

Data and opinions as of September 30, 2025

Navigating labour, inflation and policy crosscurrents

September saw a recalibration of market expectations as downward labour market revisions, persistent inflation pressures, and evolving central bank signals converged. Investors are now weighing the prospect of earlier and deeper rate cuts against sticky inflation and volatile market positioning. The interplay between employment softness, tariff-driven price increases, and central bank caution has driven sector rotations and renewed focus on diversification.

NEI perspectives

Labour market revisions and employment trends: Recent downward revisions to job growth and rising unemployment reveal a weaker labour market, prompting expectations for earlier and deeper rate cuts.

Bottom line: Labour market softness is now front and center for policymakers and investors, driving expectations for more aggressive monetary easing and sector rotation toward defensives and interest-rate-sensitive equities.

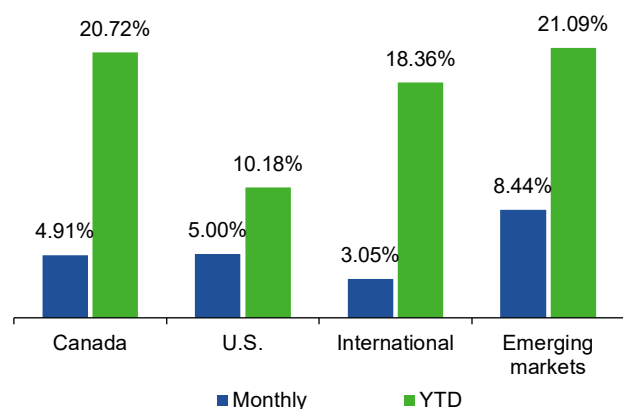
Inflation pressures and tariff effects: Core inflation remains stubbornly high, with tariffs pushing up consumer costs and complicating the case for aggressive rate cuts. **Bottom line:** Persistent inflation—especially in services and tariff-impacted goods—remains a key risk, limiting the scope for rate cuts and reinforcing the need for inflation hedges and global diversification.

Central bank signals and market positioning: Central banks are signaling rate cuts, but the pace and depth remain uncertain as they balance inflation risks against labour market weakness. **Bottom line:** Central banks are walking a fine line—balancing growth risks against inflation; investors should remain nimble, focusing on quality, duration management, and sector selectivity as policy uncertainty persists.

– NEI Asset Allocation team

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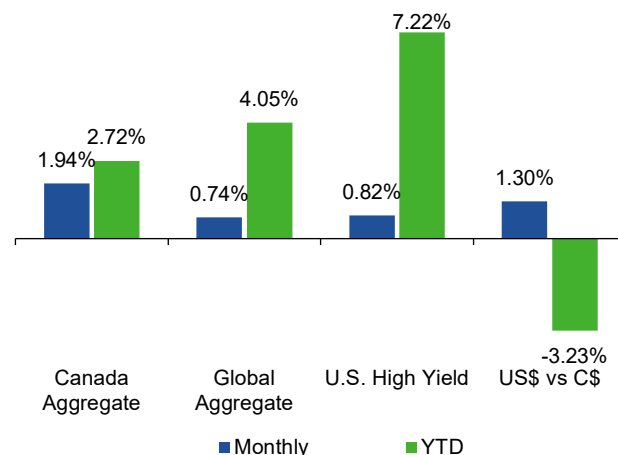
Equity returns (in C\$)



Canada: MSCI Canada Index TR; **U.S.:** MSCI USA Index TR
International: MSCI EAFE Index TR; **Emerging markets:** MSCI Emerging Markets Index TR.

Source: Bloomberg.

Fixed income and currency returns (in C\$)



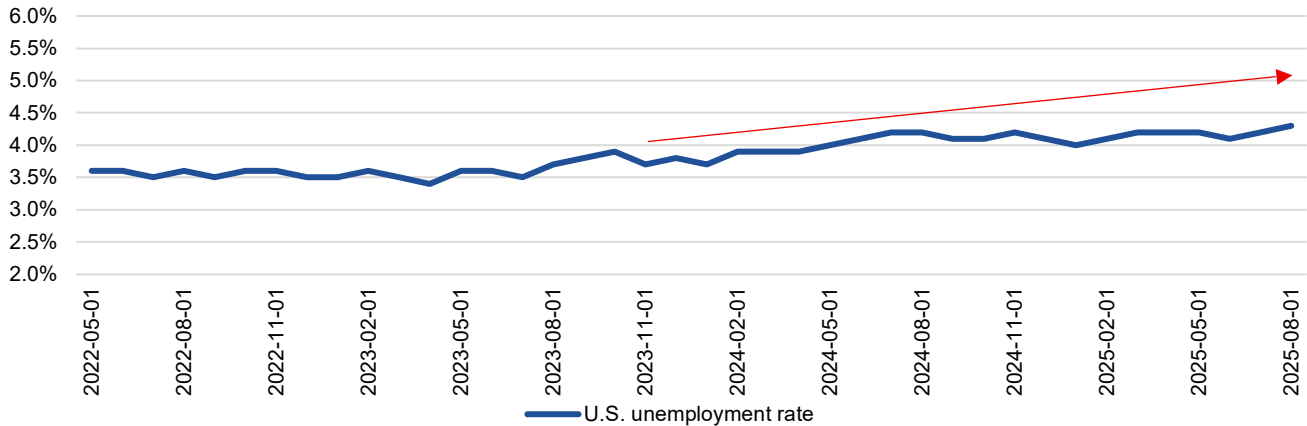
Canada Aggregate: Bloomberg Barclays Canada Aggregate Bond Index; **Global Aggregate:** Bloomberg Barclays Global Aggregate Bond Index; **U.S. High Yield:** Bloomberg Barclays U.S. High Yield Index.

Source: Bloomberg.

Labour market revisions and employment trends

Recent downward revisions to job growth data and a rise in unemployment rates have revealed that the labour market is weaker than previously reported. This shift has led to softer participation rates and recalibrated expectations for monetary policy, with investors now anticipating earlier and deeper rate cuts from central banks. The ripple effects are evident in bond yields, which have declined, and in equity markets, where sector rotations favor defensives and interest-rate-sensitive stocks. In Canada, similar trends have emerged, with cumulative job growth turning negative and economic momentum slowing.

Chart 1: U.S. unemployment rate rising



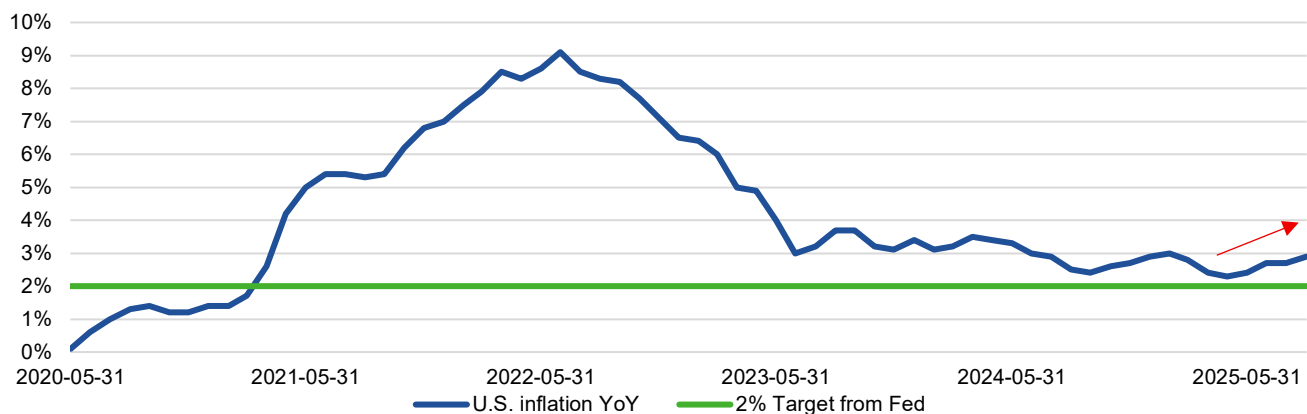
Source: Bloomberg.

Bottom line: Labour market softness is now front and center for policymakers and investors, driving expectations for more aggressive monetary easing and sector rotation toward defensives and interest-rate-sensitive equities.

Inflation pressures and tariff effects

Despite weaker employment figures, inflation remains stubbornly above target, with core CPI and PCE measures holding steady near 3%. Tariffs on consumer goods and autos have further pushed up costs, complicating the outlook for aggressive rate cuts. Service inflation, closely tied to wage growth, has stalled in its earlier moderation, while goods inflation is reaccelerating due to supply chain disruptions and new trade barriers. Producer prices offer mixed signals, but the overall trend points to persistent inflationary pressures that continue to challenge central banks.

Chart 2: U.S. inflation stubbornly above 2% and ticking up recently



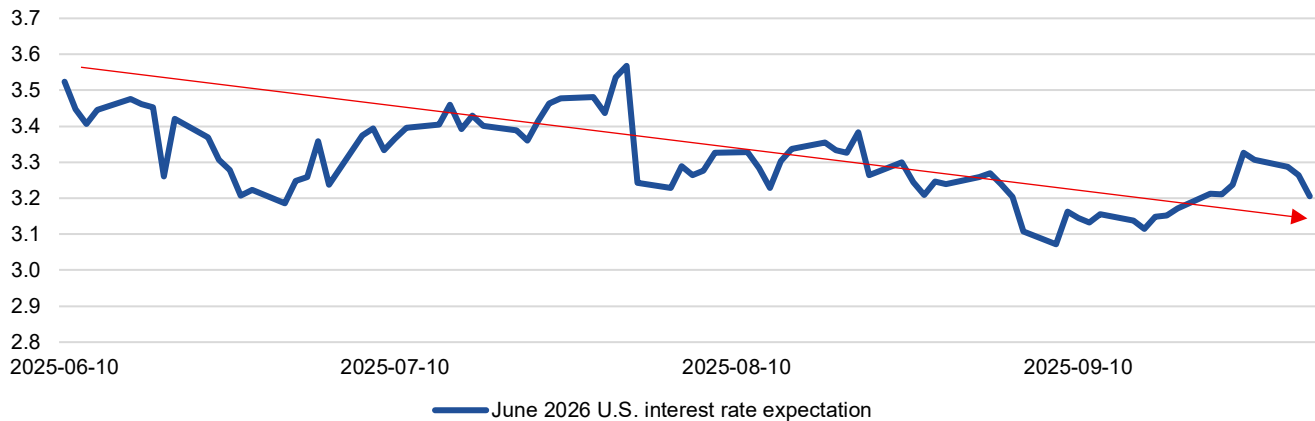
Source: Bloomberg.

Bottom line: Persistent inflation—especially in services and tariff-impacted goods—remains a key risk, limiting the scope for rate cuts and reinforcing the need for inflation hedges and global diversification.

Central bank signals and market positioning

Central banks, including the Federal Reserve (Fed) and Bank of Canada, have signaled a bias toward rate cuts, but the pace and depth of easing remain uncertain as they balance inflation risks against labour market weakness. Markets are currently pricing in approximately 100 basis points of cuts over the next 12 months, yet policymakers emphasize that future moves will be data-dependent. Equity markets have rallied on the prospect of easier monetary policy, while bond markets remain volatile as traders debate whether this environment signals a “soft landing” or the early signs of a broader slowdown.

Chart 3: Expectation for next year’s Fed rate continues to fall



Source: Bloomberg.

Bottom line: Central banks are walking a fine line—balancing growth risks against inflation. Investors should remain nimble, focusing on quality, duration management, and sector selectivity as policy uncertainty persists.

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