



A summer rally withstands a September swoon.

- Global equity markets, as measured by the MSCI ACWI Index, registered modest gains in the third quarter of 2026. Market upturns in July and August, bolstered by investors' optimism regarding relatively strong corporate earnings, particularly for artificial intelligence (AI)-related technology companies, offset a decline in September amid concerns that sticky inflation might lead central banks to keep monetary policy rates higher for longer, as well as a steep rise in bond yields. (Bond prices move inversely to yields.) Developed markets outperformed emerging markets during the period.
- Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, declined 2.5% for the quarter. U.S. Treasury yields moved significantly higher across the curve during the quarter.
- The move in interest rates during the third quarter has been a global phenomenon, driven by higher "real" rates (bond yields minus expected inflation) and, depending on the model used, additional risk compensation for inflation and real-rate risks.

SEI's Canadian view

The breakdown of Canada-U.S. trade talks in August marked a low point in the third quarter of 2026, and investors could be forgiven for thinking things just keep getting worse. While these are challenging times, unbridled pessimism is misplaced in our view.

First, the Canadian economy and financial markets have continued to demonstrate resilience. Second, the effective U.S. tariff rate, though higher since August, is still among the lowest globally, and the latest round of tariffs and countermeasures will hurt businesses and consumers on both sides of the border, not just those to the north. Finally, despite being dealt a tough hand on the trade front, Canada has some valuable cards to play in the current global environment. Hard times are creating opportunities to pursue a more productive and diversified national economy. While much of the work still lies ahead, the Carney government is pulling a diverse range of levers in its attempts to do so.

As hopeful as we are for the Canadian economy in the years ahead, we're also realists. The global and domestic economic environments are very different from the ones that prevailed for most of this century. Demands on financial capital are intensifying around the world, and the makeup of capital providers has shifted in ways that mean interest rates are likely to stay higher for longer. Demands on many real resources have intensified at a time when global supplies seem more uncertain than ever. The unfolding artificial intelligence (AI)-investment boom—along with ongoing military conflicts and geostrategic rivalries—come with far more questions than answers.

As always, there will be winners and losers, but the dynamics influencing those outcomes have shifted meaningfully in recent years. For investors, the focus should remain on personal objectives, capacity to take risk, and diversification. Sound allocation advice and active management may prove valuable in a rapidly changing global environment.

SEI's global view

The move in interest rates during the third quarter has been a global phenomenon, driven by higher "real" rates (bond yields excluding inflation) and, depending on the model used, additional risk compensation for inflation and real-rate risks. Higher real rates make sense given the historic physical investment boom occurring in the global economy (primarily within AI-related areas but also with regard to military and other infrastructure expenditures) that has been accompanied by persistent government budget deficits. The resulting demands for financial capital have been intense, marking a sharp departure from the so-called global savings glut of the prior two decades.

In response to the upward pressure on bond yields—and out of precaution over inflation (given AI-buildout demands and higher energy and related prices arising from wars in the Middle East and Eastern Europe)—numerous central banks have raised interest rates in recent months. However, by almost any measure, financial conditions are still quite accommodative.

These dynamics have created a very different economic and financial environment than the one that prevailed for most of the 21st century. As we've previously pointed out, investors need to be selective and remain attuned to likely winners and losers. As hockey great Wayne Gretzky wrote in his autobiography, it's important to skate to where the puck is going, not where it's been.¹ And in the current environment, that includes watching inflation risks closely.

Despite tariffs, wars, stubbornly high energy prices, and AI-driven demands for materials and electricity, we have yet to see significant knock-on effects on broader measures of inflation. Somewhat encouragingly, using the U.S. as an example, that's not true across the board, and inflation is still well above where central bankers would prefer to see it. Making an assumption that recent improvements will continue unabated would require quite a leap of faith (never a good basis for investment strategy). Weather risks related to El Niño are also a wildcard with regards to certain prices.²

Regarding the labour market, a maxed-out participation rate (the proportion of the working-age population that is either employed or actively seeking employment) with a declining number of working-age people is likely to create serious labour-supply pressures in the years and decades ahead. Of course, it's important to note that demographics, while slow-moving, aren't set in stone. For example, while Japan and South Korea are seeing early signs of success incentivizing higher marriage and fertility rates, it's taken some serious financial incentives.³ We expect the implementation of policy measures aimed at slowing or reversing this trend to be a recurring theme. These policies could put additional pressures on government budget deficits in a growing number of advanced economies—if not in this decade, then perhaps the next. But slowing, much less reversing, this trend will take political will, well-designed incentives, and time.

As long as economic activity remains robust (even if somewhat narrow), supply pressures (including within the labour market) pose important risks to the inflation outlook. The underlying dynamics can be complex, but the investment upshots are straightforward. We maintain our focus on taking advantage of diversification benefits but also remain attuned to the economic environment (including inflation!) and its likely winners and losers. We also believe that investors should be appropriately selective in an environment that looks notably different from the one that has prevailed for most of this century.

Economic backdrop

Global equity markets, as measured by the MSCI ACWI Index, registered modest gains in the third quarter of 2026. Market upturns in July and August, bolstered by investors' optimism regarding relatively strong corporate earnings, particularly for AI-related technology companies, offset a decline in September amid concerns that sticky inflation might lead central banks to keep monetary policy rates higher for longer, as well as a steep rise in bond yields. (Bond prices move inversely to yields.) Developed markets outperformed emerging markets during the period. The Far East, along with the Pacific and Pacific ex Japan regions, were the strongest-performing developed markets for the quarter due to market rallies in Singapore and Hong Kong. In contrast, European stocks incurred losses attributable primarily to weakness in Switzerland, the Netherlands, and Belgium. Eastern Europe led emerging markets over the period, bolstered by notable strength in Poland, while Emerging Europe benefited from upturns in both Poland and the Czech Republic. Conversely, Jordan + Egypt + Morocco posted a negative return due to a downturn in Egypt. Asia, the Far East, and the Association of Southeast Asian Nations (ASEAN) also lost ground for the quarter. Downturns in Korea and India weighed on the Asia market, while the Far East region was hampered by weakness in China and Korea. Market slumps in Thailand and the Philippines detracted from the performance of the ASEAN region.⁴

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, fell 2.5% in the third quarter as U.S. Treasury yields climbed, pressuring bond prices. Uncertainty surrounding central bank monetary policy also weighed on investor sentiment. High-yield bonds posted the smallest losses within the U.S. fixed-income market for the period, followed by U.S. Treasury securities, investment-grade corporate bonds, and mortgage-backed securities (MBS). U.S. Treasury yields moved significantly higher across the curve during the quarter. Yields on the 10-year note and 30-year bond reached multi-year highs in August and September, fueled by concerns about inflation and tighter Fed monetary policy, as well as a surge in debt issuance from AI-related companies, which has resulted in increased competition with the U.S. government to attract investors. Yields on 2-, 3-, 5-, and 10-year Treasury notes rose 0.74%, 0.85%, 0.90%, and 0.85%, ending the quarter at 4.88%, 5.00%, 5.09%, and 5.29%, respectively. The 10-year to 3-month yield curve widened by 52 basis points (0.52%) to +1.09% as of the end of the period.⁵

Global commodity prices, as represented by the Bloomberg Commodity Index, gained 16.2% in the third quarter. The ongoing conflict in the Middle East led to higher oil prices as investors priced in the risk of supply disruptions and reduced tanker traffic through the Strait of Hormuz. The West Texas Intermediate (WTI) and Brent crude oil prices surged 30.1% and 34.4%, respectively, during the quarter. The gold price was up 3.7% over the period due to a weakening U.S. dollar (the gold price tends to move inversely to the dollar), uncertainty surrounding the conflict in the Middle East, and expectations that the Fed would raise monetary policy rates. The New York Mercantile Exchange (NYMEX) natural gas price fell 7.6% for the quarter as strong U.S. production, reduced liquefied natural gas (LNG) export demand, and rapidly growing storage inventories created led to oversupply. Expectations that inventories would enter the winter heating season well above historical averages further pressured prices, outweighing support from ongoing disruptions in the global energy market. The 14.7% upturn in the wheat price during the quarter was attributable to growing concerns about global supply, including drought-related reductions in U.S. wheat production, lower crop forecasts in parts of Europe, and disruptions to global supplies from Russia and Ukraine, two of the world's largest wheat exporters.

The Middle East conflict remained a key geopolitical focus during the quarter as the fragile U.S.-Iran ceasefire framework repeatedly came under pressure. In July, renewed fighting in and around the Strait of Hormuz raised doubts about the viability of the U.S.-Iran memorandum of understanding (MOU), prompting additional U.S. military strikes against targets linked to threats against commercial shipping. The conflict intensified further in late August and September as U.S. forces struck Iranian military assets in the Strait. Tehran responded with missile launches toward Jordan, while the Trump administration's "Operation Economic Outcast" campaign sought to increase economic pressure on Iran.

Despite periodic military escalation, diplomatic efforts gradually shifted toward restoring maritime traffic through the Strait. By the end of the quarter, increased tanker traffic, the partial restoration of alternative export routes, and the ongoing U.S. blockade of Iranian oil exports had reduced Iran's ability to disrupt regional energy flows. U.S., Iranian, and regional officials continued discussions about a framework for the Strait's reopening, although attacks on shipping and energy infrastructure remained a persistent source of geopolitical risk.

U.S. trade policy returned to the geopolitical spotlight in August. After U.S.-Canada trade negotiations broke down on August 21, the Trump administration imposed 50% tariffs on roughly \$20 billion in Canadian imports, including wine, cement and hockey sticks, with the new duties taking effect the following day. The tariffs represent a significant escalation in the trade conflict between the two countries. Trump also announced that levies on Canadian cars, trucks, auto parts, and steel will double to 50% beginning January 1, 2027, unless production is moved to the U.S. Canadian Prime Minister Mark Carney responded by pledging "dollar-for-dollar" retaliatory tariffs on U.S. goods, setting the stage for a broader North American trade war that could increase costs for manufacturers and consumers on both sides of the border.

Economic data (unless otherwise noted, data sourced to Bloomberg)

According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) fell 0.1% in August as clothing prices were lower. Year-over-year consumer prices were up 3.0% as higher gasoline costs were the primary driver of higher prices. Producer prices continued to show robust increases in August, as the Industrial Product Price Index (IPPI) rose 1.3%, while the Raw Materials Price Index (RMPI) gained 3.1%. Year-over-year prices increased 13.5% and 22.8%, respectively, for the IPPI and RMPI. Input prices for precious and industrial metals, and petroleum products have driven much of the recent price increases. The Canadian labour market slumped in September, shedding 68,000, while the unemployment rate ticked up 0.1% to 6.5%.

The U.S. Department of Labor reported that the consumer-price index (CPI) rose 0.4% in August, an increase from the 0.1% uptick in July and in line with expectations. Prices for fuel oil and gasoline increased 10.1% and 3.9%, respectively in August, while utility costs were down 1.1%. The CPI advanced 3.4% year-over-year, matching the annual increase in July. Fuel oil and gasoline prices surged 52.0% and 27.4%, respectively, over the previous 12-month period. Core inflation, as measured by the CPI for all items less food and energy, was up 2.4% year-over-year in August, down marginally from the 2.5% increase in July. Apparel and housing costs rose by corresponding margins of 3.6% and 3.0% over the previous 12-month period. Conversely, prices for medical care commodities (prescription drugs, over-the-counter medications, and medical equipment) and used cars and trucks declined 2.7% and 2.3%, respectively, year-over-year. According to the third estimate from the Department of Commerce, U.S. real gross domestic product (GDP) increased at a greater-than-expected annual rate of 2.2% in the second quarter, up from the

government's second estimate of 1.5% but modestly lower than the 2.5% growth rate in the first quarter. The upturn in GDP for the second quarter was attributable to increases in consumer spending, investment, and exports. These gains were partly offset by an increase in imports, which are subtracted in the calculation of GDP. The deceleration in the growth rate from the first quarter reflected a downturn in government spending and slower growth in investment and exports, partly offset by stronger consumer spending. Import growth modestly accelerated.

The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, rose 0.5% in August, up from the 0.3% increase in July. Costs for transportation, and clothing and footwear increased 1.5% and 0.6%, respectively, for the month, while the price of restaurants and hotels dipped 0.2%. The CPI advanced at an annual rate of 3.1% in August, modestly higher than the 2.9% advance in July. Communication, education, and housing and household services posted the largest price gains for the month, rising by corresponding margins of 5.3%, 5.1%, and 4.9%, respectively.⁶ The ONS also announced that U.K. GDP grew 0.5% for the three-month period ending June 30, 2026, a slight decline from the 0.6% increase during the previous three-month period (January 1 to March 31). Output in the construction and services sectors rose 0.8% and 0.6%, respectively, for the period ending June 30, while production sector activity dipped 0.1%.⁷

Eurostat pegged inflation for the eurozone at 3.2% for the 12-month period ending in August, up from the 2.9% annual increase in July. Energy prices surged 14.3% year-over-year in August due to the ongoing blockade in the Strait of Hormuz, affecting a significant amount of global oil capacity, and costs for tobacco and services rose by corresponding margins of 3.2% and 3.0% compared to the same period in 2025.⁸ According to Eurostat, eurozone GDP grew 0.6% in the second quarter of 2026, improving from the flat reading for the first quarter of the year and up from the previous estimate of 0.4%. The upturn in GDP for the second quarter was attributable largely to the economies of Ireland, Switzerland, and Sweden, which expanded by corresponding margins of 10.2%, 1.9%, and 1.8%. Conversely, GDP for Iceland and Austria decreased 3.0% and 0.1%, respectively, over the quarter.⁹

Index data (3Q 2026 in CAD)

- The S&P/TSX Composite Index gained 1.62%.
- The FTSE Canada Universe Bond Index sank 2.96%.
- The S&P 500 Index, which measures the performance of U.S. equities, rose 2.38%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, edged up 1.68%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned -2.29% (currency hedged) and -1.75% (unhedged).
- The Chicago Board Options Exchange Volatility Index (VIX)—which tracks implied volatility in the S&P 500 Index and is often referred to as the “fear index”—was little changed, ending September at 16.34.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—increased from US\$69.50 to over US\$105 before ending the quarter at US\$90.42 a barrel.

Glossary and index definitions

For financial term and index definitions, please see: <https://www.seic.com/ent/imu-communications-financial-glossary>

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¹ Gretzky: An Autobiography (1990, Harper Collins).

² Dr. Sarah Kapnick, "Climate Intuition: Food security under pressure: Iran conflict disruptions and a brewing El Niño," J.P. Morgan, 21 May 2026, available at <https://www.jpmorgan.com/insights/sustainability/climate/food-security-under-pressure>, accessed October 2, 2026.

³ See, for example, Heesu Lee, "South Korea's baby bump extends into second year, offering hope," The Japan Times, 25 February 2026, available at: <https://www.japantimes.co.jp/news/2026/02/25/asia-pacific/society/south-korea-babies-second-year/>, accessed 1 October 2026 and Jenni Fink, "Map shows countries paying people

to have babies as birth rate drops," Newsweek, 25 August 2026, available at <https://www.newsweek.com/map-shows-countries-paying-people-to-have-babies-as-birth-rate-drops-12363970>, accessed 1 October 2026.

⁴ All equity market performance statements are based on the MSCI ACWI Index.

⁵ According to the U.S. Department of the Treasury. As of August 31, 2026.

⁶ According to the ONS. September 16, 2026.

⁷ According to the ONS. September 30, 2026.

⁸ According to Eurostat. September 17, 2026.

⁹ According to Eurostat. September 7, 2026.