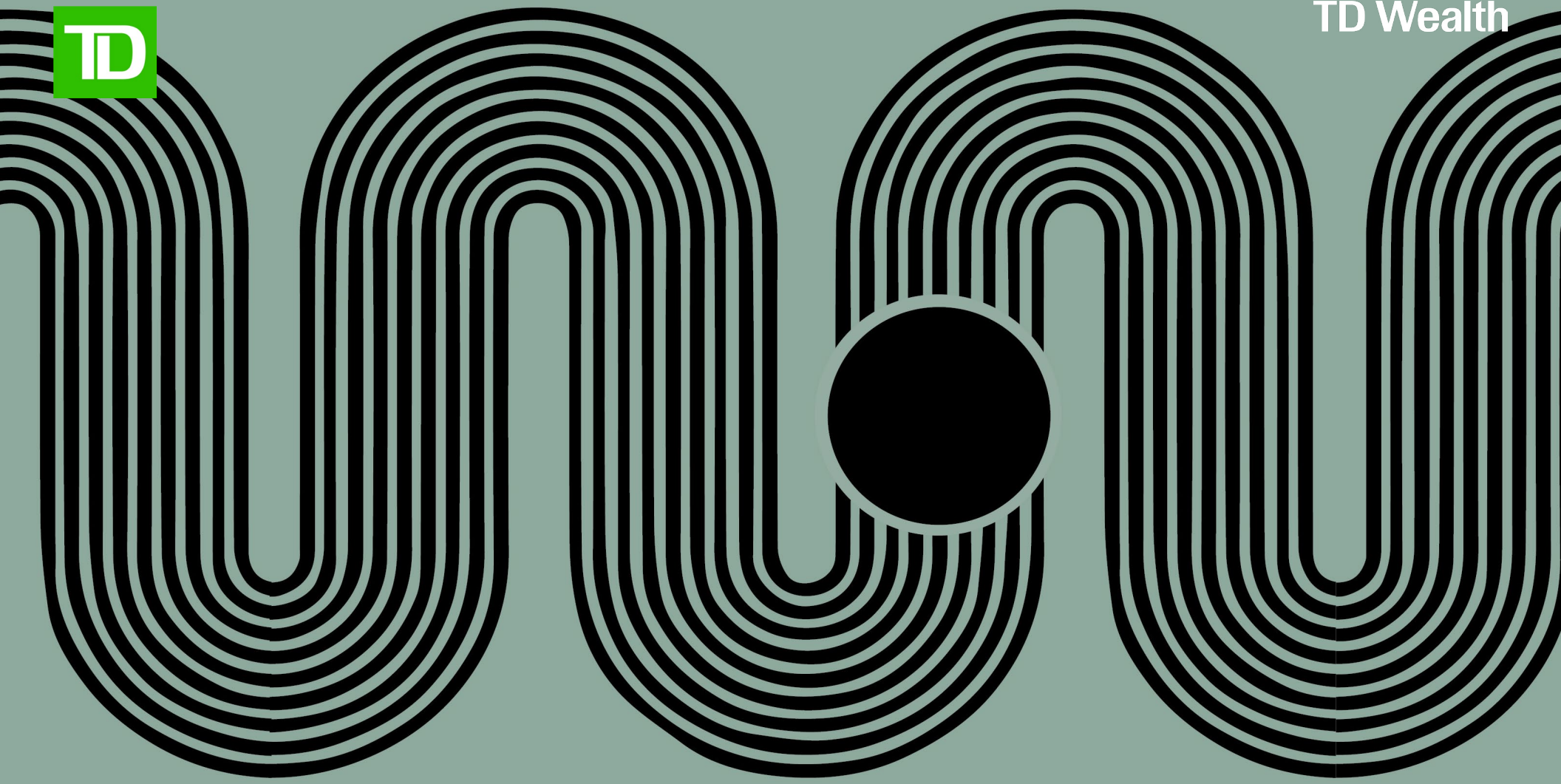


TD Wealth

Q3 | Quarterly Market Review

Everything you need to know about the quarter that was

October 2, 2026

Wealth Investment Office

QMR - Q3 26 | **Highlights**

David Dias • Daniel Carabajal, MBA • Adam Weingarten • Chadi Richa, MBA, CFA | TD Wealth

Unless otherwise indicated, performance figures are stated on a total-return basis. This document is for distribution to Canadian clients only. Please refer to Appendix A of this report for important disclosure information.

U.S. Equities

- Coming off a stellar Q2, the S&P battled through volatility but still managed to post gains in the third quarter.
- The S&P 500 rose by 2.3%, the Dow Jones Industrial Average fell by 2.3% and the Nasdaq Composite Index rose by 2.6%.
- Four of the 11 sectors within the S&P 500 were up. Energy and technology were the top sectors, rising 17.2% and 7.2% respectively. Utilities was the worst-performing sector, falling 12.4%.
- Large-cap stocks outperformed small-caps; growth stocks outperformed value.

Canadian Equities

- The TSX barely broke even in Q3, underperforming its U.S. counterpart (although it continues to slightly outperform for the year).
- The S&P/TSX Composite Index ended the quarter up 1.6%, with three of 11 sectors up.
- WTI Oil finished Q3 at US$90.42, up 27.8% from the close in Q2. In the heavily weighted financial sector, meanwhile, the Big Six Canadian banks declined 3.3% in Q3, their worst performance since Q2/24 (although they're still up 25.2% YTD).
- Small-cap stocks outperformed large-caps; Growth stocks outperformed value.

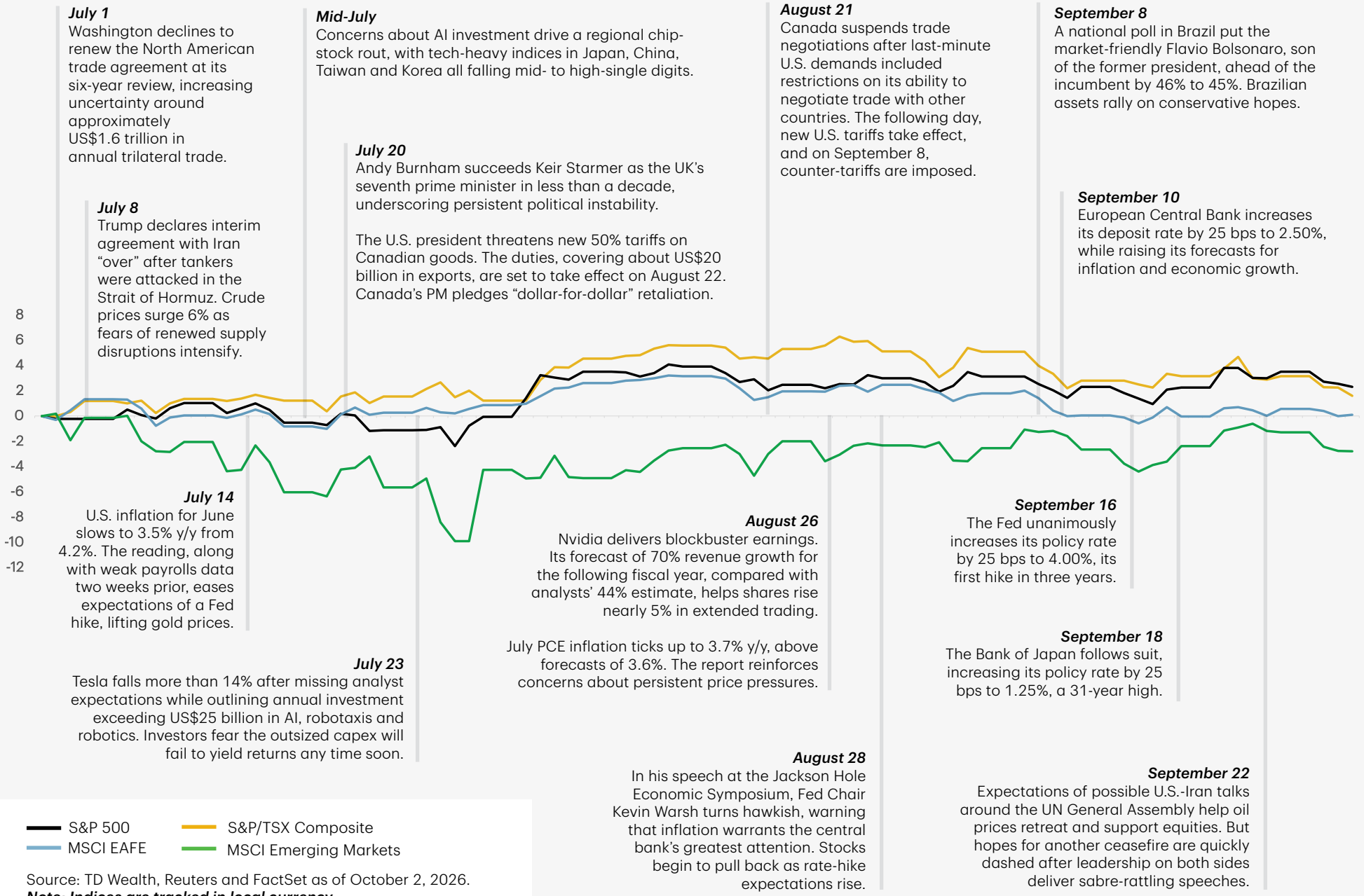
Canadian & U.S. Fixed Income

- Global fixed income markets sold off in the third quarter due to persistent inflationary pressures from higher energy prices, central-bank tightening, and increased bond supply.
- The FTSE Canada Universe Bond index delivered a -3.0% return, while the Bloomberg U.S. Aggregate Bond Index (CAD-hedged) lost 4.0%.
- Canadian and U.S. investment-grade corporate bond indices fell 2.1% and 4.4%, respectively.
- The Canadian government bond index fell 3.5% in Q3; the U.S. government bond index fell 3.2%.

International Equities

- International developed markets underperformed their American peers in Q3, with only German and British equity markets posting positive returns.
- Stocks in the UK outperformed those in the euro area, thanks to a heavier weighting in oil and gas majors.
- The MSCI Emerging Markets Index fell 2.8% in Q3, underperforming the S&P 500 and developed markets overall.
- Brazil's Bovespa Index bucked the trend, rising 8.3% on brightened political prospects for the business-friendly presidential candidate; China's SSE Composite fell 6.2% on disappointing fiscal stimulus and a tech selloff.

Market Movers
Equities in Review



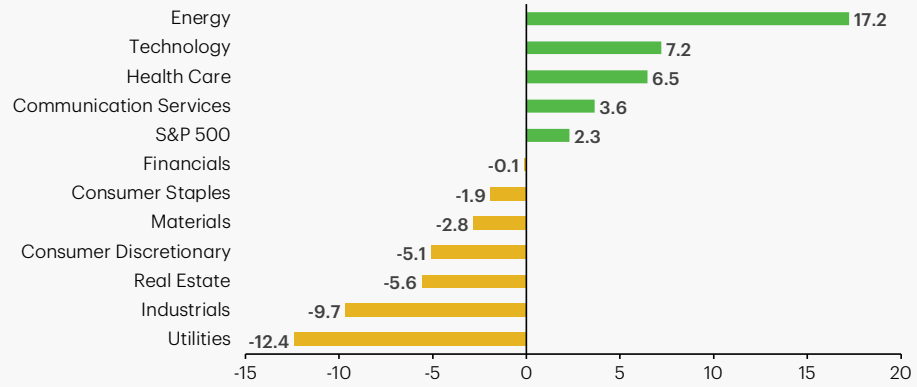
Source: TD Wealth, Reuters and FactSet as of October 2, 2026.
Note: Indices are tracked in local currency.

U.S. Equities

Indices	Q3 Return (%)	Q3 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
Dow Jones Industrial Average	-2.34	-2.29	7.19	11.05
S&P 500	2.30	2.36	12.75	16.81
S&P 400	-6.36	-6.30	9.88	13.84
Nasdaq Composite	2.61	2.67	16.09	20.28
Russell 2000	-7.23	-7.18	13.71	17.81

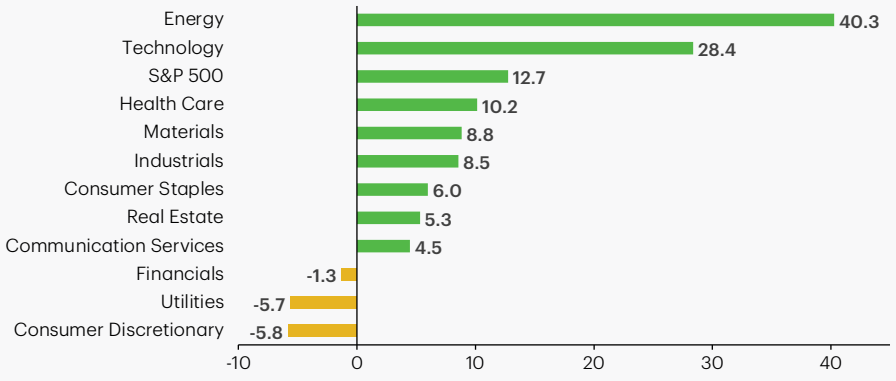
Source: FactSet as of September 30, 2026. Total returns including dividends and distributions. Index returns calculated in U.S. and Canadian dollars.

Q3/26 S&P 500 Sector Returns



Source: FactSet as of September 30, 2026

YTD S&P 500 Sector Returns



Source: FactSet as of September 30, 2026

Coming off a stellar Q2, the S&P battled through volatility but still managed to post gains in the third quarter. The index traded rangebound through most of July as investors weighed the threat of a rate hike in spite of soft economic indicators. Weak payroll growth and cool inflation readings for June eased fears of an imminent hike, but concerns re-emerged in mid-July after the U.S.-Iran ceasefire collapsed after just two weeks.

Volatility then intensified in late July and early August, as markets dove and then quickly rebounded. Shares in Tesla and Alphabet initially dragged the market down as the tech giants signalled increased investment in AI despite little prospect of immediate returns. Then, on July 29, the Fed issued its decision to hold rates steady, sparking a relief rally that shifted concerns about the cost of the AI buildout to the backburner. From July 30 to August 4, the S&P 500 surged 5.7%.

The index then resumed its holding pattern into early September. Weak payroll numbers for July kept the threat of a rate hike seemingly at bay, while a blockbuster earnings report from Nvidia in late August helped the market recover from occasional dips. Soon after, though, market jitters returned; a speech by the Fed chair telegraphed a 25-bp rate hike, which was issued in mid-September. As the third quarter came to an end, the anticipation of further tightening — along with Iran-induced energy inflation and concerns about the sustainability of U.S. debt — cast a pall over markets, leading the S&P to pull back.

Q3/26 Vitals

Policy Rate ↑
25 bps to 4.00%

Core Inflation ↓
May 2.9% | August 2.4%

Economic Growth ↑
Q1 1.9% | Q2 2.2%

Unemployment rate ↓
May 4.3% | August 4.1%

Services PMI ↑
May 54.5 | August 55.4

Overall, for the three months ended September 30, the S&P 500 rose by 2.3%, the Dow Jones Industrial Average fell by 2.3% and the Nasdaq Composite Index rose by 2.6%. Four of the 11 sectors within the S&P 500 were up. Energy and technology were the top sectors, rising 17.2% and 7.2% respectively. Utilities was the worst-performing sector, falling 12.4%. Large-cap growth stocks outperformed in Q3. Large-cap stocks (S&P 500) rose by 2.3%, outperforming small-caps (Russell 2000), which fell by 7.2%. Growth stocks (S&P 500 Growth Index) rose by 3.4%, outperforming value stocks (S&P 500 Value Index), which rose by 0.9%.

On September 30, the Bureau of Economic Analysis released its final estimate for Q2. The U.S. economy accelerated marginally in the quarter, with real GDP expanding by 2.2% (q/q annualized, 1.9% in Q1). This is less than the 2.6% predicted by TD Economics (TDE) three months ago, but the underlying details were much stronger than the headline figure would suggest. Consumer spending rose by a healthy 3.8%, far above the 0.5% recorded in Q1, while business investment grew 9.0%. Indeed, the relatively modest growth figure was attributed to two factors: trade and inventory. A surge in imports shaved 1.1 percentage points off the Q2 figure, while slower inventory replenishment shaved 0.5 pp off growth.

Indeed, the resurgence in domestic demand points to resilience in the American economy, giving the Fed very little reason to cut rates over the short term. Forward-looking PMIs, moreover, remain at four-year highs, suggesting that the momentum is likely to carry into Q3. The Institute for Supply Management's PMI for manufacturers rose from 54.0 in May to 54.6 in August. The larger services side of the economy, meanwhile, rose from 54.5 to 55.4 over the same period. While the service sectors continue to suffer from a dearth of new hiring, and manufacturers lost a bit of steam in August, business confidence overall remains solid.

It wasn't all good news, though. A lack of new jobs in the services side of the economy has led to recent softness in the labour market. After a hiring spree in March and April, demand has come back down to earth. From June till August, the economy generated 71,000 jobs per month — about half the rate recorded in the previous three months. The numbers seem to reflect an unevenness in hiring, rather than deterioration. The six-month average is still hovering around 107,000, above the historical trend.

Indeed, a better indicator appears to be the unemployment rate, which continued to tick down, from 4.3% in May to 4.1% in August as job seekers pause to retrain. Wage growth also continues to normalize after inflationary highs following the pandemic. Annual growth in hourly earnings fell from 3.4% in May to 3.1% in August. This will be a closely watched metric, though, given the impact of higher fuel prices on wage expectations. If the rising price of gasoline leads to longer-term inflation expectations, workers are bound to demand more in wages.

The good news is that, aside from volatile food and energy, inflation does appear to be returning to target. Core annual inflation, after spiking in May to 2.9%, has been falling steadily, hitting 2.4% in August. The bad news is that the Iran war has more than doubled the price of diesel — resulting in higher shipping costs, which will almost certainly translate into higher prices for just about any sort of manufactured product. Higher energy prices have also kept the broader CPI stubbornly high. Inflation fell from 4.2% to 3.5% in June, after a brief ceasefire was reached, but it hasn't moved much from there, holding at 3.4% in August.

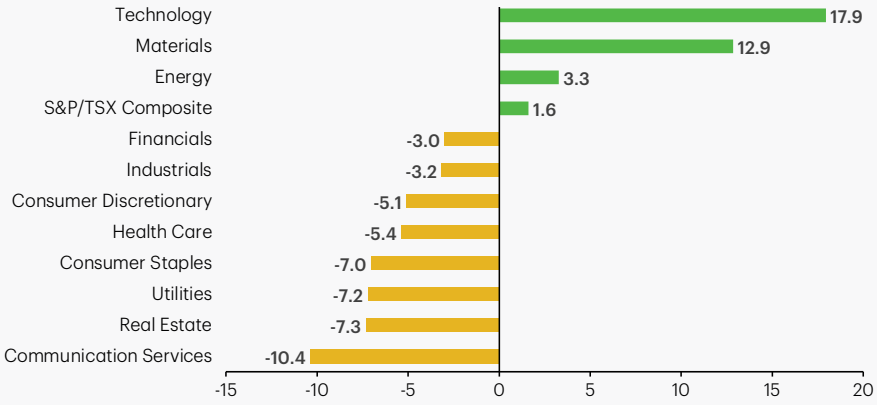
Persistent inflation has forced the Fed to take a more hawkish stance. The question now is whether a "one and done" approach will suffice. Given high energy prices and repeatedly failed attempts at diplomacy with Iran, investors are betting that the central bank isn't done. Markets are pricing in close to a 60% probability that the Fed will issue two more rate hikes this year, which would leave the policy rate at 4.50%. The Fed, for its part, has yet to signal that level of hawkishness. In its latest Summary of Economic Projections, the majority of voting members on the FOMC project a policy rate of 4.25% by year's end, and TDE concurs. As for the economy, TDE expects a further acceleration in Q3, with real GDP set to rise 2.8% before settling into trendline growth of around 2.2%.

Canadian Equities

Indices	Q3 Return (%)	Annual Return (%)
S&P/TSX Composite	1.62	12.97
S&P/TSX 60	1.60	13.36
S&P/TSX Completion	1.71	11.43
S&P/TSX SmallCap	2.41	20.84
S&P/TSX Preferred Share	0.03	4.42

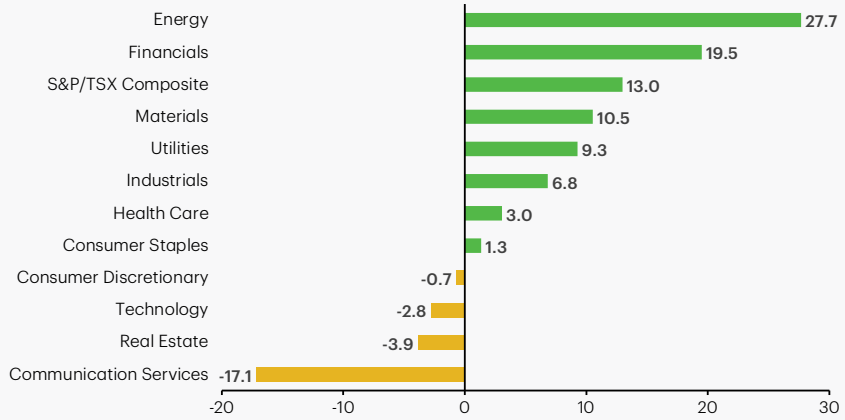
Source: FactSet as of September 30, 2026. Total returns including dividends and distributions.

Q3/26 S&P/TSX Sector Returns



Source: FactSet as of September 30, 2026. Index total returns.

YTD S&P/TSX Sector Returns



Source: FactSet as of September 30, 2026. Index total returns.

The TSX barely broke even in Q3, underperforming its U.S. counterpart (although it continues to slightly outperform for the year). Trading was rangebound through July as support from resources and earnings competed with concerns around the war and inflation. Soft U.S. economic data for June initially reduced expectations of Fed tightening, which helped gold and copper miners, but this was offset by renewed U.S.-Iran hostilities, which lifted energy prices and revived inflation fears.

In early August, shares in Canada surged alongside U.S. equity, after the Fed issued its decision to hold rates steady. This lifted gold prices even as oil continued to rise amid the ongoing war. For a while, miners and energy companies enjoyed a simultaneous boost. The second half of the month proved more volatile, however, due in part to heightened trade uncertainty. On August 21, negotiations between the U.S. and Canada faltered, leading the U.S. president to announce 50% tariffs on a range of Canadian goods. Prime Minister Carney responded forcefully, vowing to impose “dollar-for-dollar” counter-tariffs — exploiting maximum leverage in the lead-up to November’s U.S. mid-term elections.

For the rest of the quarter, trading in Canada was choppy, swinging 2% to 3% every few days. The Fed chair’s speech in late August revived fears of rate hikes, leading shares to fall, then rebound, then fall again as hotter-

Q3/26 Vitals

Policy Rate ↔
0 bps to 2.25%

CAD/USD ↑
+0.2% to 70.48 cents

WTI Oil ↑
+27.8% to US$90.42

Spot Gold ↑
+3.7% to US$3,873.20

Big Six Bank EPS ↑
+14.2% (y/y) to $17.80

than-expected economic indicators led the Fed to follow through on its rate hike. By the end of Q3, the Canadian index was in a rocky descent, with fears over the escalating trade conflict and further Fed tightening offset by brief glimmers of hope around diplomacy in the Persian Gulf.

The S&P/TSX Composite Index ended the quarter up 1.6%, with three of 11 sectors up. In Canada small-cap growth stocks led indices. Small-caps (S&P/TSX Canadian Small Cap Index) rose 2.4%, outperforming large-caps (S&P/TSX 60 Index), which rose 1.6%. Growth stocks (MSCI Canada Growth Index) rose 3.4%, outperforming value stocks (MSCI Canada Value Index), which ended Q3 up 0.2%.

West Texas Intermediate oil prices soared 27.8% in Q3, ending the quarter at US$90.42, after U.S.-Iran hostilities resumed in mid-July. Gold initially rose on weakened rate-hike expectations, but prices then pulled back as stronger economic data came in, ultimately leading gold to close just 3.7% higher at US$4,186.70. In the heavily weighted financial sector, meanwhile, the Big Six Canadian banks declined 3.3% in Q3, their worst performance since Q2/24 (although they're sitll up 25.2% YTD). In Q3, the Big Six delivered a 6% aggregate beat, supported by capital-markets revenue and lower credit losses. Both these drivers were seen as less durable, though, so the beat failed to translate into stock gains.

The Canadian economy overall, meanwhile, rebounded in Q2, while the technical recession that had seemingly begun in Q1 was revised out of existence. Real GDP leapt 3.3% in the second quarter (q/q annualized, 0.3% in Q1, revised from -0.1%). This was well above the 1.9% forecast by TD Economics (TDE) three months ago. The recovery could be felt across the board, although rising business investment was a standout figure (+12.3%) as well as trade. Exports jumped 15.1% annualized, while imports rose a muted 1.1% — the opposite of the U.S. experience, where a surge in imports shaved 1.1 percentage points off growth.

It remains to be seen how the U.S.-Canada trade conflict will impact the economy, but for now the jobs market seems to be holding up. As in the U.S., hiring from May to August was erratic — with 18,000 jobs generated in June, 75,000 in July and 42,000 jobs lost in August. The inconsistency in hiring patterns appears, ironically, to have helped to drag down the unemployment rate, as frustrated workers step away from their job search to retrain. In August, unemployment held at 6.4% after ticking down for three consecutive months (from a peak of 6.9% in April).

The fact that some Canadians can even afford to transition into new careers stems in part from the financial cushioning many households have built up over the years. Net worth (assets minus liabilities) continued to expand in Q2, rising by 2.9% (q/q, 1.3% in Q1) and marking the 11th consecutive quarterly gain. Financial assets surged 4.5% (1.3% in Q1), thanks to strong U.S. equity-market performance. Residential real estate values rose 0.4% (1.3% in Q1). At the same time, the household debt-to-income ratio eased to 176.4% from 179.6%, the lowest level since Q1/25, as stronger income growth outpaced growth in household debt. So good news all around.

The bad news going forward will be trade uncertainty, with new U.S. tariffs and Canadian retalliatory measures in full effect. According to TDE, the newly imposed duties are likely to shave 0.3 to 0.6 percentage points from growth over the next year. This would still leave growth through 2027 at around 1.5%, but further escalation risks dragging this figure lower.

So far, the Bank of Canada (BoC) has yet to hint at a rate cut. Recent data suggest that growth is picking up even as inflation remains contained. From May to August, core inflation (stripping out volatile energy and food prices) was remarkably stable, hovering right on target at 2.0%. Overall inflation, meanwhile, has also been stable, albeit it at 3.0%.

While the inflation landscape in Canada remains calm, the BoC is unlikely to risk a rate cut. Policymakers are wary of trade tensions, which could alter the outlook quickly. In any event, recent Fed hikes may do much of the BoC's work for it. If the Fed were to hike one more time, as expected, that would establish a 200-bp differential (2.25% vs. 4.25%) that in itself would provide support. The situation remains fluid, though. TD Economics estimates that the Canadian economy will slow to 1.2% in Q3 and record overall growth of just 0.9% for the year.

Canadian & U.S. Fixed Income

Government Bond Yield	Canada			United States		
	Current (%)	Q/Q Change (pp)	YTD Change (pp)	Current (%)	Q/Q Change (pp)	YTD Change (pp)
91-Day Treasury Bill	2.44	0.18	0.25	4.11	0.30	0.48
2-Year Government Bonds	3.37	0.62	0.78	4.89	0.71	1.41
5-Year Government Bonds	3.69	0.68	0.73	5.09	0.86	1.36
10-Year Government Bonds	3.99	0.62	0.56	5.28	0.82	1.12
30-Year Government Bonds	4.30	0.52	0.44	5.63	0.68	0.78

Source: FactSet as of September 30, 2026. Index returns are reported on a total-return basis; pp (percentage point).

Global fixed income markets sold off in the third quarter due to persistent inflationary pressures from higher energy prices, central-bank tightening, and increased bond supply. Government bond yields rose across major markets, especially in September. Most central banks adopted a more hawkish stance, with the Federal Reserve raising rates and indicating that further increases are likely. U.S. and Canadian fixed income markets both saw important losses during the quarter. The FTSE Canada Universe Bond index delivered a negative 3.0% return, while the Bloomberg U.S. Aggregate Bond Index (CAD-hedged) lost 4.0%.

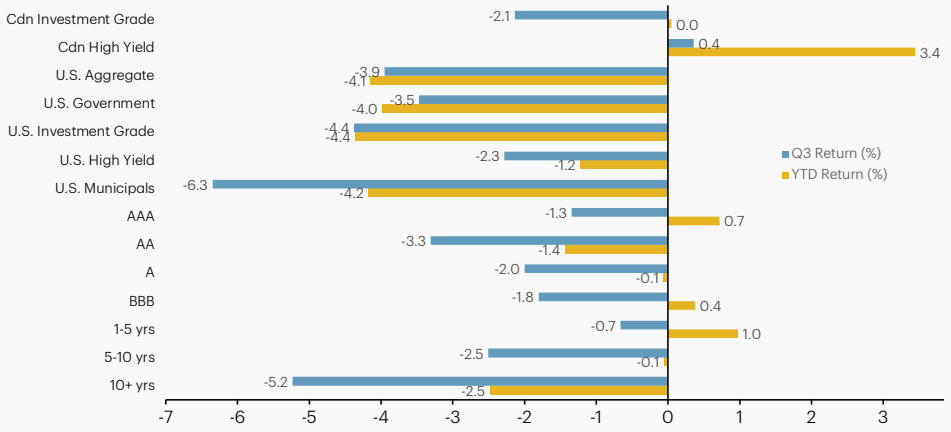
In the United States, the Federal Reserve raised its benchmark policy rate by 25 basis points (bps) in September, moving the upper bound of the federal funds target range from 3.75% to 4.00%. The Fed's statement noted that the economy was still experiencing solid growth and persistent inflation, with the rate hike aimed at a "timelier return" to the 2% inflation target. At the press conference, Fed Chair Kevin Warsh provided no forward guidance on the future rate path, focusing instead on the rate hike and current economic conditions.

The Bank of Canada (BoC) made no similar move in the third quarter. It held its overnight rate at 2.25% in both July and September meetings, but the central bank highlighted the risks from rising inflation as well as the recently imposed U.S. tariffs. In a September 21 speech, Governor Tiff Macklem said that the Bank of Canada does not want to be "late" in raising interest rates should inflation persist. He cited the Persian Gulf conflict and higher gasoline prices as looming inflationary risks.

Fixed Income Indices	Q3 Return (%)	YTD Return (%)
FTSE Canada Universe Bond Index	-3.0	-0.8
FTSE Canada Universe All Government Bond Index	-3.2	-1.1
FTSE Canada All Corporate Bond Index	-2.1	0.0
FTSE Canada Real Return Bond Index	-2.0	3.0
FTSE Canada Provincial Bond Index	-4.1	-1.4

Source: FactSet as of September 30, 2026. Total index returns.

Canadian & U.S. Fixed Income



Source: FactSet as of September 30, 2026

The broad global fixed income universe, represented by the Bloomberg Global Aggregate Index (CAD-hedged), posted a negative 2.9% return over the third quarter. Global government bonds outperformed both U.S. Treasuries and Canadian government bonds, with the global government bond index returning negative 2.7%, while the U.S. Treasury index (CAD-hedged) reported losses of 3.5% and the Canadian government bond index reported losses of 3.2%. The United States 10-year Treasury yield started the quarter at 4.47% and ended at 5.28% (an 81-bp increase), while the equivalent Canadian government bond yield started at 3.38% and ended at 3.99% (a 61-bp increase).

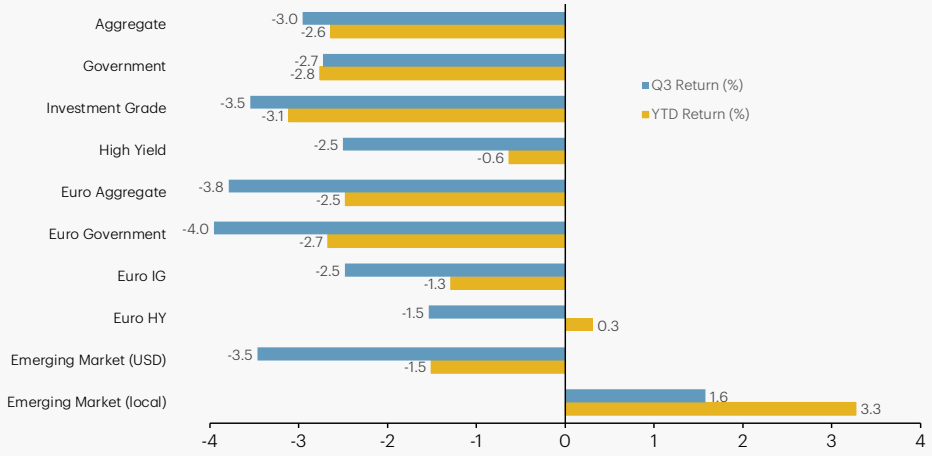
Resilient economic data and strong technical factors continue to support current spreads in corporate credit. In Canada, investment-grade spreads tightened by 1 bp to 86 bps, while U.S. investment-grade spreads widened by 6 bps to end at 82 bps. Solid coupon income, stable spreads and a shorter duration profile helped Canadian credit outperform, leading them to outperform Canadian government bonds.

The corporate credit sector posted a return of negative 2.1%, which still outperformed the negative 3.0% return posted by the aggregate Canadian fixed income index. Diving deeper, lower-quality corporate credit outperformed higher-quality issuances, with BBB-rated bonds returning negative 1.8%, A-rated bonds returning negative 2.0%, and AA-rated bonds returning negative 3.3%.

Long-maturity corporate bonds, which are more sensitive to interest rates, underperformed both short- and medium-maturity bonds in an environment characterized by stable credit spreads across all credit maturity profiles. Over the same period, the shortest-maturity cohort of one- to five-year bonds posted a return of negative 0.7%, the medium-term cohort of five to 10-year returned negative 2.5% and the longest-maturity 10-year and above cohort returned negative 5.2%.

Higher real yields led to negative performance for Canadian real-return bonds, which posted negative 2.0% return over the quarter. They outperformed the government bond universe at negative 3.2%. Canadian provincial bonds, with longer maturity profiles, underperformed corporate bonds over the third quarter, posting a return of negative 4.1%.

Global Fixed Income



Source: FactSet as of September 30, 2026

For global corporate bonds, higher sovereign yields and record corporate bond issuance contributed to the negative performance across regions, despite relatively stable spreads over the quarter. U.S. investment-grade corporate spreads widened by 6 bps over the quarter, while U.S. high-yield corporate spreads widened by 48 bps. The U.S. investment-grade corporate bond universe (CAD-hedged) returned negative 4.4%, underperforming the global investment-grade corporate universe (CAD-hedged), which returned negative 3.6%.

U.S. high-yield corporate bonds (CAD-hedged) performed negatively, posting a negative 2.3% return, outperforming the global high-yield corporate universe (CAD-hedged) at negative 2.5%. USD-denominated emerging-market debt performed poorly, posting a return of negative 3.5% over the quarter, while local-currency debt outperformed at 1.6%.

International Equities

Indices	Q3 Return (%)	Q3 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
FTSE 100	1.82	1.97	9.55	11.92
DAX	0.81	0.21	2.89	3.09
CAC 40	-4.88	-5.45	0.57	0.67
MSCI European Monetary Union	-1.74	-2.05	8.67	11.70
Nikkei 225 Stock Average	-4.10	-0.77	34.59	38.97
MSCI Emerging Markets	-2.77	-0.18	23.42	28.19

Source: FactSet as of September 30, 2026. Total returns including dividends and distributions. Index returns calculated in local currencies and Canadian dollars.

International developed markets underperformed their American peers in Q3, with only German and British equity markets posting positive returns.

United Kingdom: Energy stocks keep the FTSE afloat

Stocks in the UK outperformed those in the euro area, with the FTSE 100 rising 1.8% for the quarter. The appointment of Andy Burnham as Prime Minister on July 20 initially unsettled markets, raising the spectre of higher taxes and increased borrowing, but his immediate appointment of a trusted chancellor, John Healey, helped to ease those concerns. The FTSE's positive performance was largely attributable to a heavier weighting in oil and gas majors, which benefited from skyrocketing crude oil prices. However, attention quickly shifted to inflation and the expectation of higher borrowing costs. While the Bank of England kept rates unchanged during the quarter, investors increasingly anticipated tightening, which led to a sizeable pullback in September.

As for the British economy, real GDP growth came in as expected, decelerating to 1.6% (q/q annualized, 2.4% in Q1). Growth in consumer spending softened (1.2%, 2.4% in Q1) as well as government spending (-1.2%, 5.2% in Q1), while business investment picked up (4.8%, 1.6% in Q1). Business confidence in the UK remains stable, with the composite PMI hovering above the expansionary threshold, at just over 52, but inflation has risen rapidly. From a low of 2.6% in June, price growth accelerated to 3.1% in August, putting the Bank of England's rate-cutting cycle in jeopardy. After six cuts over the past two years, BoE policymakers are pivoting hawkish, with three of nine voting for a hike in September (versus two in June). If inflation continues to rise, a rate hike at the BoE's next meeting in November could be a foregone conclusion.

Euro Area: Fuel imports force the ECB's hand

The MSCI European Monetary Union index fell 1.7% due primarily to the bloc's heightened sensitivity to energy prices, which has already led to monetary tightening. The dependence of European businesses on imported fuel has left them especially vulnerable to surging gasoline and diesel. Already, energy inflation has forced the European Central Bank to raise its deposit rate by 25 bps (to 2.50%). In addition, concerns have swirled around France (CAC 40 -4.9%) — where already sky-high debt levels have become more onerous due to rising yields, and where political pandering has made fiscal management almost impossible, opening the door to Marine Le Pen's far-right National Rally party.

On a more positive note, the European economy appears to be heating up. In Q2, growth in real GDP came in above market expectations, at 1.6% (q/q annualized). It was the strongest reading in nearly two years. Manufacturers, particularly defence contractors, have performed well as European businesses bring more factories home amid geopolitical strife. Spain outperformed all major European economies (+2.8% in Q2), but growth in the Netherlands, Germany and Italy exceeded expectations. Overall, consumer sentiment remains weak, but business confidence has been climbing rapidly, with the composite PMI rising from 48.5 in May to 53.1 in September. Economists, however, point to modest growth for the rest of the year as energy prices continues to bite.

Japan: Tech investors get jittery, BoJ intervenes

After a blistering performance earlier this year, the Nikkei 225 pulled back in Q3, falling 4.1%. Still, the index is up 34.6% for the year (in local currency), so investors can't be complaining too loudly. The underperformance of the Nikkei this quarter reflects a sharp semiconductor selloff, tighter monetary policy and rising energy costs. Tech stocks corrected in July on fears over Chinese competition and the enormous funding requirements of the AI boom. The Bank of Japan was also more interventionist than usual in the quarter, moving to support the yen in late July. Also, on September 18, the BoJ raised its policy rate by 25 bps to a 31-year high of 1.25%, with further tightening expected. Japan's dependence on oil imports drove energy prices higher, while concerns about the prime minister's tax-relief and defence-spending plans unsettled the bond market, lifting yields.

Japan's GDP growth for the second quarter came in below expectations, at 1.1% (q/q annualized, 1.9% in Q1). Consumer spending softened after a typhoon in June forced businesses to close. The Iran war also had an impact on Japanese goods exports, with trade disruptions in the Strait of Hormuz choking off shipments. However, government spending helped to offset the fall in domestic demand, as the administration of Sanae Takaichi presses ahead with fiscal stimulus. Although inflation in Japan remains relatively low, at just 1.9%, weakness in the yen could force the BoJ to accelerate its rate-hiking campaign.

Emerging Markets: Tech pulls back, Chinese stimulus underwhelms

Finally, emerging markets fell in Q3, underperforming the S&P and developed markets overall. The MSCI Emerging Markets Index, in local-currency terms fell 2.8%. Brazilian stocks bucked the trend, with the Bovespa Index rising 8.3% on brightened prospects for the business-friendly presidential candidate as well as two 25-bp rate cuts from the Brazilian central bank. Taiwan's Weighted Index also supported EM (+3.9%), while larger economies suffered corrections for the year. The Mexican IPC Index, for instance, fell 4.2% on trade uncertainty after Washington decided against extending the North American trade agreement.

The Indian Nifty 50 fell 5.2% due to the nation's heavy reliance on fuel imports and expectations of a rate hike, as inflation approached 5%. Meanwhile, stocks in China, the largest EM nation, fell hard (SSE Composite -6.2%) on disappointing stimulus and a tech selloff. The retreat of previously strong AI and semiconductor stocks removed an important source of market support, while late-July leadership pledges lacked major stimulus announcements, even as home prices remained depressed and housing starts deteriorated further. The economies of Brazil, Mexico, India and China (the four largest emerging markets) grew 2.6%, 0.8%, 7.7% (fiscal year), 5.0% respectively in 2025. TD Economics forecasts 2026 growth of 2.2%, 1.5%, 7.2% and 4.5% for these nations.

Wealth Investment Office, TD Wealth

Head of Wealth Investment Office
Brad Simpson | Chief Wealth Strategist

North American Equities:
David Beasley | Senior Quantitative Portfolio Manager
Ashish Chaturvedi | Senior Manager
Chadi Richa | Senior Equity Analyst
Andrej Krneta | Senior Equity Analyst
Neelarjo Rakshit | Senior Equity Analyst
Milad Marvasti | Senior Equity Analyst
Caroline Escott | Manager, Investment Strategy & Research

Managed Investments:
Fred Wang | Head of Asset Allocation & Managed Investments
Adam Weingarten | Senior Fixed Income Analyst
Mansi Desai | Portfolio Manager, Equities
Kevin Yulianto | Senior Investment Strategist & Senior Portfolio Manager
Daniel Carabajal | Senior Fixed Income Analyst
Kaan Sapanatan | Senior Analyst, Private Markets
Jack Zhang | Investment Management Analyst

Portfolio Management Consulting:
Shanu Kapoor | Senior Manager, Portfolio Management Consultant
Anita Linyu Li | Senior Manager, Portfolio Management Consultant
Greg McQueen | Senior Portfolio Management Consultant
Ivy Leung | Senior Portfolio Management Consultant
Kerron Blandin | Senior Portfolio Management Consultant
Matthew Conrad | Senior Portfolio Management Consultant
Valerie Lacroix | Portfolio Management Consultant
Jerry Chang | Portfolio Management Consultant
Anshul Kaliravna | Portfolio Management Analyst
William Yuan | Portfolio Management Analyst
Julien Starecki | Senior Portfolio Management Consultant
Sophie Tian | Senior Portfolio Management Consultant
Peter Scott | Senior Portfolio Management Consultant
Duncan Peterson | Senior Portfolio Management Consultant
Carrie Zhang | Portfolio Management Analyst

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