TD Economics

Weekly Bottom Line

October 30, 2026

Highlights

Canada

- No tricks from the Bank of Canada, which delivered the expected 25-basis-point hike. The Bank also left the door open to further tightening.
- Bond markets were somewhat spooked, with Canadian yields rising in the wake of the announcement. The loonie strengthened later as the U.S. dollar weakened.
- The Bank upgraded its 2027 and 2028 growth forecasts to 2% and now sees overall inflation averaging over 3% next year.

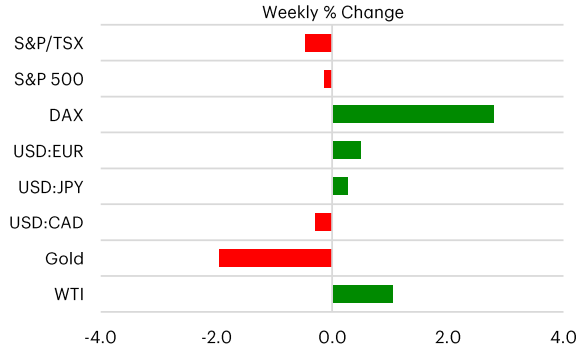
U.S.

- Consumer spending and AI-led investment powered the strongest GDP growth in a year in Q3.
- Persistent inflation points to further Fed tightening, despite this week's pause.
- Next week's jobs report will test labor-market strength, while the midterms will shape the fiscal outlook over the next two years.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7614	7624	7819	6344
S&P/TSX Comp.	35624	35788	36958	29778
DAX	25886	25182	26570	22301
FTSE 100	10733	10690	10911	9507
Nikkei	63290	62693	72366	48538
Fixed Income Yields				
U.S. 10-yr Treasury	4.94	4.99	5.30	3.94
Canada 10-yr Bond	3.79	3.85	4.00	3.10
Germany 10-yr Bund	3.32	3.35	3.64	2.63
UK 10-yr Gilt	5.29	5.36	5.48	4.23
Japan 10-yr Bond	2.78	2.81	3.13	1.66
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.72	0.71	0.74	0.70
Euro (USD per EUR)	1.11	1.12	1.20	1.11
Pound (USD per GBP)	1.34	1.34	1.38	1.30
Yen (JPY per USD)	157.3	156.9	163.9	152.2
Commodity Spot Prices**				
Crude Oil ($US/bbl)	104.34	103.27	113.0	55.3
Natural Gas ($US/MMBtu)	2.68	2.71	33.80	2.44
Copper ($US/met. tonne)	14579.2	14472.0	14821.0	10633.1
Gold ($US/troy oz.)	3918.1	3996.1	5417.2	3918.1

*As of 11:05 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Tech Shares Weigh on North American Equities



Note: Data as of 11:05 AM ET, Friday, October 30, 2026.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	**Current Target**
Federal Reserve (Fed Funds Rate)	3.75 - 4.00%
Bank of Canada (Overnight Rate)	2.50%
European Central Bank (Refi Rate)	2.65%
Bank of England (Repo Rate)	3.75%
Bank of Japan (Overnight Rate)	1.25%

Source: Bloomberg.

Canada – BoC Fears Spectre of Inflation

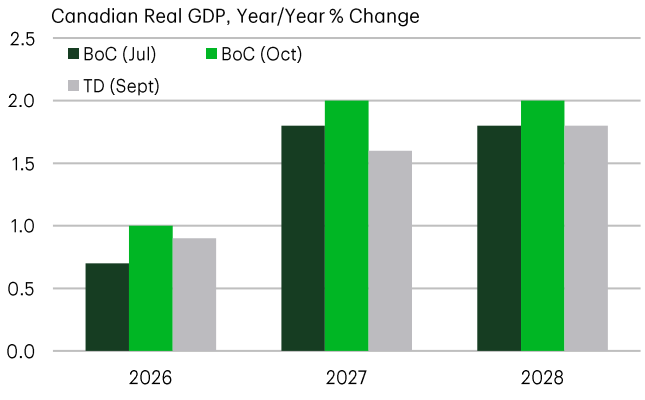
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Just before Halloween, there were no tricks in the Bank of Canada's bag this week. They did what markets were expecting and hiked their policy rate by 25 basis points. Mind you, they took this step even with slack still haunting the job market. They also raised rates with little proof that persistently elevated energy prices had possessed broader inflation trends. Still, in the Bank's mind it was only a matter of time before these input cost pressures crept into consumer prices. Indeed, their own surveys suggested that businesses were poised to do just that. And, with their new Prima model projecting inflation to average over 3% in 2027, they judged a hike was necessary to contain price pressures.

Even with the move largely priced in, Canadian bonds still got a bit of a fright, sending yields higher. The Bank's subsequent press conference also leaned hawkish, with Governor Macklem leaving the door creaking open to further hikes. The benchmark 10-year rate was up about 5 bps after the announcement and conference. The Canadian dollar had a more muted reaction, but then came alive later after the U.S. Federal Reserve held the line on their own policy rate, downwardly pressuring the U.S. dollar.

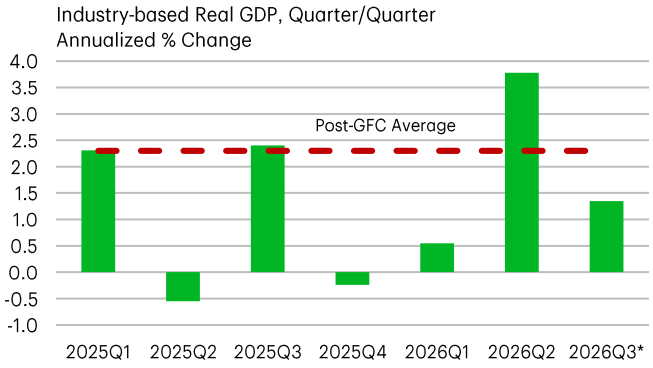
Policymakers wouldn't have felt comfortable hiking their policy rate if they thought it would overly spook the economy. However, accompanying their rate decision were upgraded economic growth forecasts. The Bank now sees real GDP growth at 2% in 2027 and 2028, up from 1.8% previously and above our own forecasts (Chart 1). Business investment was an important

Chart 1: BoC Sees Firm Canadian Growth, Helping Justify Rate Hike



Source: Bank of Canada, TD Economics

Chart 2: Industry-Based GDP Flags Soft Third Quarter for Canada



Source: Statistics Canada, TD Economics. 2026Q3 is based on July/Aug and StatCan's preliminary September estimate.

driver of these upgrades, with the Bank expecting a boost from the federal government's Productivity Mega Deduction, diminished trade uncertainty and other factors. This Mega Deduction allows businesses to deduct the full cost of a wide range of new capital investments immediately. And, in a move that could breathe even more life into investment, the Ontario government paralleled it this week in its fall economic update (see here).

In another potentially growth-supportive development, Canadian and EU policymakers are in Montreal this week with the aim of strengthening ties. The EU could help Canada further diversify its export base while providing investment into the country, potentially ghostbusting some of the demons of trade uncertainty. These are the conclusions we reached in a research report released this week.

However, growth looks to be losing steam. This week's GDP report showed that August GDP was flat, and StatCan's preliminary estimate points to a 0.1% monthly decline in September, leaving industry-based real GDP growth at 1.3% annualized (Chart 2). This spooky showing suggests downside risk to the Bank of Canada's 2% Q3 forecast. Growth should remain weak in Q4 as U.S. tariffs imposed in August take a bite, but a sizeable miss relative to the Bank's modest 0.8% forecast would likely be needed to exorcise it's hawkish bias. Given the Bank's inflation forecast, we expect another hike next year, upwardly pressuring yields and the loonie (see Dollars and Sense report).

U.S. - Strong Growth Keeps Further Fed Tightening in Play

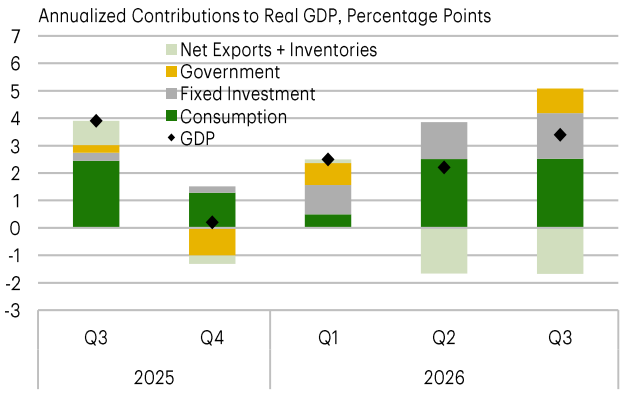
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Markets navigated a busy week of central bank decisions, economic data and mega-cap earnings, with the underlying message being one of resilient growth but persistent inflation. The Federal Reserve offered no surprises in its policy announcement, electing to hold the fed funds rate steady at 3.75-4.0%, though two officials dissented in favor of a hike, underscoring the FOMC's hawkish bias. And while big tech earnings remained healthy, the mixed market reaction highlighted the growing importance of demonstrating returns on heavy AI infrastructure spending. Equity markets were mixed on the week, with small-cap stocks (+2%) ending the week higher, the S&P 500 was flat and the Nasdaq (-1%) lower. Meanwhile, ongoing tensions in the Middle East kept oil prices elevated, with WTI remaining above $100 per-barrel for a third consecutive week.

The U.S. economy seemingly shook off headwinds from rising interest rates and elevated oil prices through the third quarter, posting its fastest rate of expansion in a year (Chart 1). Looking under the hood, all the strength was sustained by domestic spending. The consumer remained a solid anchor – accounting for three-quarters of the gain in real GDP – while business investment expanded at its fastest pace since 2011(outside of the pandemic). Federal spending also chipped in, amid a sharp increase in both defense and non-defense expenditures.

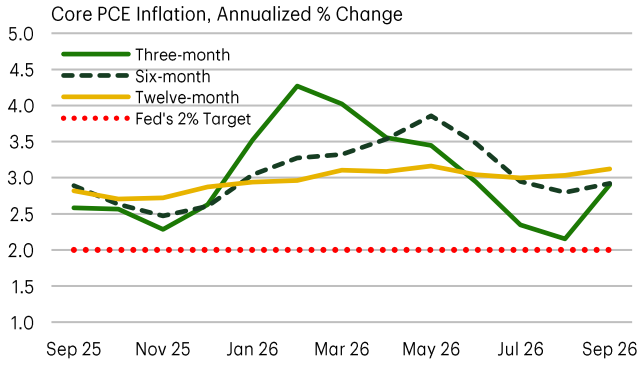
Bigger picture, the central question remains how much of the growth reflects durable private demand versus concentrated investment in technology infrastructure. For Q3, roughly half of the gain in non-residential investment

Chart 1: Solid Domestic Demand Underpins Q3 Growth



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

Chart 2: Core Inflation Drifts Further From Target in September



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

appears to be directly tied to AI. But there are also many indirect effects, including the buildout of power and electricity infrastructure, and the spillovers into other areas of investment like construction and industrial equipment. Nor does it account for the wealth effects that have undoubtedly contributed to some of the strength in consumer spending over the last six months. Suffice to say, the tentacles of the AI buildout are far reaching.

While the AI investment boom may be adding to the economy's speed limit, it's also contributing to inflationary pressures. Core PCE inflation was hot in September, with the 3,6-, and 12-month rates of change moving further away from the Fed's 2% inflation target (Chart 2). Against this backdrop, further policy tightening will likely be required to return price stability. Exactly how much more remains to be seen. Should inflation trends loosely follow our forecast, and start to bend towards 2% by year-end, the Fed may be able to get away with only hiking one more time before calling it quits. However, more persistent price pressures will force policymakers to do more.

Looking ahead, next week's employment report will offer a fresh test of whether the economy's strong growth is translating into firmer hiring. Resilient job gains and wage growth would reinforce the case for further tightening, while a softer report would give the Fed more reason to proceed cautiously. Meanwhile, Tuesday's midterm elections will determine the balance of power in Congress, helping to shape the fiscal outlook over the next two years.

Exhibits

Recent Key Economic Indicators: Oct 26 - 30, 2026						
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Oct 27		Building Permits	Sep	Thsd	1398.0	1400.0
Oct 27		Durable Goods Orders	Sep	M/M % Chg.	1.8	0.1
Oct 27		Cap Goods Orders Nondef Ex Air	Sep	M/M % Chg.	0.5	1.6
Oct 27		Conf. Board Consumer Confidence	Oct	Index	91.7	84.2
Oct 27		New Home Sales	Sep	Thsd	676.0	680.0
Oct 28		Advance Goods Trade Balance	Sep	Blns	-134.9	-132.1
Oct 28		FOMC Rate Decision (Upper Bound)	Oct 28	%	4.00	4.00
Oct 29		Personal Income	Sep	M/M % Chg.	0.2	0.3
Oct 29		Real Personal Spending	Sep	M/M % Chg.	0.0	0.5
Oct 29		Initial Jobless Claims	Oct 24	Thsd	194.0	195.0
Oct 29		Gross Domestic Product Annualized	3Q	Q/Q % Chg.	3.4	2.2
Oct 29		Personal Consumption	3Q	Ann. Q/Q % Chg.	3.8	3.8
Oct 30		Employment Cost Index	3Q	Q/Q % Chg.	0.8	0.9
Canada						
Oct 28		Bank of Canada Rate Decision	Oct 28	%	2.25	2.25
Oct 29		Payroll Employment Change - SEPH	Aug	Thsd	-49.6	-15.7
Oct 30		Gross Domestic Product	Aug	M/M % Chg.	0.0	0.0
International						
Oct 29	EZ	ECB Main Refinancing Rate	Oct 29	%	2.7	2.7
Oct 29	JN	Tokyo Consumer Price Index	Oct	Y/Y % Chg.	2.8	2.7
Oct 29	JN	Jobless Rate	Sep	%	2.4	2.5
Oct 29	JN	Retail Sales	Sep	Y/Y % Chg.	2.3	2.9
Oct 30	EZ	Gross Domestic Product SA	3Q	Y/Y % Chg.	1.3	1.2
Oct 30	EZ	Unemployment Rate	Sep	%	6.5	6.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Nov 2 - 6, 2026							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Nov 02	9:45		S&P Global US Manufacturing PMI	Oct	Index	-	56.0
Nov 02	10:00		ISM Manufacturing	Oct	Index	54.7	54.5
Nov 02	11:15		*Fed's Goolsbee Moderates Discussion*				
Nov 03	10:00		Factory Orders	Sep	M/M % Chg.	1.2	0.1
Nov 03	10:00		Factory Orders Ex Trans	Sep	M/M % Chg.	-	0.3
Nov 03	10:00		Durable Goods Orders	Sep	M/M % Chg.	-	1.8
Nov 03	10:00		Cap Goods Orders Nondef Ex Air	Sep	M/M % Chg.	-	0.5
Nov 04	8:15		ADP Employment Change	Oct	Thsd	75.0	90.0
Nov 04	8:30		Trade Balance	Sep	Blns	-104.9	-105.6
Nov 04	9:45		S&P Global US Services PMI	Oct	Index	-	57.9
Nov 04	9:45		S&P Global US Composite PMI	Oct	Index	-	57.6
Nov 04	10:00		ISM Services Index	Oct	Index	54.8	54.9
Nov 05	8:30		Unit Labor Costs	3Q	Q/Q % Chg.	-	1.2
Nov 05	8:30		Initial Jobless Claims	Oct 31	Thsd	-	194.0
Nov 05	8:50		*Fed's Hammack Speaks on Panel in Zurich*				
Nov 05	9:10		*Fed's Barkin in Moderated Conversation*				
Nov 05	19:00		*Fed's Logan Moderates Discussion*				
Nov 06	8:30		Change in Nonfarm Payrolls	Oct	Thsd	65.0	29.0
Nov 06	8:30		Average Hourly Earnings	Oct	M/M % Chg.	0.3	0.1
Nov 06	8:30		Unemployment Rate	Oct	%	4.2	4.2
Nov 06	4:30		*Fed's Williams Participates on Moderated Discussion*				
Nov 06	4:30		*ECB's Lane, Fed's Williams Speak in Frankfurt*				
Nov 06	9:10		*Fed's Musalem Speaks at Greater St. Louis, Inc.*				
Canada							
Nov 02	9:30		S&P Global Canada Manufacturing PMI	Oct	Index	-	51.50
Nov 03	11:00		*BoC Macklem and Rogers at House of Commons Standing Committee on Finance*				
Nov 04	8:30		Int'l Merchandise Trade	Sep	Blns	-	4.2
Nov 06	8:30		Net Change in Employment	Oct	Thsd	16.1	-68.3
Nov 06	8:30		Unemployment Rate	Oct	%	6.5	6.5
International							
Nov 04	5:00	EZ	Consumer Price Index Estimate	Oct	Y/Y % Chg.	3.9	3.8
Nov 04	5:00	EZ	Consumer Price Index	Oct	Y/Y % Chg.	3.9	3.8
Nov 05	7:00	UK	Bank of England Bank Rate	Nov 05	%	4.0	3.8
Nov 06	5:00	EZ	Retail Sales	Sep	Y/Y % Chg.	-	0.8

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

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