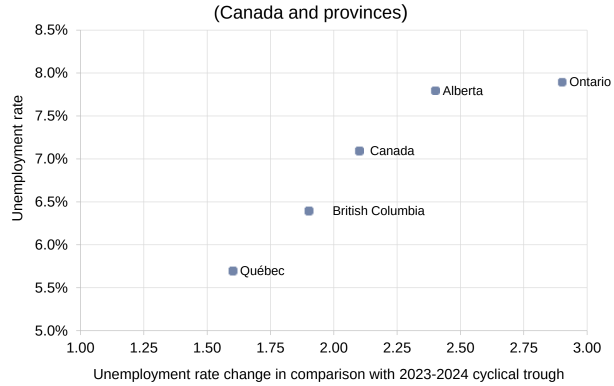
Sources : ISQ and AMF

Some components of domestic demand, however, performed well and helped to mitigate the contraction in the economy. Consumer spending posted sustained growth, reflecting the relatively sound financial health of Québec households, which have a lower level of debt and higher savings rate than the Canadian average. Moreover, Québec's real estate market continues to be stronger than elsewhere in Canada, with increases in both home sales and housing starts.

Despite headwinds, the Québec economy has still been able to generate nearly 20,000 jobs since the beginning of the year, although this is clearly insufficient to stabilize, let alone lower, the unemployment rate. The labour market, however, differs substantially among regions and sectors.

At 5.7%, Québec's unemployment rate is the lowest among Canada's largest provinces by population and the one that increased the least.

Unemployment Rate Change
(Canada and provinces)



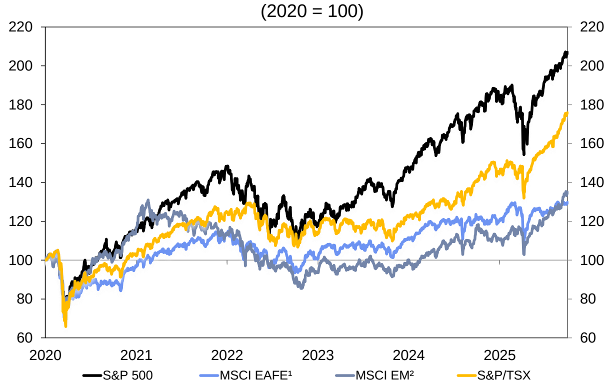
Sources: LSEG and AMF

The short-term economic outlook remains dependent on developments in the trade relationship with the United States. Household financial health, the robust residential real estate market and a recovery, however modest, in the labour market will support a fragile recovery subject to a high degree of uncertainty. Supported by more flexible financial conditions and transformative projects, Québec's economy should gradually recover in the coming months.

Financial markets

The stock markets have posted significant gains since the start of the year despite the economic uncertainty stemming from the trade war. Since the stock market correction in April after "Liberation Day," stock markets have continued on an upward trend, supported by an easing of trade tensions, a resilient global economy and heightened interest in artificial intelligence. The MSCI All Country World Index is up approximately 14% from the start of the year.

Major Stock Market Indexes
(2020 = 100)

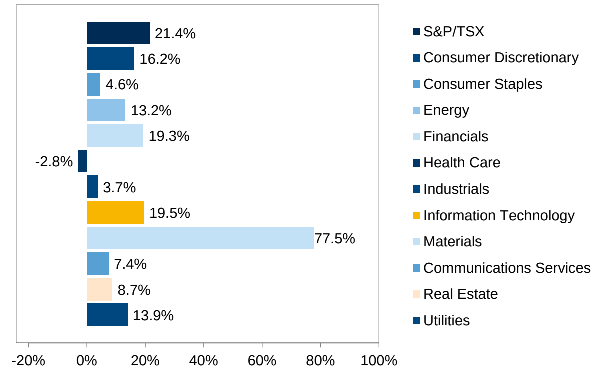


¹ Europe, Australasia and Far East ² Emerging markets
Sources: LSEG and AMF

In the United States, the S&P 500 also posted a gain of 14% this year. From peak to trough, the S&P 500 fell 19% at the start of April, but it quickly regained lost ground. As of late, one of the most volatile sectors of the U.S. stock markets has been Information Technology. This sector is benefiting from investor enthusiasm for artificial intelligence, but it is reaching very high valuations, raising concerns about a potential correction.

The Canadian stock markets recorded one of the best performances among the world's major indexes, with the S&P/TSX up approximately 21% from the start of the year. The Canadian index was largely bolstered by Materials, which was up approximately 77% on the strength of soaring gold prices. Financials, which accounts for approximately one third of the S&P/TSX's capitalization, rose 19%. Canadian banks saw a relatively limited increase in loan loss provisions, despite the economic uncertainty, and their capital markets divisions posted solid results.

Performance of the Main S&P/TSX Subindexes
(YTD)



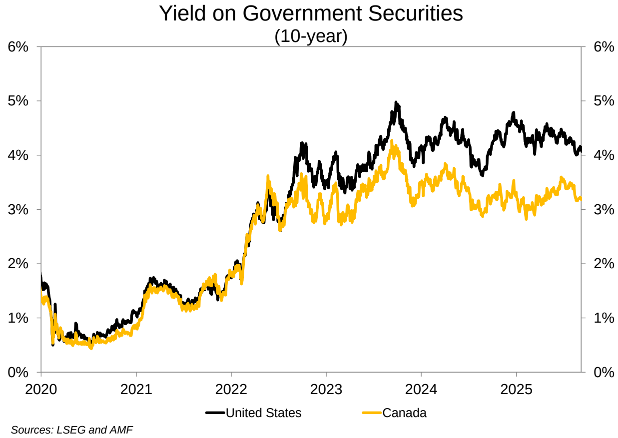
Sources: Bloomberg and AMF

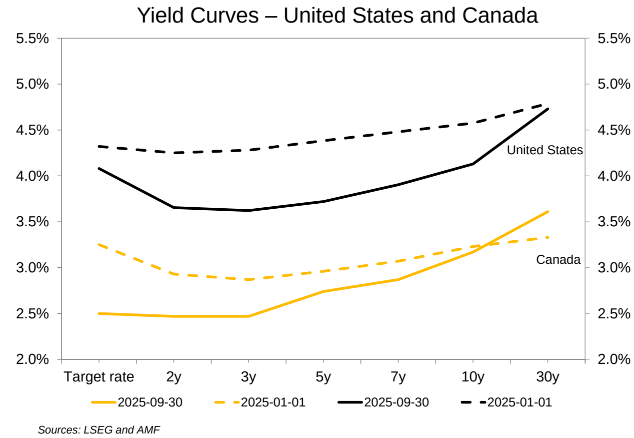
As with the S&P/TSX, Québec companies listed on the TSX delivered a strong performance overall, buoyed by the strength of Financials and Materials. The Morningstar National Bank Québec Index increased 14% from the start of the year.

Although stock markets are tilted to the upside, the outlook remains very uncertain. The trade war continues to evolve, and the full impact of customs tariffs on economic growth and inflation is yet to come. Indeed, the latest escalation in trade tensions between the United States and China momentarily sent the major stock market indexes reeling.

In the fixed-income markets, bond yields have declined in recent months. The downward trend in bond yields is due in large part to the de-escalating trade war, the slowing economy and monetary easing. U.S. 10-year bond yields declined from 4.60% in May to approximately 4.15% at the end of September. Concurrently, the U.S. dollar continued to depreciate in value.

Canadian bond yields also trended downwards and remain well below U.S. yields, reflecting the relative weakness of the Canadian economy. The yield on 10-year Canadian bonds is approximately 3.18%, far lower than the U.S. yield with the same maturity.





As for monetary policy, the U.S. Federal Reserve cut its policy rate in September after having kept it unchanged for nine months. Futures markets expect the Fed to lower its key policy rate to 3% by the end of 2026. The Bank of Canada, which has lowered its policy rate much further than the Fed, is nearing the end of its monetary easing cycle. The markets are anticipating a last 25-basis-point rate cut at one of the next meetings of the Bank of Canada.

Although bond yields in general have decreased recently, yield curves have steepened as long-term bond yields have declined less quickly than short-term yields and even increased in some cases. The high government deficits and growing government debt observed in many countries are putting upward pressure on long-term bond yields.

The bond market is therefore contending with opposing forces, with government debt and inflationary pressures placing upward pressures on bond yields and the slowing economy and monetary easing placing downward pressures on them.

Lastly, the cryptoasset market showed renewed strength since the beginning of the year. Bitcoin rose to new highs, buoyed by increasing institutional investor interest and growth in cryptoasset ETFs. The total market capitalization of stablecoins neared US$300 billion. On the regulatory front, the GENIUS Act was passed in the United States, providing a clearer regulatory framework for stablecoins, enhancing their credibility and prompting a number of countries to develop their own digital currencies.

Market Performance

Stock Markets								
		Level	% change				Last 12 months	
		2025-09-30	1 month	3 months	6 months	1 year	Min.	Max.
MSCI All Country World Index		1,174	3.50	7.64	17.12	15.34	900	1,174
MSCI EAFE[1]		1,677	1.53	4.84	8.69	10.07	1,370	1,677
MSCI Emerging Markets		82,980	6.86	11.61	19.42	16.41	63,205	83,201
S&P 500		6,688	3.53	7.79	19.18	16.07	4,983	6,694
S&P/TSX		30,023	5.11	11.79	20.49	25.09	22,507	30,023
Morningstar National Bank Québec Index		562	3.17	7.58	21.02	18.35	429	562

Bond Markets								
		Level					Last 12 months	
		2025-09-30	-1 month	-3 months	-6 months	-1 year	Min.	Max.
Québec	10-year	3.70	3.94	3.86	3.64	3.63	3.44	4.13
Canada	10-year	3.18	3.37	3.27	2.97	2.96	2.83	3.60
United States	10-year	4.15	4.23	4.23	4.21	3.78	3.73	4.79
Canada	BBB - 10-year Gov. spread	123.92	128.34	132.40	150.61	157.68	118.02	160.73
United States	BBB - 10-year Gov. spread	100.90	106.62	112.27	124.32	123.76	97.87	143.67

[1]Europe, Australasia and Far East

Sources: Bloomberg and AMF