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Rising Rates Do Not Necessarily Mean Falling Markets

History over the past 25 years shows that rising interest rates do not automatically translate into declining equity markets. During the 2004–06 and 2015–18 tightening cycles, both the S&P 500 and Canadian equities continued to generate positive returns for significant periods after the first rate increase.

The 2022–23 cycle was different. Interest rates increased at an unusually rapid pace as central banks responded to elevated inflation. The S&P 500 fell sharply in 2022, while the TSX 60 also declined, although the Canadian market proved somewhat more resilient.

The key lesson is that **the speed and magnitude of rate increases, together with the underlying economic environment, matter more than the first rate hike itself.** When rate increases occur alongside healthy economic growth and rising corporate earnings, equity markets can continue to perform well. When aggressive tightening begins to slow economic activity and pressure earnings and valuations, market volatility can increase significantly.

Inflation & Interest Rates: The current inflation environment is being shaped by two opposing forces. **Strong AI investment** is supporting economic growth and, over time, could improve productivity, increase efficiency and reduce business costs. At the same time, **higher oil prices** are adding pressure to transportation, energy and consumer prices, creating renewed inflationary concerns.

For investors, the key question is whether productivity gains from AI can offset some of the inflationary impact of higher energy costs. The answer could have important implications for **interest rates, corporate earnings and equity-market performance** in the months ahead.

Interest-rate conditions remained an important focus for investors during the third quarter, as central banks continued to balance persistent inflation pressures against signs of moderating economic growth. The path of inflation and economic activity will remain important factors in determining the pace and direction of future rate decisions.

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Market Review: October Update

Equity-market performance continued to diverge between Canada and the United States, reflecting differences in economic conditions, sector composition and investor sentiment.

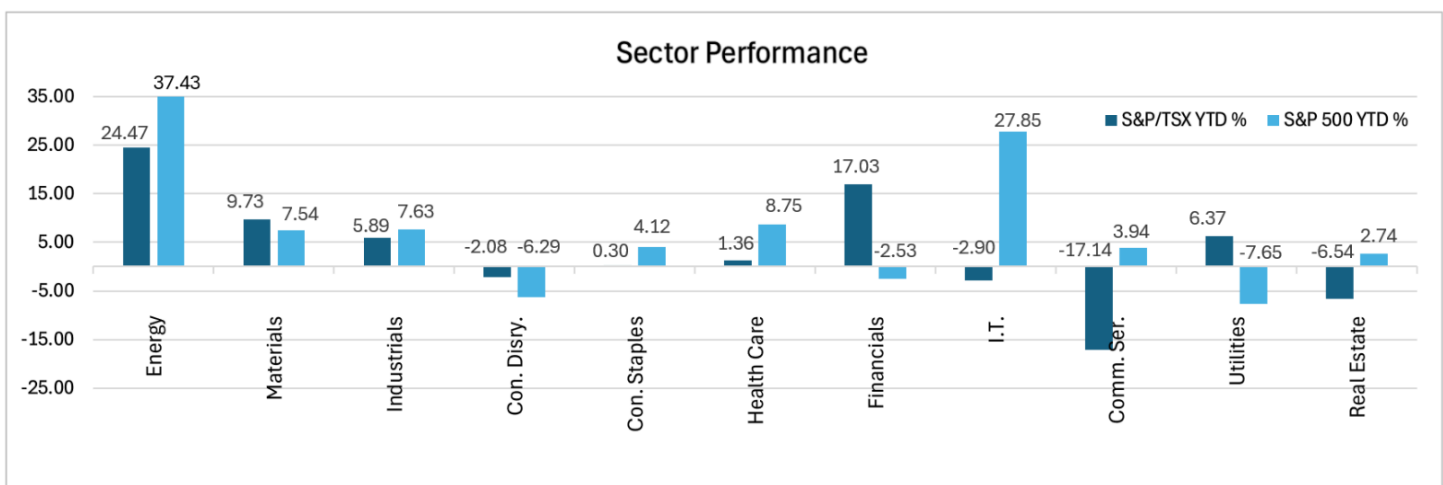
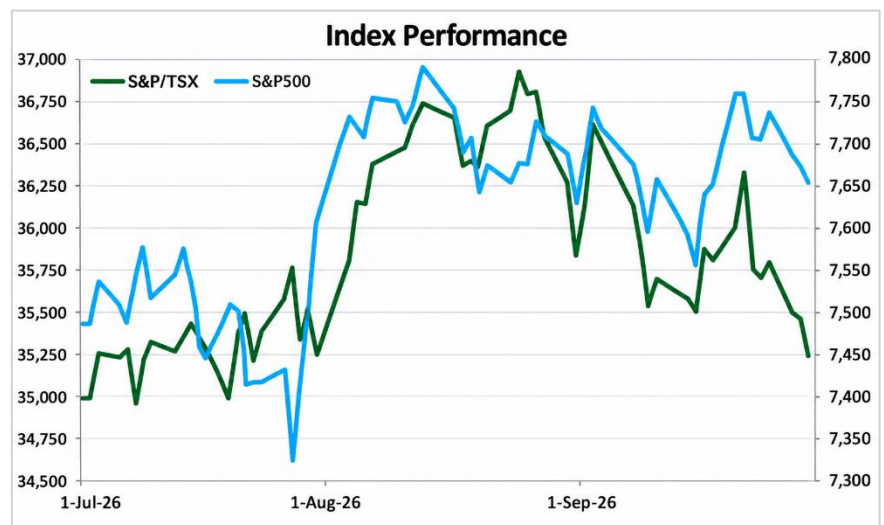
Canada: The TSX remained supported by its significant exposure to financials, energy and materials, including gold producers. These sectors can benefit from higher commodity prices and provide a greater emphasis on dividends. However, the Canadian market can also be more sensitive to movements in commodity prices and the domestic economy.

United States: The S&P 500 continued to benefit from its substantial exposure to technology, communication services and other large growth-oriented companies. Technology and consumer stocks provided support during September, helping the index finish the month modestly higher despite rising bond yields.

For Canadian investors, maintaining exposure to both Canadian and U.S. equities can provide diversification across industries, currencies and economic drivers.

Sector Composition: Sector leadership varied across markets, with Energy and Financials supporting the **S&P/TSX**, while Energy and Technology led the **S&P 500**.

At current levels, fixed-income investments, including GICs and government bonds, continue to offer attractive income opportunities while providing diversification within balanced portfolios.



Information as of September 30, 2026, Source: FactSet

Rates at a glance:

Interest-rate conditions remained relatively stable, with central banks maintaining a cautious approach as inflation and economic growth continue to influence the outlook.

Canada: The prime rate remained at 4.45%, while Government of Canada bond yields were relatively stable across the curve. The 2-year, 5-year and 10-year yields stood at 3.36%, 2.95% and 3.69%, respectively, reflecting expectations for a gradual adjustment in interest rates.

United States: The U.S. prime rate remained higher at 7.00%, with Treasury yields also above Canadian levels. The 2-year, 5-year and 10-year yields were 4.87%, 5.07% and 5.27%, respectively, reflecting continued differences in monetary-policy expectations between the two economies.

Equity	Last	YTD%
S&P/ TSX Composite	35,236	11.11
S&P 500 Index	7,652	11.77
Dow Jones Industrial Avg.	50,906	5.91
NASDAQ Composite	26,861	15.57

Rate Type	Canada	US
Prime Rate	4.45	7.00
2-Year Bond Yield	3.36	4.87
5-Year Bond Yield	2.95	5.07
10-Year Bond Yield	3.69	5.27

GIC	Rate
1 Year	3.60
3 Year	3.85
5 Year	4.05

Information as of September 30, 2026, Source: FactSet

Final Reflections

As we move into the final months of the year, markets continue to present a mix of opportunities and uncertainty. Different sectors and regions are performing at different rates, while interest-rate expectations continue to influence both equity and fixed-income markets.

Periods like these remind us of the importance of maintaining a well-diversified portfolio and staying focused on your long-term objectives. Rather than reacting to short-term market movements, we believe in making thoughtful decisions based on your financial plan, investment horizon, and evolving needs.

Your financial plan provides the foundation for keeping each part of your wealth strategy working together toward your goals. As your circumstances and priorities change, we will continue to review and adapt your strategy where appropriate.

Our focus remains on helping you navigate changing markets with perspective and discipline, while keeping what matters most to you at the centre of every decision. Thank you for your continued trust and we look forward to continuing this journey with you and your family.

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