TD Economics

Weekly Bottom Line

July 31, 2026

Highlights

Canada

- Canadian GDP surprised to the upside in May, leaving Q2 on track for its strongest quarterly performance in two years.
- Payroll employment posted a second consecutive monthly gain in May and reinforced signals that hiring conditions may be stabilizing.
- Despite firmer growth, we expect the Bank of Canada to remain in wait-and-see mode, holding the policy rate at 2.25% until year-end.

U.S.

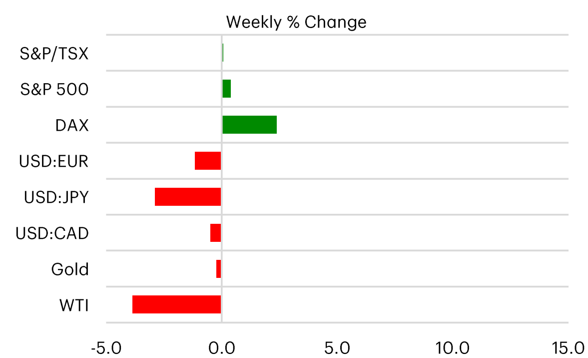
- Financial markets were volatile as technology stocks came under pressure amid renewed scrutiny of AI spending, while elevated oil prices added to inflation concerns.
- The Fed held rates unchanged for a fifth consecutive meeting. Growing markets' concerns about the Fed's ability to lower inflation pushed 30-year Treasury yields to a 19-year high.
- Second-quarter GDP growth moderated, but a softer headline print masked stronger domestic demand as consumer spending rebounded and business investment remained strong.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7441	7412	7610	6238
S&P/TSX Comp.	35402	35369	35750	27020
DAX	25686	25099	25818	22301
FTSE 100	10880	10736	10911	9069
Nikkei	64362	64611	72366	40291
Fixed Income Yields				
U.S. 10-yr Treasury	4.73	4.68	4.73	3.94
Canada 10-yr Bond	3.65	3.61	3.70	3.04
Germany 10-yr Bund	3.20	3.17	3.20	2.55
UK 10-yr Gilt	5.04	5.03	5.17	4.23
Japan 10-yr Bond	2.81	2.82	2.88	1.47
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.71	0.71	0.74	0.70
Euro (USD per EUR)	1.15	1.14	1.20	1.14
Pound (USD per GBP)	1.35	1.33	1.38	1.30
Yen (JPY per USD)	159.2	163.8	163.9	146.5
Commodity Spot Prices**				
Crude Oil ($US/bbl)	85.82	89.31	113.0	55.3
Natural Gas ($US/MMBtu)	2.64	2.86	33.80	0.26
Copper ($US/met. tonne)	13843.5	13653.8	14109.5	9560.2
Gold ($US/troy oz.)	4042.8	4052.8	5417.2	3289.9

*As of 11:17 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Mixed Tech Earnings Stymie A Rebound in Equities While Oil Falls



Note: Data as of 11:18 AM ET, Friday, July 31, 2026.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	3.50 - 3.75%
Bank of Canada (Overnight Rate)	2.25%
European Central Bank (Refi Rate)	2.40%
Bank of England (Repo Rate)	3.75%
Bank of Japan (Overnight Rate)	1.00%

Source: Bloomberg.

Canada – Proof of Progress

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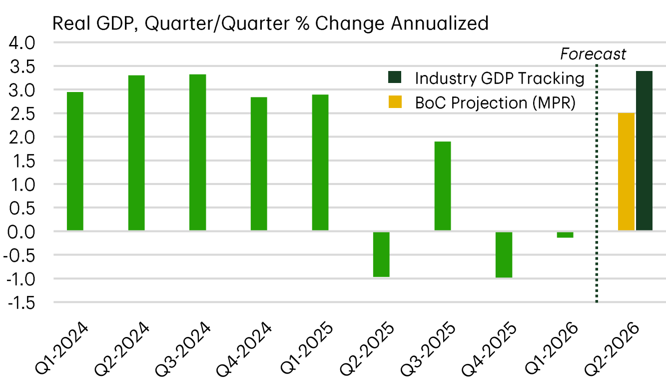
The Bank of Canada's growing confidence in the economy was put to the test this week, and the latest GDP data delivered. Real GDP rose 0.3% m/m in May – handily beating expectations– while the advance estimate points to another 0.2% m/m gain in June. Under the hood, goods-producing industries helped drive the upside surprise, led by activity in construction and natural resources. Canada's services side of the economy also chipped in, now having growth for four consecutive months. The latest gains across the economy have been broad-based, and importantly, trade-exposed sectors are showing tentative signs of recovery after a difficult start to the year. Taken together, second-quarter growth is tracking close to 3.5% annualized, well above the BoC's latest projection (Chart 1). Should that materialize, it would mark Canada's first three-handled quarterly growth rate since mid-2024.

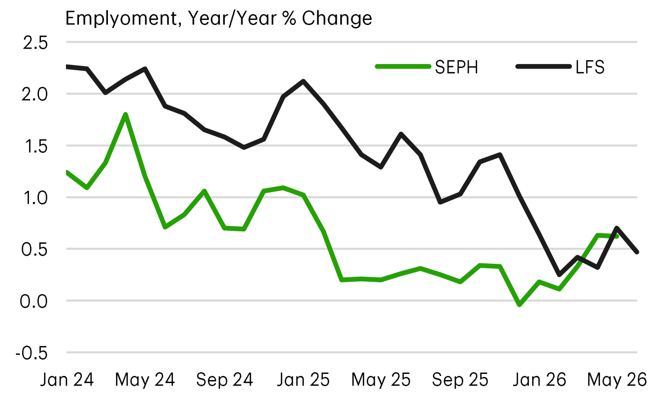
The rebound is encouraging but should be kept in perspective. Even with a strong Q2, GDP growth in the first half of the year is tracking near 1.5% annualized, or roughly trend pace. Still, the data broadly validate the more constructive tone struck by policymakers earlier this month, who argued that the soft patch weighing on activity through late-2025 and early-2026 was beginning to fade. Excess supply remains and labour market conditions continue to show signs of slack, but the trend is improving. That improvement was also evident in this week's Survey of Employment, Payrolls and Hours (SEPH) release, which showed a second consecutive 0.2% m/m gain in May payroll employment, reinforcing signals from the Labour Force Survey that hiring may be turning a corner (Chart 2).

Chart 1: Canadian GDP Tracking a Healthy Rebound in Q2



Source: Statistics Canada, TD Economics.

Chart 2: Hiring in Canada is Finding Its Footing



Source: Statistics Canada, TD Economics.

Financial markets took the data largely in stride. Canadian two- and ten-year bond yields rose only a few basis points over the week, while the loonie gained roughly half a percent on firm oil prices and broad U.S. dollar weakness. Market pricing for a Bank of Canada hike edged modestly higher, but not enough to materially alter the outlook for rates. The muted reaction suggests investors view stronger growth as supportive, but not enough to change the policy outlook. Inflation remains the Bank's primary source of uncertainty, with energy markets still vulnerable to renewed disruptions. Yet this week's Summary of Deliberations from the last BoC rate decision offered little indication that policymakers are becoming more concerned about underlying inflation pressures. Instead, the Bank appears increas-ingly confident that the recent pickup in headline inflation remains largely an energy story.

That leaves monetary policy in a relatively comfortable position. Growth is proving resilient enough to rule out additional rate relief, while labour market slack, contained core inflation, and trade uncertainty continue to argue against a more restrictive stance. As such, this week's developments remain consistent with our view that the Bank will stay on hold through the remainder of the year. Even so, the economy appears to have entered the sec-ond half of the year on firmer footing than expected.

U.S. – Markets Issue a Yellow Card to the Fed

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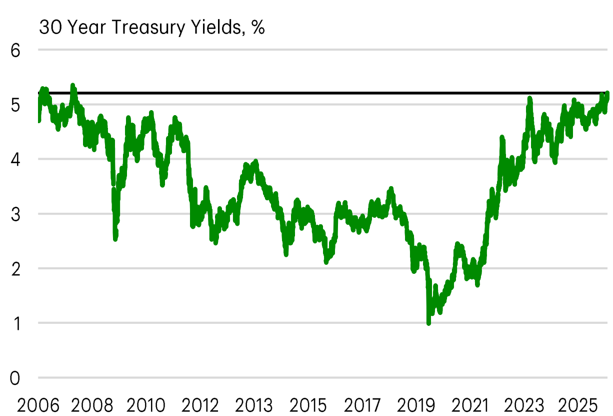
Financial markets had plenty to digest this week, with mega-cap tech earnings, the FOMC decision, and the second-quarter GDP. Equities swung sharply as investors weighed technology earnings against renewed scrutiny over AI-related capital spending and China's progress in AI capabilities and semiconductor manufacturing. Still, stronger-than-expected results from several technology heavyweights helped revive the sentiment toward the end of the week. Oil prices also were in focus, with WTI crude easing relative to last week's highs, but remained elevated at around US$85 per barrel Friday morning. Against that backdrop, investors have turned their attention to the Fed, where growing concern about inflation and rising doubts over the Committee's willingness to do what is necessary to restore price stability pushed longer-term Treasury yields sharply higher.

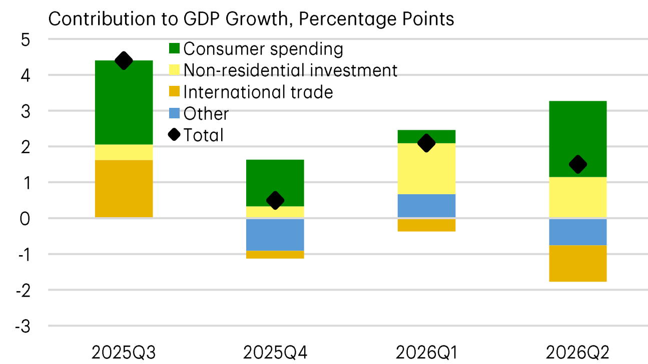
The FOMC meeting was the week's marquee event, though the main surprise was in the vote and not the policy announcement. Three officials dissented in favor of a 25-basis-point hike, highlighting growing concern within the Committee about inflation risks. The data support that concern. While inflation eased modestly in June, the improvement is unlikely to last if energy prices remain elevated. Core PCE inflation has remained above the Fed's 2% target for more than five years, and the Fed is still searching for the back of the net. So even as Chair Warsh reiterated that the Committee would not "waver" in its commitment to restoring price stability, financial markets grew uneasy about the Fed's willingness to raise rates to bring inflation back to target. 30-Year Treasury yields rose sharply following the meeting and remain near a 19-year high (Chart 1).

Chart 1: Markets Question Fed's Resolve



Source: Federal Reserve, TD Economics.

Chart 2: Consumers and Business Investment Drive U.S. GDP Growth in Q2



Source: U.S. Bureau of Economic Analysis, TD Economics.

Despite the market jitters, the incoming data still point to an economy with solid underlying momentum. Real GDP growth slowed to a 1.5% annualized pace in the second quarter from 2.1% previously, but the softer headline largely reflected a surge in imports, with net trade subtracting roughly one percentage point from growth.

Under the hood, the economy's engine was running considerably hotter than the headline GDP figure suggested, supported by a rebound in consumer spending and robust business investment (Chart 2). Consumer spending rebounded by a solid 3.2% annualized after a weather-affected first quarter. However, spending continued to outpace income, pushing the personal saving rate to its lowest level since mid-2022. With the boost from larger tax refunds fading, consumer resilience will increasingly depend on labor market strength and rising household wealth. Business investment also remained a bright spot. AI-related investment remained robust, but it was no longer the only game in town. Spending on industrial equipment surged 29% annualized in the second quarter, adding to evidence that the current capital spending cycle is becoming more broad-based.

Next week's ISM surveys and the July employment report will shed further light on the balance of risks to prices and employment. For now, resilient domestic demand and persistent inflation pressures suggest the Fed's inflation fight is entering overtime, with markets seeking reassurance that policymakers can credibly bring inflation back to target.

Exhibits

Recent Key Economic Indicators: Jul 27 - 31, 2026						
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Jul 27		Durable Goods Orders	Jun	M/M % Chg.	0.3	-4.0
Jul 27		Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	0.9	1.9
Jul 28		Advance Goods Trade Balance	Jun	Blns	-101.5	-105.9
Jul 28		Conf. Board Consumer Confidence	Jul	Index	90.8	92.2
Jul 29		FOMC Rate Decision (Upper Bound)	Jul 29	%	3.8	3.8
Jul 30		Personal Income	Jun	M/M % Chg.	0.2	0.7
Jul 30		Real Personal Spending	Jun	M/M % Chg.	0.4	0.4
Jul 30		Initial Jobless Claims	Jul 25	Thsd	197.0	188.0
Jul 30		Gross Domestic Product Annualized	2Q	Q/Q % Chg.	1.5	2.1
Jul 30		Personal Consumption	2Q	Q/Q % Chg.	3.2	0.5
Jul 31		Employment Cost Index	2Q	Index	0.9	0.9
Canada						
Jul 30		Payroll Employment Change - SEPH	May	Thsd	24.1	59.0
Jul 31		Gross Domestic Product	May	M/M % Chg.	0.3	0.6
International						
Jul 30	EZ	Gross Domestic Product SA	2Q	Y/Y % Chg.	1.0	0.5
Jul 30	EZ	Unemployment Rate	Jun	%	6.3	6.3
Jul 30	UK	Bank of England Bank Rate	Jul 30	%	3.8	3.8
Jul 30	JN	Tokyo Consumer Price Index	Jul	Y/Y % Chg.	2.0	1.7
Jul 30	JN	Jobless Rate	Jun	%	2.5	2.5
Jul 30	JN	Retail Sales	Jun	Y/Y % Chg.	0.5	5.0
Jul 30	CH	Manufacturing PMI	Jul	Index	49.2	50.3
Jul 31	EZ	Consumer Price Index	Jul	Y/Y % Chg.	2.9	2.8

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 3 - 7, 2026							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Aug 03	9:45		S&P Global US Manufacturing PMI	Jul	Index	-	53.8
Aug 03	10:00		ISM Manufacturing	Jul	Index	54.0	53.3
Aug 04	8:30		Trade Balance	Jun	Blns	-73.0	-77.6
Aug 04	10:00		Factory Orders	Jun	M/M % Chg.	0.4	-1.3
Aug 04	10:00		Factory Orders Ex Trans	Jun	M/M % Chg.	-	1.9
Aug 04	10:00		Durable Goods Orders	Jun	M/M % Chg.	-	0.3
Aug 04	10:00		Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	-	0.9
Aug 05	8:15		ADP Employment Change	Jul	Thsd	75.0	98.0
Aug 05	9:45		S&P Global US Services PMI	Jul	Index	-	53.6
Aug 05	9:45		S&P Global US Composite PMI	Jul	Index	-	53.6
Aug 05	10:00		ISM Services Index	Jul	Index	54.3	54.0
Aug 05	16:05		*Fed's Cook Speaks on Economic Outlook*				
Aug 06	8:30		Unit Labor Costs	2Q	Q/Q % Chg.	2.7	1.8
Aug 06	8:30		Initial Jobless Claims	Aug 01	Thsd	-	197.0
Aug 06	10:00		Wholesale Trade Sales	Jun	M/M % Chg.	-	3.4
Aug 06	17:30		*Fed's Musalem Speaks at the Center for Public Policy Debate*				
Aug 07	8:30		Change in Nonfarm Payrolls	Jul	Thsd	88.0	57.0
Aug 07	8:30		Average Hourly Earnings	Jul	M/M % Chg.	0.3	0.3
Aug 07	8:30		Unemployment Rate	Jul	%	4.2	4.2
Aug 07	10:00		*Fed's Barkin Speaks at NABE Event*				
Canada							
Aug 04	8:30		Int'l Merchandise Trade	Jun	Blns	3.0	4.2
Aug 04	9:30		S&P Global Canada Manufacturing PMI	Jul	Index	-	53.0
Aug 07	8:30		Net Change in Employment	Jul	Thsd	15.0	18.2
Aug 07	8:30		Unemployment Rate	Jul	%	6.5	6.5
International							
Aug 06	5:00	EZ	Retail Sales	Jun	Y/Y % Chg.	1.0	1.6

*Eastern Standard Time. Source: Bloomberg, TD Economics.

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