TD Economics

Weekly Bottom Line

August 28, 2026

Highlights

Canada

- Real GDP grew at its fastest pace since 2023 in the second quarter, rising 3.3%. Growth was driven by strong goods exports, a rebound in business investment and solid household spending.
- However, new U.S. tariffs could have a moderate impact on Canadian GDP growth over the next year, while Canada's reciprocal tariffs could have only a marginal impact on growth but add modestly to inflation.
- Amid renewed trade tensions, foreign demand for Canadian portfolio assets remains strong – a good sign for a country looking to spur an investment supercycle.

U.S.

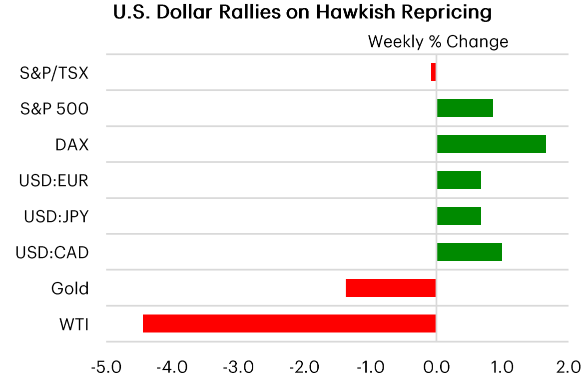
- In his Jackson Hole keynote, Fed Chair Kevin Warsh delivered a hawkish assessment, prompting market odds to shift firmly toward a near-term rate hike.
- The second estimate of Q2 GDP left headline growth unchanged at 1.5% annualized, but revised growth in real final sales to private domestic purchasers up moderately to a strong 4.2%.
- July's PCE report offered little evidence of renewed disinflation, with core inflation remaining well above the Federal Reserve's 2% target.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7739	7674	7799	6344
S&P/TSX Comp.	36598	36620	36958	28435
DAX	26570	26137	26570	22301
FTSE 100	10824	10817	10911	9117
Nikkei	66406	66016	72366	41939
Fixed Income Yields				
U.S. 10-yr Treasury	4.71	4.73	4.73	3.94
Canada 10-yr Bond	3.72	3.76	3.76	3.04
Germany 10-yr Bund	3.28	3.26	3.28	2.55
UK 10-yr Gilt	5.06	5.06	5.17	4.23
Japan 10-yr Bond	2.93	2.89	2.96	1.57
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.72	0.73	0.74	0.70
Euro (USD per EUR)	1.16	1.17	1.20	1.14
Pound (USD per GBP)	1.36	1.36	1.38	1.30
Yen (JPY per USD)	160.0	159.0	163.9	146.5
Commodity Spot Prices**				
Crude Oil ($US/bbl)	83.23	87.06	113.0	55.3
Natural Gas ($US/MMBtu)	2.90	2.81	33.80	0.26
Copper ($US/met. tonne)	14453.9	14276.8	14594.0	9735.2
Gold ($US/troy oz.)	4540.0	4603.1	5417.2	3417.1

*As of 11:55 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

U.S. Dollar Rallies on Hawkish Repricing



Note: Data as of 11:51 AM ET, Friday, August 28, 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 is Standing Strong Amid Renewed Trade Conflict

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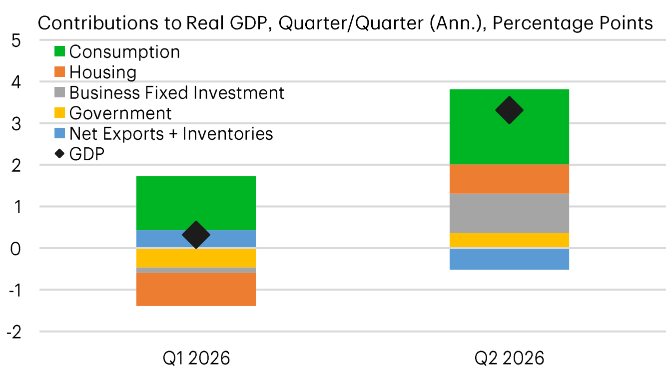
There was plenty of news for markets to digest this week. Early in the week, all eyes were on the collapse of Canada-U.S. trade negotiations. On Friday, the S&P/TSX Composite initially rallied on the fastest pace of GDP growth since 2023, before losing steam following Fed Chairman Warsh's speech. The loonie also reacted, trading weaker.

First the good news. Real GDP rose a healthy 3.3% quarter-on-quarter annualized in Q2 2026, partly reflecting a reversal of the temporary weakness in Q1. On a per capita basis, real GDP increased by 1.0%, as the population declined for a third consecutive quarter. Looking through quarterly volatility, Canada's economy grew 1.8% in the first half of the year.

Strong goods exports, a rebound in business investment and household spending propelled growth, with rising imports and declining inventories only partially offsetting the gains (Chart 1). Business investment finally rebounded after two quarters of declines, supported by spending on engineering structures and machinery and equipment. Household spending accelerated in Q2 after an already strong Q1 pace, while the sizeable increase in goods exports was led by cars, metals and energy products, and industrial machinery and equipment.

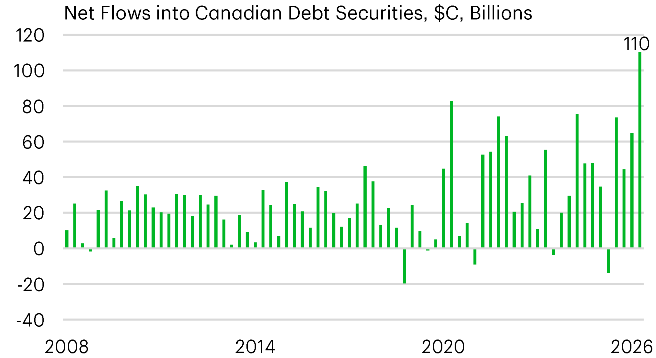
The rebound in trade in the second quarter is cold comfort now that Canada's trade relationship with the U.S. has soured. After Canada suspended trade negotiations, 50% U.S. tariffs on roughly $20 billion of Canadian goods came into effect on Saturday. Canada has announced its own counter tariffs set to come into effect after Labour Day. We estimate the new U.S. tariffs could shave 0.3–0.6 percentage points (ppts) from Canadian GDP growth over the next year. Canada's counter-tariffs should have only a marginal impact on growth but could lift CPI inflation by 0.1–0.3 ppts year-on-year. Harder to quantify is the cost of a bad deal. And even an agreement would not have fully eliminated trade risks, given the White House's willingness to threaten new tariffs on countries with whom it has already struck deals.

Chart 1: Canada's GDP Rebounded in the Second Quarter



Source: Statistics Canada, TD Economics.

Chart 2: Foreign Portfolio Investment in Canadian Debt Securities Hit a Record High



Source: Statistics Canada (Table 36-10-0029-01), TD Economics.

Whether negotiations can resume soon is uncertain. In the meantime, Canada has focused on new opportunities and partnerships. Creating a competitive environment that unlocks investment supercycle would help: more than $1 trillion in announced projects are on the table through 2035 and beyond, with the potential to create rolling waves of investment.

That outcome requires bold policy action. If successful, it could reduce the need for public funding by creating a stronger ecosystem for private investment. Judging by Q2 financial accounts, there is still work to be done to attract more long-term direct investment from abroad. But foreign demand for Canadian portfolio assets is already strong and increasingly coming from outside the U.S. A record $110 billion flowed into Canadian debt securities in Q2 2026 (Chart 2) – a good sign that foreign investors are willing to provide capital at a time when Canadian governments and corporations need it most. The capital is flowing. Now Canada needs to put it to work.

U.S. – A Hawkish Assessment, Still No Forward Guidance

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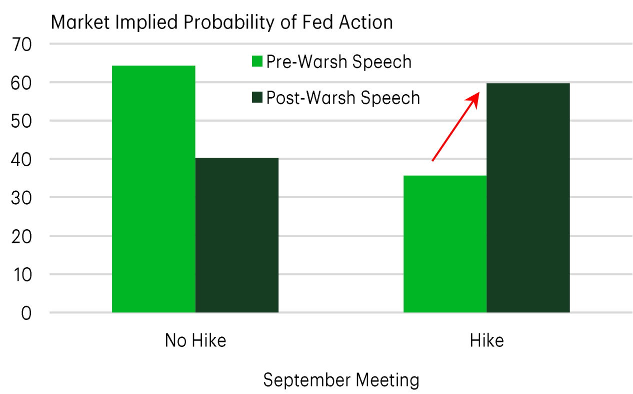
U.S. markets spent the week balancing resilient demand against persistent inflation and renewed trade frictions. The main event, however, was Fed Chair Warsh's Friday keynote at Jackson Hole. While offering little meeting-specific guidance, he delivered a hawkish assessment that underlying inflation remains too high, pushing short-term Treasury yields and the trade-weighted U.S. dollar higher, while equities also posted modest gains.

Warsh outlined a principles-based approach to monetary policy and argued that forward guidance had "overstayed its welcome." The Fed, in his view, should explain its objectives and framework without pre-committing to a rate path or encouraging investors to trade on policymakers' signals. Structural changes, including artificial intelligence and greater competition for global savings, also require the Fed to reconsider assumptions formed during the previous low-rate era.

On the outlook, Warsh described the labor market as consistent with full employment but inflation as more concerning. Recent readings had not convinced him that underlying trends had improved meaningfully, and he was "hard pressed to describe broad financial conditions as restrictive." While stopping short of explicitly endorsing a near-term hike, he warned the Fed has "work to do" if inflation does not move sufficiently toward target. He was committing to "a discipline, not to a decision." Market pricing following the speech shifted firmly toward a near-term rate hike (Chart 1).

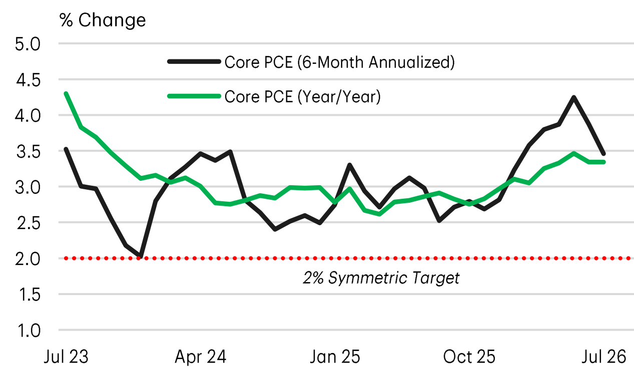
Other releases continued to point to a resilient economy.

Chart 1: Market Odds of Rate Hike Rise Following Fed Chair Warsh Speech



Source: CME Group, TD Economics. *As of 12:00 noon Friday August 28.

Chart 2: Core PCE Inflation Remains Well Above Target



Source: U.S. Bureau of Labor Statistics, TD Economics.

The second estimate of Q2 GDP left growth unchanged at 1.5% annualized, but stronger details pointed to solid underlying demand. Real final sales to private domestic purchasers were revised up moderately to 4.2%. On payrolls, a preliminary benchmark revision placed the March 2026 payroll level 79,000 below the current estimate, a modest adjustment that leaves the labour-market picture relatively intact.

July's income and spending report showed decent consumer momentum despite a soft month. Real spending was unchanged in July, but the three-month annualized trend is running at a healthy 3.3%, consistent with consumer spending of 2.5% in Q3. More importantly for the Fed, core PCE inflation remained well above target, offering little evidence of renewed disinflation (Chart 2).

Warsh's task is complicated by forces outside the Fed. Treasury's expanded purchases of longer-dated debt could lower borrowing costs working against monetary restraint. Trade tensions pose another inflation risk. The U.S. imposed 50% tariffs on $20 billion of Canadian goods, including USMCA-compliant products, while Canada announced matching countermeasures effective September 8. The direct effect should remain manageable at the current scale, but further escalation remains a risk.

The bottom line is that Warsh provided little guidance on timing but a clearer, hawkish policy bias. With growth resilient, a lot is riding on the August CPI report to show progress on underlying inflation and keep the Fed on the sidelines.

Exhibits

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
Recent Key Economic Indicators: Aug 24 - 28, 2026						
United States						
Aug 25		New Home Sales	Jul	Thsd	607.0	678.0
Aug 25		Conf. Board Consumer Confidence	Aug	Index	89.4	90.2
Aug 25		Building Permits	Jul	Thsd	1433.0	1443.0
Aug 26		Personal Income	Jul	M/M % Chg.	0.4	0.2
Aug 26		Real Personal Spending	Jul	M/M % Chg.	0.0	0.4
Aug 26		Durable Goods Orders	Jul	M/M % Chg.	1.1	0.5
Aug 26		Gross Domestic Product Annualized	2Q	Q/Q % Chg.	1.5	1.5
Aug 26		Personal Consumption	2Q	Q/Q % Chg.	3.4	3.2
Aug 26		Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	0.2	1.7
Aug 27		Advance Goods Trade Balance	Jul	Blns	-118.8	-101.4
Aug 27		Initial Jobless Claims	Aug 22	Thsd	203.0	207.0
Canada						
Aug 27		Payroll Employment Change - SEPH	Jun	Thsd	4.8	45.0
Aug 28		Quarterly Gross Domestic Product Annualized	Q2	Q/Q % Chg.	3.3	0.3
Aug 28		Gross Domestic Product	Jun	M/M % Chg.	0.3	0.3
International						
Aug 27	JN	Tokyo Consumer Price Index	Aug	Y/Y % Chg.	1.9	1.8
Aug 27	JN	Jobless Rate	Jul	%	2.4	2.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 31 - Sep 04, 2026							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Sep 01	9:45		S&P Global US Manufacturing PMI	Aug	Index	53.3	53.2
Sep 01	10:00		ISM Manufacturing	Aug	Index	55.1	55.6
Sep 01	10:00		Job Openings	Jul	Mlns	7.38	7.36
Sep 02	8:15		ADP Employment Change	Aug	Thsd	45.0	44.0
Sep 02	10:00		Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	-	0.2
Sep 02	10:00		Durable Goods Orders	Jul	M/M % Chg.	1.1	1.1
Sep 02	10:00		Factory Orders	Jul	M/M % Chg.	0.6	-0.3
Sep 02	10:00		Factory Orders Ex Trans	Jul	M/M % Chg.	0.4	-0.4
Sep 02	14:00		*Fed Releases Beige Book*				
Sep 03	8:30		Initial Jobless Claims	Aug 29	Thsd	205.0	203.0
Sep 03	8:30		Trade Balance	Jul	Blns	-89.60	-73.30
Sep 03	8:30		Unit Labor Costs	Q2	Q/Q % Chg.	1.3	1.3
Sep 03	9:45		S&P Global US Composite PMI	Aug	Index	-	56.0
Sep 03	9:45		S&P Global US Services PMI	Aug	Index	-	56.8
Sep 03	10:00		ISM Services	Aug	Index	54.1	54.1
Sep 03	8:30		*Fed's Waller in Moderated Conversation*				
Sep 04	8:30		Average Hourly Earnings	Aug	M/M % Chg.	0.3	0.1
Sep 04	8:30		Change in Nonfarm Payrolls	Aug	Thsd	58.0	-23.0
Sep 04	8:30		Unemployment Rate	Aug	%	4.1	4.1
Canada							
Sep 02	9:45		Bank of Canada Rate Decision	Sep 2	%	2.25	2.25
Sep 03	8:30		Int'l Merchandise Trade	Jul	Blns	-	3.86
Sep 04	8:30		Net Change in Employment	Aug	Thsd	17.5	75.1
Sep 04	8:30		Unemployment Rate	Aug	%	6.4	6.4
Sep 04	10:00		Ivey Purchasing Managers Index SA	Aug	Index	-	55.1
International							
Aug 31	6:30	IN	Gross Domestic Product	Q2	Y/Y % Chg.	7.3	7.8
Aug 31	21:45	CH	RatingDog China PMI Mfg	Aug	Index	51.1	50.9
Sep 01	5:00	EZ	Consumer Price Index	Aug	Y/Y % Chg.	3.3	2.9
Sep 01	5:00	EZ	Core Consumer Price Index	Aug	Y/Y % Chg.	2.5	2.5
Sep 01	5:00	EZ	Unemployment Rate	Jul	%	6.3	6.3
Sep 01	8:00	BZ	Gross Domestic Product	Q2	Y/Y % Chg.	1.8	1.8
Sep 02	20:30	JN	S&P Global Japan Composite PMI	Aug	Index	-	53.4
Sep 03	4:30	UK	S&P Global UK Composite PMI	Aug	Index	52.5	52.5
Sep 4	5:00	EZ	Retail Sales	Jul	Y/Y % Chg.	1.1	0.7

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

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