

November 05, 2026

October began with a positive tone for equity investors as the bellwether S&P500 Index notched a record high early in the month, powered yet again by tech momentum. However, by month-end the inflationary implications of geopolitical flare-ups pushed energy prices higher, and mixed earnings and revenue forecasts from some key tech names pulled major indices down. Shares in Meta, Alphabet, Amazon, Nvidia and Intel all fell in October. The Nasdaq and S&P500 ended the month down, but the S&P TSX edged up. German and UK share indices rose while Asian benchmarks fell. In fixed income, global bond yields, which had spiked in September, fell in October amid a flight to safety that spurred renewed demand for government debt. In the last week of the month, the U.S. Federal Reserve, the European Central Bank and the Bank of Japan all left interest rates on hold while the Bank of Canada lifted its key rate a quarter point.

For the month, the S&P/TSX Composite Index rose 1.24%, the S&P 500 Index dropped 0.89%, the Nasdaq Index fell 5.28%, the MSCI World Index shed 0.76% and the MSCI EAFE Index dipped 0.45%. In the U.K., the FTSE 100 Index added 1.29% while Germany's DAX Index gained 2.46%. In Asia, Japan's Nikkei 225 slid 5.18% and the MSCI China Index lost 7.15%. The FTSE Canada Universe Bond Index ended the month up 1.48%. Gold lost 6.33% and Brent crude jumped 15.15%.

Monthly developments and data releases

In Canada, Statistics Canada reported that August GDP was essentially flat for a second straight month, below expectations for a 0.2% uptick. Wholesale trade fell 1.4% as most subsectors contracted. Motor vehicle and vehicle parts wholesalers recorded their first drop in seven months on lower imports and weaker manufacturing. StatsCan noted a "prolonged summer shutdown at a major auto assembly plant" to explain the 5.8% decline in manufacturing.

Initial estimates for September suggest GDP declined 0.1%, according to StatsCan. The agency's flash estimates for Q3 GDP still foresee growth of 1.3%, annualized, down from 3.3% in Q2 (official Q3 and September data will come in November). The data was released two days after the Bank of Canada (BoC) lifted its benchmark interest rate by a quarter point to 2.5%, the first increase in more than three years. However, in its monetary policy report released the same day it hiked rates, the BoC predicted 2% growth for Q3, above the StatsCan forecast.

In contrast to the weak GDP August scorecard, retail sales rose 1.2% in the month to $74.6 billion, aided by higher new car sales. Sales were up in all nine subsectors StatsCan tracks. Core retail sales, which excludes fuel and motor vehicle and parts dealers, rose 1.1%. The agency said its advance estimate of September retail sales indicated a gain of 0.7% but added the usual caveat that the forecast is subject to revision.

Higher gas prices continued to drive headline inflation, which rose to 3.1%, annualized, from 3.0% in August. September was the highest reading since the two-year high of 3.2% in May, but below expectations of 3.2%. Rising gas prices mirrored the recent surge in oil prices on increased U.S./Israel/Iran tensions. Excluding gasoline, the Consumer Price Index rose by 2.2% annually, slower than 2.4% in August and close to the BoC's 2% target.

The economy lost a net 68,300 jobs in September, and the unemployment rate ticked up to 6.5% from 6.4%. The unexpected losses followed a decline of 41,700 jobs in August, according to StatsCan. September was the first full month of data after new U.S. tariffs took effect. September's drop means the economy has shed 41,200 jobs year to date, compared with a gain of 211,300 in the same period of 2025. However, some of the job losses can be traced to older workers retiring and not being immediately replaced. Housing activity was soft in September as the six-month new construction trend barely changed, indicating weak underlying momentum. Existing home sales fell 2.3%, month over month.

In the U.S., Q3 GDP rose at a 3.4% annual rate, according to the Commerce Department, the fastest pace in a year. The data beat expectations of 3.1% growth and followed a 2.2% expansion in Q2. The Q3 growth was led by a surge in business investment from the AI build-out and healthy consumer spending.

The headline flash S&P Global US Purchasing Managers Index dipped from 58.4 in September to 57.6 in October but remained firmly in expansion territory. Despite the drop, the index still indicated the second-best increase in activity since March 2022. Growth in new orders strengthened to its highest level in more than four-and-a-half years, while export sales recorded their biggest gain since May 2022.

A measure of underlying demand that carves out more volatile government, inventory and international trade data also rose. Called final sales to private domestic purchasers, it was up at a 4.9% rate in Q3 from 4.6% in Q2. This was the fastest pace since Q2 2021, when the economy was rebounding from the initial pandemic shock. Despite the solid Q3 GDP performance, employers added just 29,000 jobs in September, well below expectations. The unemployment rate edged up to 4.2% in September, up from 4.1% in August and slightly above market expectations of 4.1%.

U.S. inflation rose in September, with the Personal Consumption Expenditures Price Index (PCE), a measure of the prices that consumers pay for goods and services, up 3.6%, annualized, in September, from 3.4% in August, according to the Bureau of Economic Analysis. Higher energy prices were key drivers, but housing costs also contributed to the increase. Average gas and diesel prices eased slightly in October but remained far above year ago levels. Prices excluding food and energy rose 2.6%, above forecasts of 2.5%.

Gains in average real hourly earnings have been less than inflation for six straight months, according to the Bureau of Labor Statistics. The University of Michigan's consumer sentiment index was revised higher to 48.0 in late October, up from a preliminary estimate of 46.3, but remained at its lowest level in five months. Approximately 55% of respondents said they were worse off financially than a year ago.

In the Eurozone, GDP growth slowed to 0.4% in Q3 from 0.6% in Q2, but better than forecasts of 0.2%. France's economy unexpectedly contracted by 0.1%, Germany grew 0.2%, Italy was flat, and Spain expanded 0.6%.

The annual inflation rate in the bloc accelerated for a third consecutive month to 3.8% in September, up from 3.2% in August, according to Eurostat. It was the highest rate of increase since September 2023 but in line with expectations. Energy costs were a key contributor. Higher inflation was recorded across the largest EU economies; rising in Germany to 3.3% from 2.9%, in France to 3.4% from 2.6%, in Italy to 4.2% from 3.2%, in Spain to 5% from 4.6%, and in the Netherlands to 3% from 2.8%. Energy and travel-related services led the increases. Annual core inflation which excludes energy, food, alcohol & tobacco rose to 2.5% from 2.4%.

In the UK, GDP rose 0.1% in August after posting 0.4% growth in July, supported by manufacturing. Labour market data indicated continued resilience, with 13,000 jobs created in September. The unemployment rate dropped to 4.7% from 4.9%. Inflation rose to 3.5%, annualized, from 3.1%, led by higher fuel costs.

In Japan, annual core inflation in Tokyo exceeded the central bank's 2% target in October, highlighting mounting price pressure. The core consumer price index in Tokyo, which includes fuel but not fresh food, rose 2.6% in October, matching expectations and following a 2.7% increase in September. In its quarterly outlook, the Bank of Japan maintained its FY2026 inflation forecast of 2.5% but raised its economic growth projection to 0.7% from 0.6%.

In China, economic activity continued to be driven by strong external demand, particularly in technology. Exports rose 36.3%, year over year, in September, powered by a 64% surge in high-tech shipments, while imports also strengthened. Producer price inflation accelerated to 5.0% from 3.8%, while consumer inflation rose modestly to 0.9%. The data indicates that exports continue to sustain the broader economy in the face of much more subdued domestic demand.

What can we expect now?

The results of the U.S. midterm elections will be closely watched worldwide for indications of potential policy shifts going forward. For Canada, the trade file remains paramount. On the eve of the election, both Carney and Trump made positive, if vague, references to progress towards an agreement. For U.S. voters, affordability has been a key issue; gasoline prices are up 45% from just before the U.S./Israel attack on Iran and diesel is 71% higher. The AI build-out that has underpinned much of U.S. economic growth has also become an election flash point in states where huge data centers are either under construction or proposed. The late October selloff in some key tech stocks surfaced renewed investor concerns about the vast sums, much of it borrowed, being spent on the AI build-out and the viability of paths to sustained profitability over time while shouldering such debt. But

of the 60% of S&P500 companies reporting Q3 results to date, 82% have reported a positive earnings-per-share surprise and 70% posted better than forecast revenue. Corporate profits are fundamental to the direction of share prices over time and for now, in the U.S., they remain very healthy.

In closing, the last 3 years have been extremely generous to our portfolios, and we have only had brief periodic disruptions in that time. This is not the case this year. Since Covid, we have not had the chaotic disruptions that the current U.S. administration has been inflicting upon our economy nor the geo-political disruptions to the global economies as a result of the war against Iran and the Russian aggression in Ukraine. The fixed income market (debt instruments and bonds) and the stock markets remind me of walking across a very hot beach bare foot. It is uncomfortable, at times painful, and forces you to run quickly to a destination that will finally allow you to rest and relax and absorb the beautiful sun that was the reason you came to the beach in the first place. Often during the painful moments, we forget why we are at the beach in the first place and tend to only focus on the uncomfortable and painful part of this journey.

Investing is a journey. Any journey will have great days, good days, mediocre days, worse days, and sometimes horrible days. This is not new. This is not unusual. This is what a journey in investing is.

Sincerely,
John S. Bruce, CIM

John S. Bruce, CIM®
Portfolio Manager | **Private Client Division**

Direct Line - 613-491-3344
Toll Free - 866-860-4190
Fax - 416-860-7671
Email - jbruce@researchcapital.com
http://www.researchcapital.com
http://www.creatingwealth.ca

Brian Donegan
Assistant Branch Supervisor
Research Capital Corporation
4500-199 Bay Street
Commerce Court West,Box 368
Toronto,Ontario M5L 1G2
T 416 860-7787
TF 1-844-860-7787
BDonegan@researchcapital.com

Dario Lorkovic
Investment Advisor Assistant
Research Capital Corporation
4500-199 Bay Street
Commerce Court West,Box 368
Toronto,Ontario M5L 1G2
T 416 860-7749
dlorkovic@researchcapital.com

The information in this letter is derived from various sources, including Financial Times, Wall Street Journal, BNN Bloomberg, The Global and Mail, and Statistics Canada. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources and reasonable steps have been taken to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances. Certain statements contained in this communication are based in whole or in part on information provided by third parties and Research Capital has taken reasonable steps to ensure their accuracy.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what the investment advisor believes to be reasonable assumptions, neither Research Capital nor the investment advisor can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise. Certain names, words, titles, phrases, logos, icons, graphics, or designs in this document may constitute trade names, registered or unregistered trademarks or service marks of Research Capital, its subsidiaries, or affiliates, used with permission. All other marks are the property of their respective owners and are used with permission.