



2025 THIRD QUARTER MARKET REVIEW

# The summer rally stayed hot, as tariff talk turned cold

IG Investment Strategy Team





# Signs of optimism emerge, despite the noise

The third quarter delivered broad gains across asset classes, with market performance largely overriding a backdrop of cautious sentiment. Investors looked past persistent trade policy headlines, increasingly treating the U.S. administration's tariff policy as noise rather than a core risk. The primary catalysts for the positive performance were a subtle shift toward lower interest-rate expectations and resilient corporate earnings.

Global equity markets posted strong returns. Canadian equities led the charge, with the S&P/TSX Composite Index returning 11.8% for the quarter, powered by the materials and information technology sectors. In the U.S., the S&P 500 Index climbed 7.8% in U.S. dollars (10.1% in Canadian dollars). The positive trend was global, as the MSCI Emerging Markets Index surged 10.1% and the MSCI EAFE Index returned a respectable 4.2% (both in U.S. dollars).

This market strength came amid a contrasting economic picture. In Canada, the unemployment rate climbed to a four-year high of 7.1%, while the U.S. maintained a much lower rate of 4.3%. In the fixed income market, dovish signals from the U.S. Federal Reserve proceeded with a quarter percentage rate cut in September. Government bond yields eased into the quarter's end, supporting bond prices, while corporate bonds outperformed government bonds. The Canadian dollar finished the quarter near US\$0.72.

Ultimately, the quarter was characterized by a delicate balance between geopolitical uncertainty and supportive economic fundamentals. Investors navigated these complexities, and the combination of lower yields and firm corporate health pushed markets higher.

*“Strength begets strength; resilient margins, a sturdy consumer and big-tech spending kept upside risks in the driver’s seat”  
– Philip Petursson*



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## Index returns

## 2025 equity price returns and fixed income total returns

Table 1 - 2025 equity price returns

	Currency	Q3	YTD	1-year
S&P/TSX Composite Index	CAD	11.8%	21.4%	25.1%
S&P 500 Index	USD	7.8%	13.7%	16.1%
	CAD	10.1%	10.0%	19.6%
MSCI EAFE Index	USD	4.2%	22.3%	12.1%
	CAD	6.5%	18.4%	15.5%
MSCI Europe Index	EUR	3.2%	9.8%	6.5%
	CAD	5.4%	20.7%	15.8%
MSCI Emerging Markets Index	USD	10.1%	25.2%	15.0%
	CAD	12.5%	21.1%	18.5%

Table 2 - 2025 fixed income total returns

	Currency	Q3	YTD	1-year
FTSE Canadian All Government Bond	CAD	1.4%	2.6%	2.2%
FTSE Canada Universe Bond	CAD	1.5%	3.0%	2.9%
ICE BofA U.S. Corporate Bond	USD	2.6%	7.0%	3.9%
	CAD	4.7%	3.5%	7.0%
ICE BofA U.S. High Yield Composite	USD	2.4%	7.1%	7.2%
	CAD	4.4%	3.6%	10.4%
Bloomberg Global Aggregate Bond	USD	0.6%	7.9%	2.4%

Source: IG Wealth Management; Bloomberg; 1-year, , September 30, 2024-September 30, 2025.  
Equity benchmark returns are quoted as price returns, excluding dividends. Canadian bond market to September 30, 2025.



# Drivers of market performance

## Canadian equities

The S&P/TSX Composite Index advanced 11.8% in Q3, surpassing 30,022, as broad-based sector strength drove equities higher.

Materials led with a 37.4% gain, driven by gold's record climb to US\$3,859/oz and renewed investor confidence in mining stocks. Honourable mention goes to the energy sector, with an 11.4% increase, supported by crude oil prices, with West Texas Intermediate averaging US\$65/bbl. Financials also outperformed, gaining 9.7%, as better-than-expected bank earnings eased concerns over credit losses.

Cyclicals and resource sectors led the rally, while defensives, such as consumer staples and industrials, underperformed. Investors prioritized earnings and sector fundamentals, driving the TSX Composite Index to a 21.4% year-to-date gain, despite macroeconomic headwinds.

This strong performance stood in stark contrast to weak mid-quarter economic data. Second-quarter GDP contracted by 1.6% annualized, led by a 27% plunge in exports due to U.S. tariffs. Business investment also fell 10.1%, reflecting cooling demand and economic uncertainty.

## U.S. equities

The S&P 500 Index delivered a 7.8% return in U.S. dollars (10.1% in Canadian dollars) during the third quarter, as market sentiment improved significantly. This rally was supported by a notable easing of global tariff concerns and a robust second-quarter corporate earnings season, which saw many companies exceed expectations.

Leading the gains, the information technology (+13%) and communications services (+11.8%) sectors were the top performers, driven by continued strength and positive earnings surprises from hyperscale technology companies. In contrast, defensive sectors, like consumer staples (-2.9%) and real estate (+1.7%), lagged, as investors rotated out of safety and into more growth-oriented areas of the market.

One area that particularly benefited from this shift was small-cap equities. This segment saw renewed momentum, with the Russell 2000 Index achieving a 12% quarterly increase in U.S. dollar terms. The U.S. Federal Reserve's pivotal decision to cut its overnight rate in September was a key catalyst, bolstering investor confidence and signalling a more accommodative policy that is beneficial for smaller, domestically-focused companies sensitive to borrowing costs.

## International equities

International equities saw broad gains in the third quarter, as investors looked for opportunities outside the U.S. The MSCI Emerging Markets Index was a standout performer, gaining an impressive 10.1% in U.S. dollar terms (12.5% in Canadian dollars).

Emerging markets were the clear leaders, fuelled by strong performances in key Asian markets like Thailand, China and the Philippines. The narrative in China has been particularly noteworthy, with renewed interest driven by advancements in its domestic technology sector.

Developed markets posted healthy returns, with the MSCI EAFE Index gaining 4.2% in U.S. dollar terms (6.5% in Canadian dollars), while European markets, represented by the MSCI Europe Index, returned 3.2% in euro terms (5.4% in Canadian dollars).

Overall, the quarter underscored a broadening of market leadership, as global capital flowed into regions perceived as undervalued and under-owned, providing a compelling structural tailwind for emerging markets.

## Fixed income

Hints of slower growth and cooler jobs data set up the U.S. Federal Reserve's first rate cut for 2025 in September, which nudged government yields lower and lifted bond prices.

Fixed income rebounded as interest-rate expectations turned more supportive, and currency moves shaped returns for Canadian investors. The FTSE Canada Universe Bond Index rose 1.4% in Canadian dollars.

Investment-grade corporate bonds outperformed, as borrowing costs fell, and company results stayed solid; spreads tightened to near multi-decade lows. The ICE BofA Corporate Index gained 2.6% in U.S. dollar terms (4.7% in Canadian dollars), as the Canadian dollar ended modestly lower at US\$0.72.

High-yield bonds rallied, as investors accepted lower risk premiums and new issuance surged. High yield advanced as borrowing costs fell, and risk premiums narrowed. The ICE BofA U.S. High Yield Composite returned 2.4% in U.S. dollars (4.4% in Canadian dollars).



# Canadian equities

Chart 1 - S&P/TSX Composite Index performance

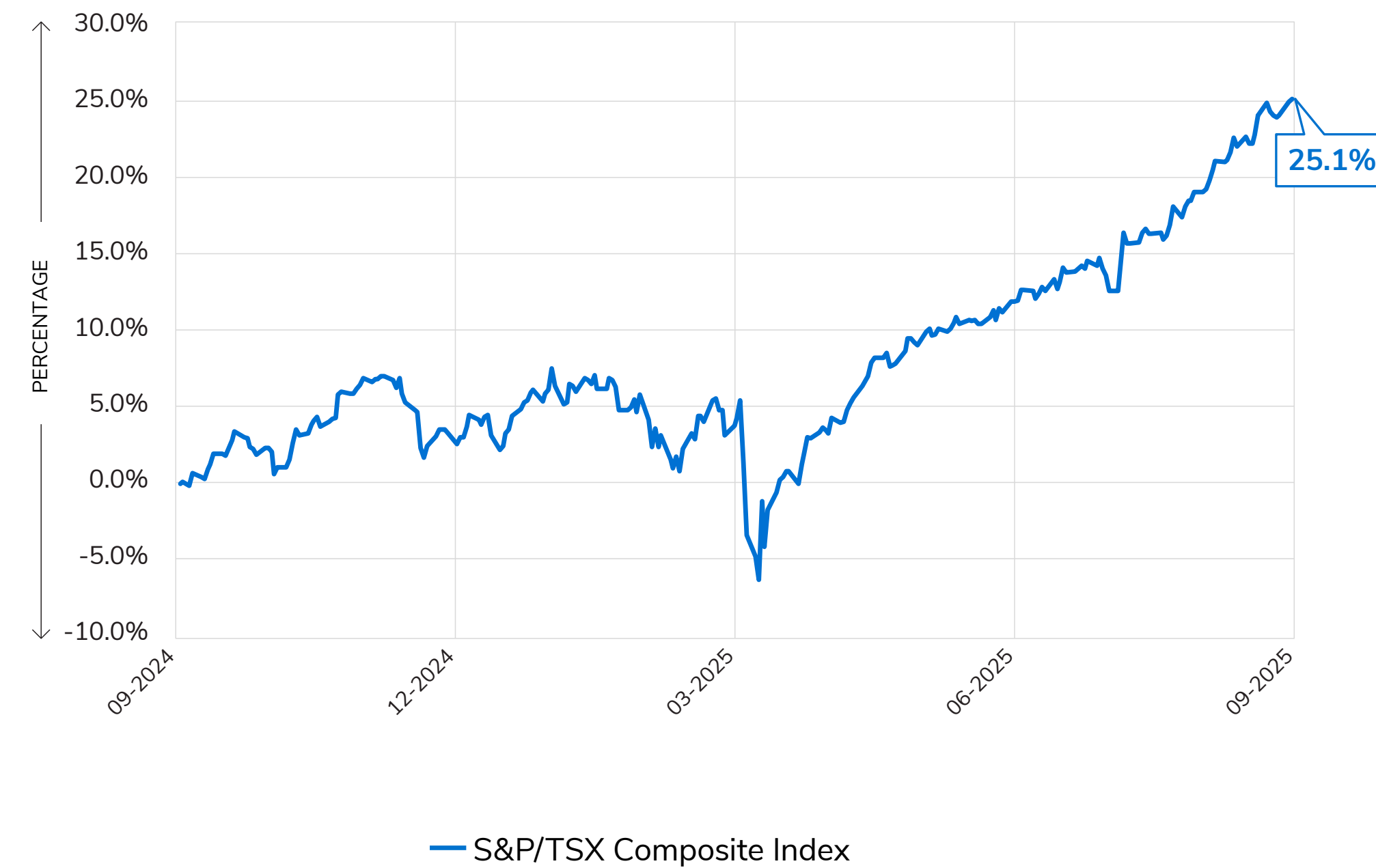
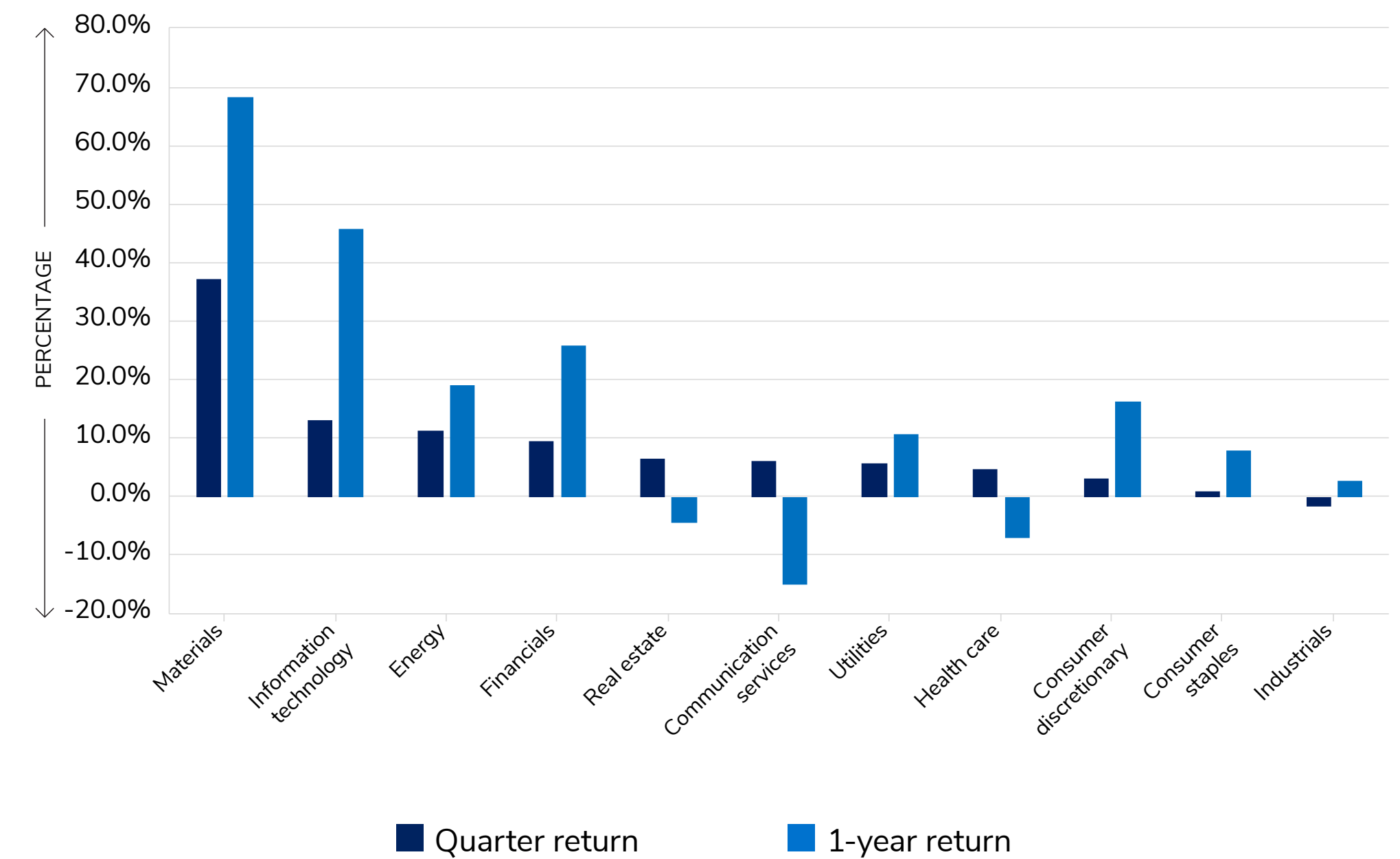


Chart 2 - S&P/TSX Composite sector level returns





# U.S. equities

Chart 3 - S&P 500 Index performance (USD)

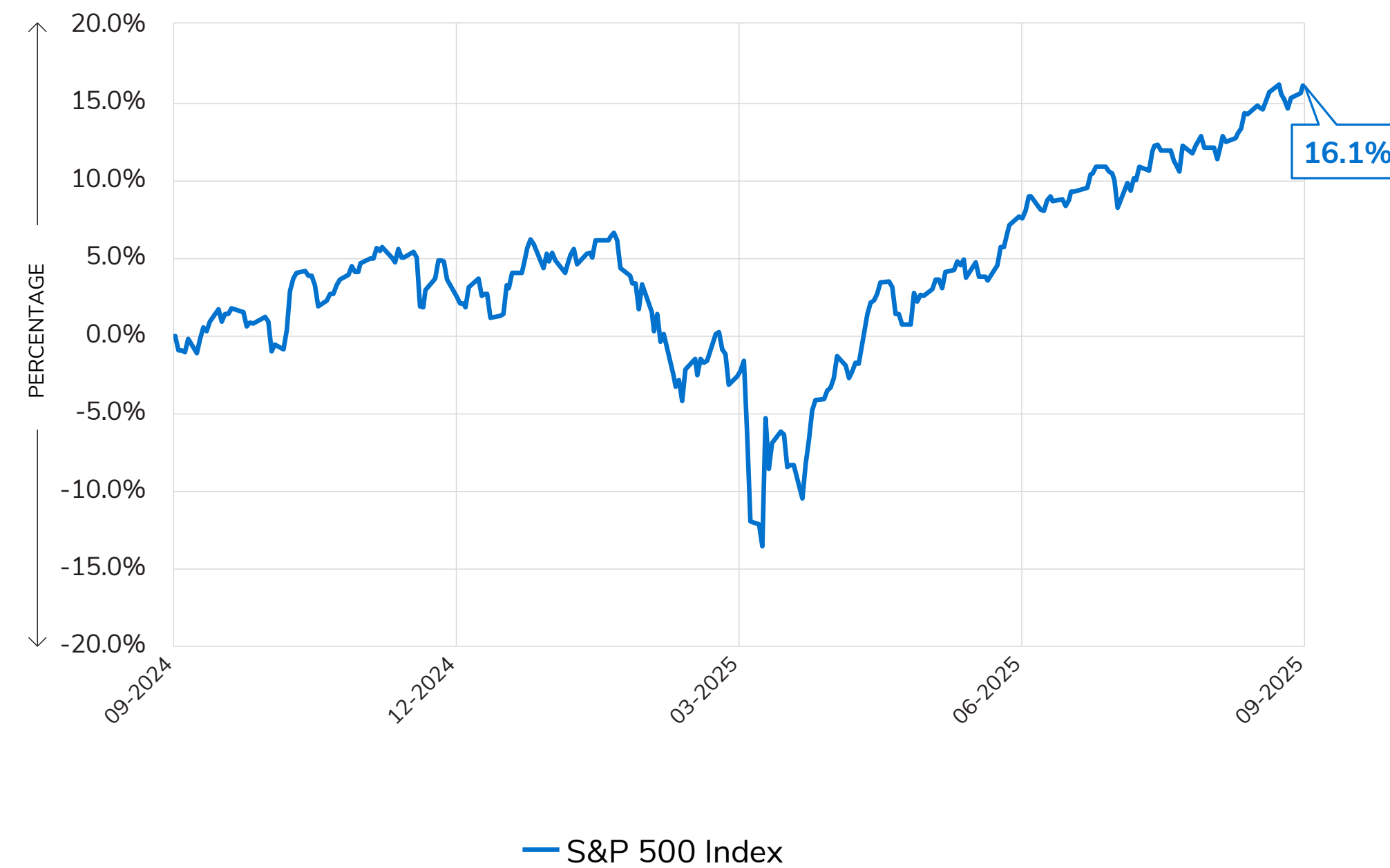
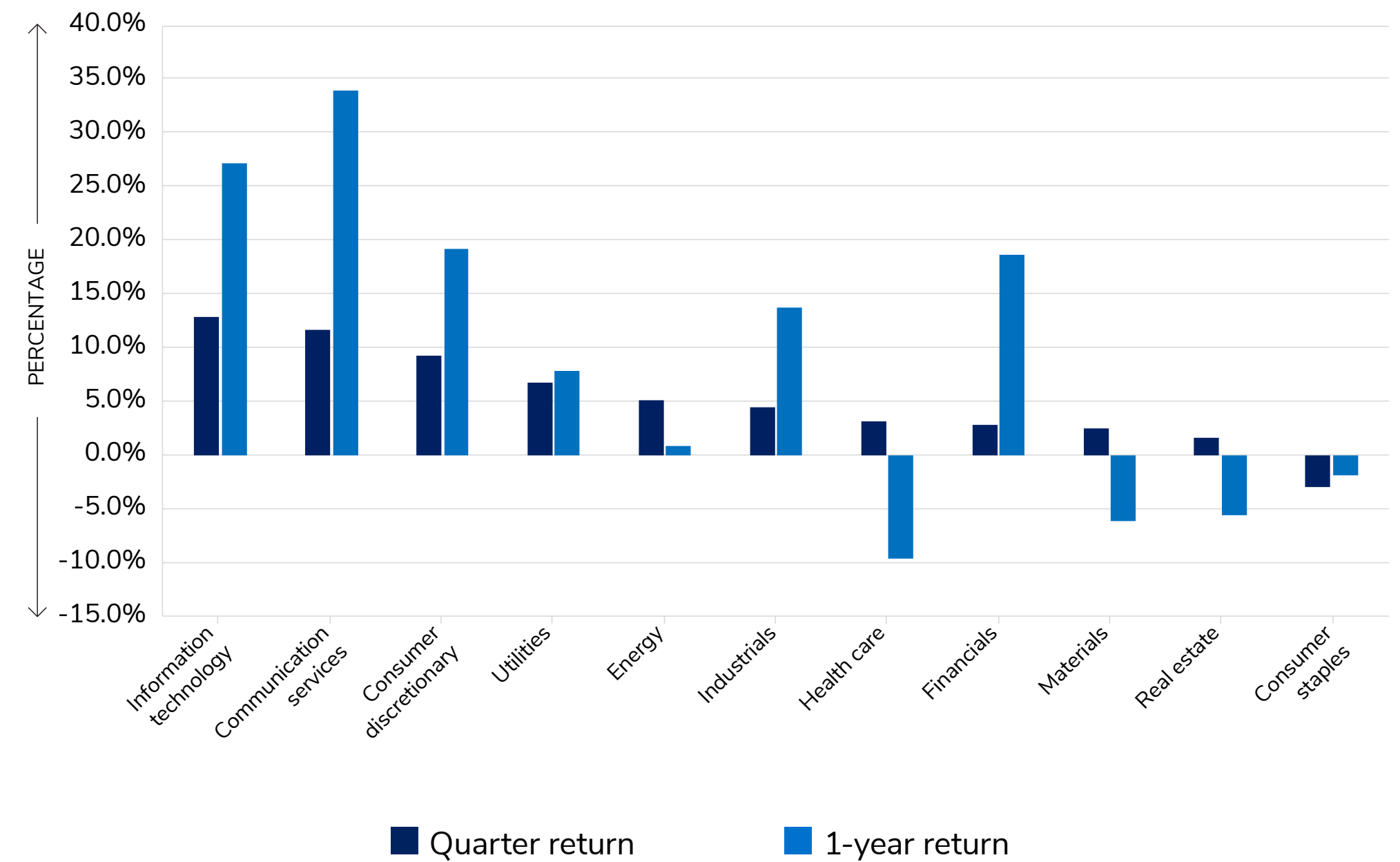


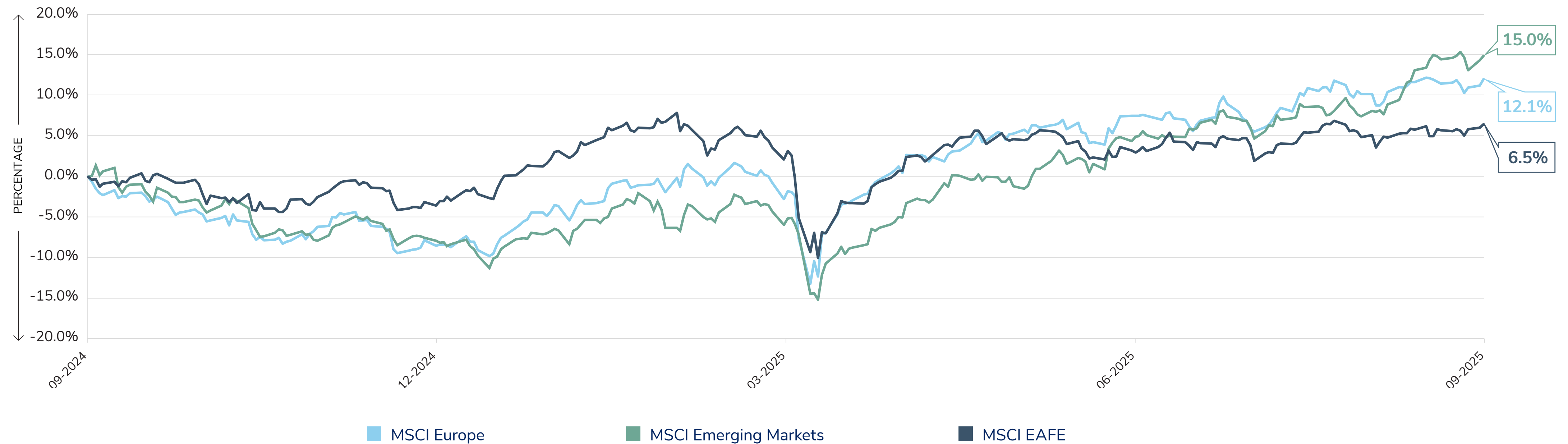
Chart 4 - S&P 500 Composite sector level returns





# International equities

Chart 5 - MSCI Emerging Markets (USD), MSCI Europe (EUR) and MSCI EAFE (USD) indices performance





# Fixed income

Chart 6 – Global central bank policy rates

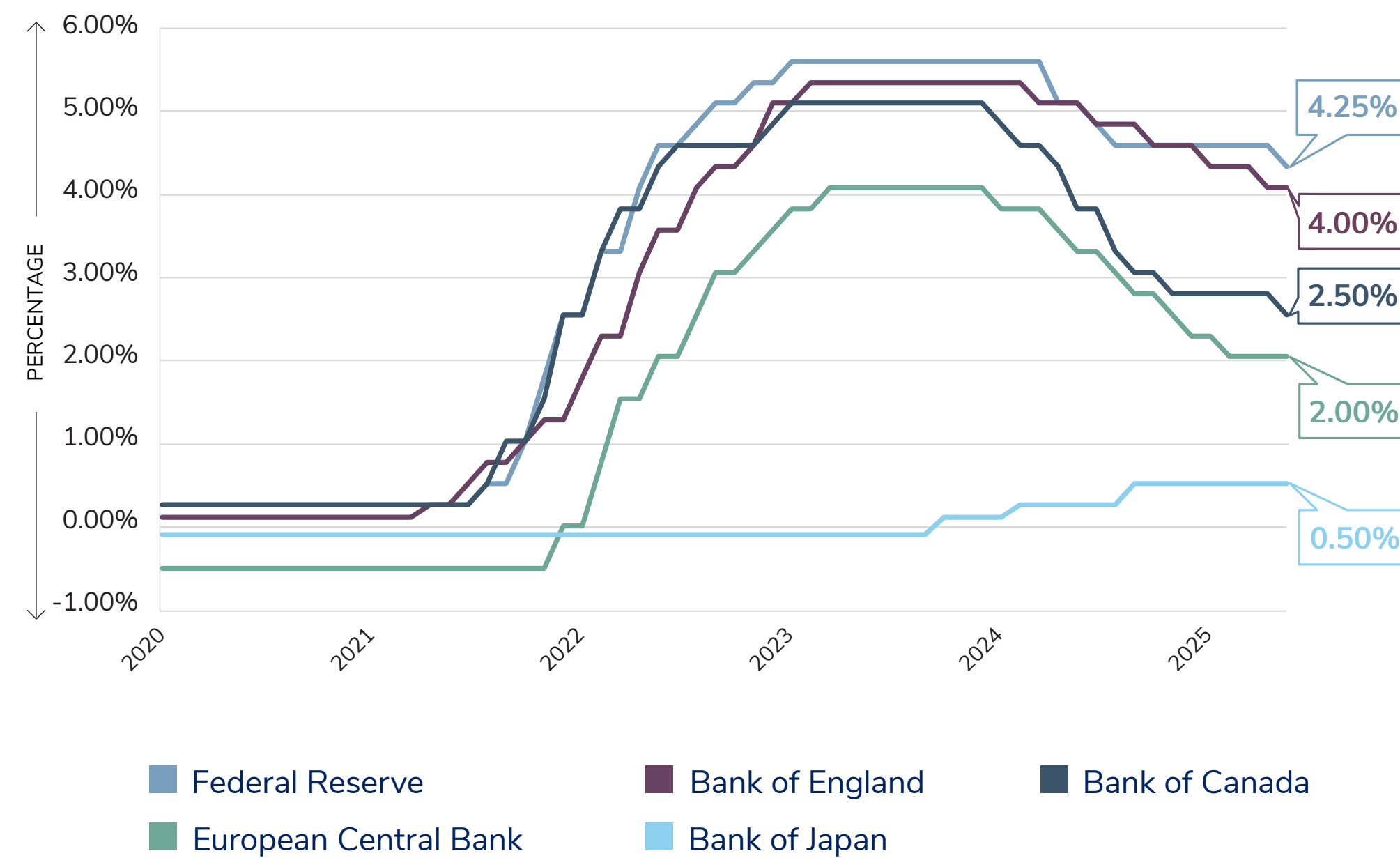
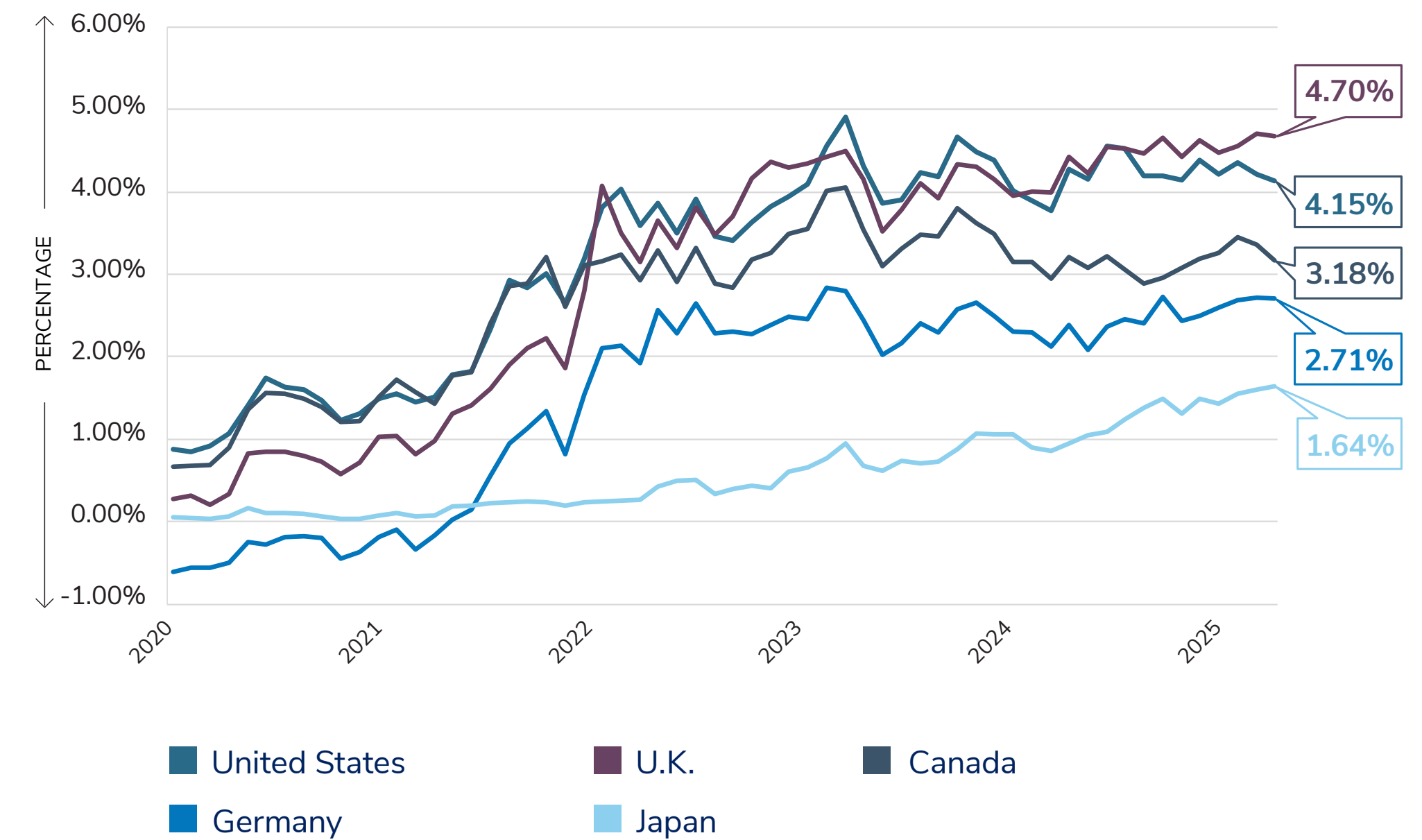


Chart 7 - Sovereign bond 10-year maturity yields





# Key benchmark performance

Chart 8 - Canadian dollar/U.S. dollar cross

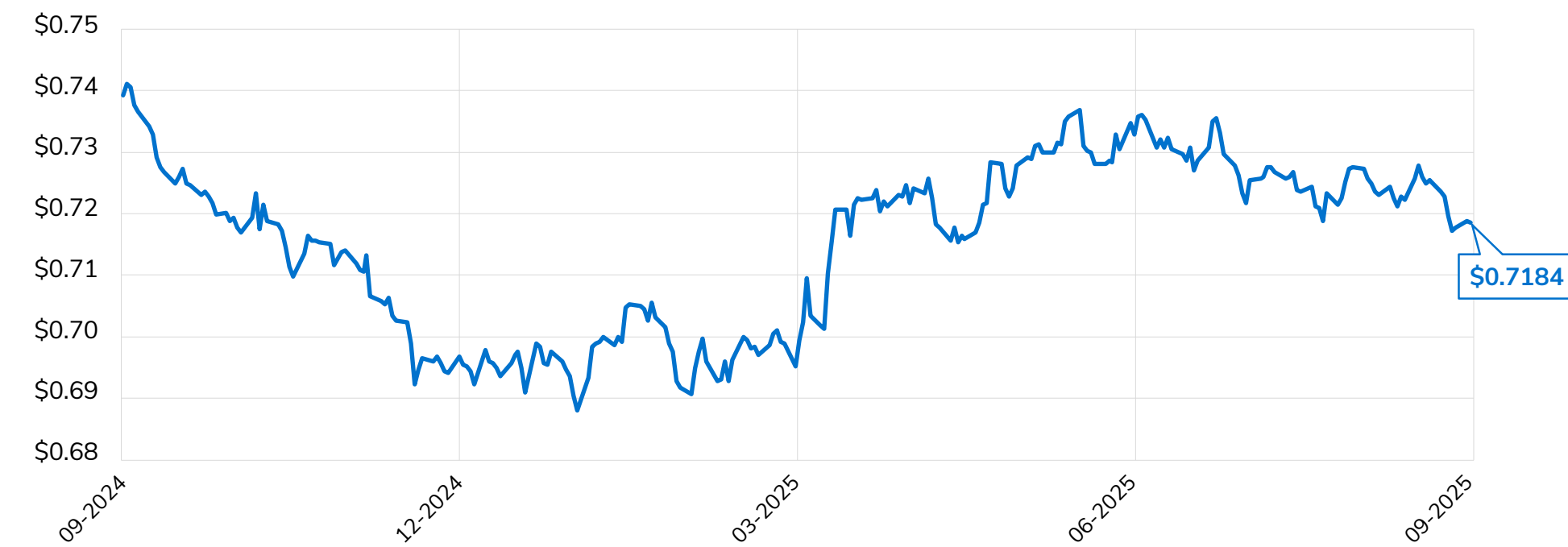


Chart 9 - Crude oil (WTI) US\$/bbl

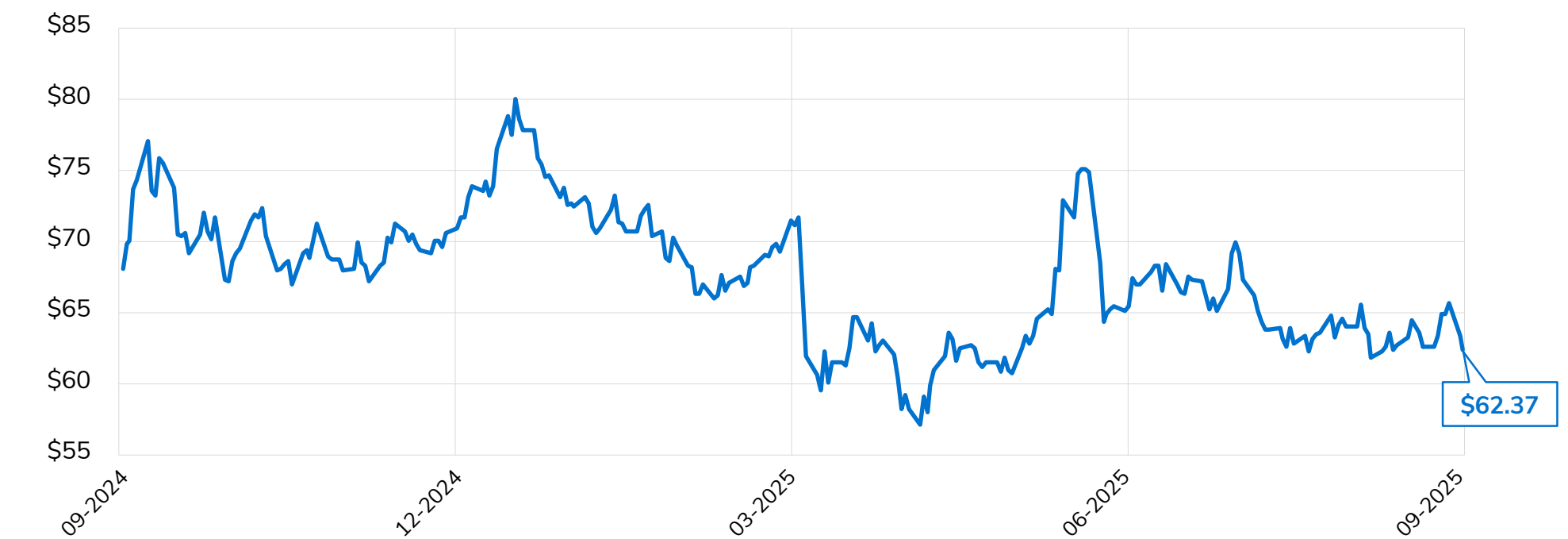


Chart 10 - Gold US\$/oz.

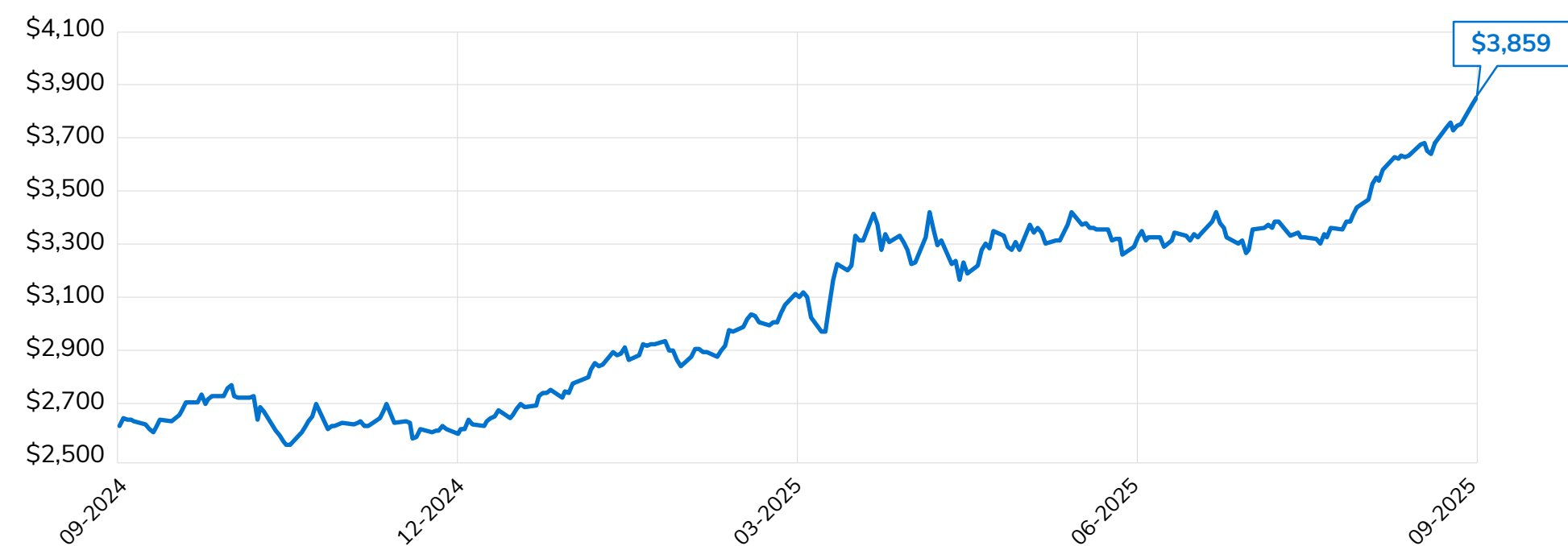
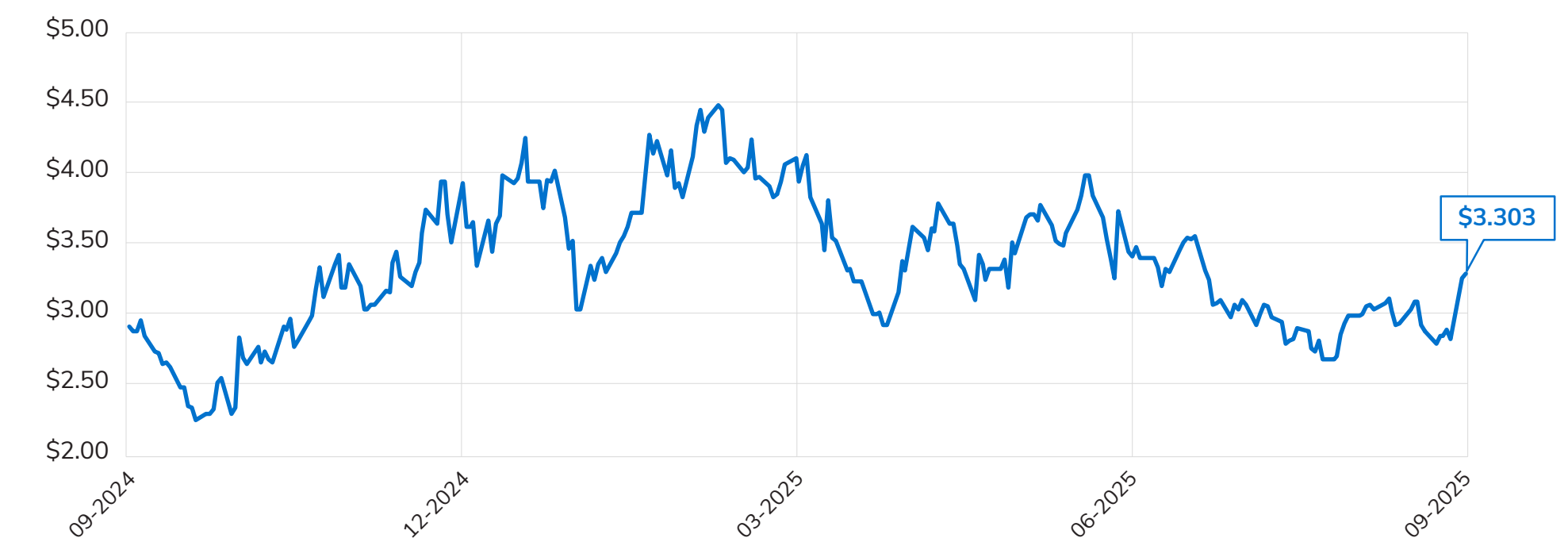


Chart 11 - Natural gas US\$/mmbtu







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# Market outlook

Investors today face a familiar challenge: separating durable economic signals from short-term noise. While softening labour markets and a temporary pause in manufacturing activity have captured headlines, a deeper look reveals a fundamentally resilient and encouraging landscape for the markets ahead.

The most significant development is the successful normalization of inflation, which is now stable and within central bank targets. This has paved the way for an easing cycle, providing a supportive backdrop for the economy. More importantly, corporate America continues to demonstrate its strength. Earnings have once again surpassed expectations, with second-quarter results showing impressive year-over-year growth. This combination of moderating inflation and robust corporate health provides a powerful engine for market performance.

This environment reinforces the wisdom of our unwavering investment principles. First, broad diversification remains the most effective strategy to navigate a market with varied strengths and weaknesses. Second, a long-term perspective allows us to look past pockets of softness, like the current housing market, and focus on the powerful underlying trends.

While uncertainty is always a factor, a disciplined approach focused on fundamental value allows investors to confidently position portfolios to capture the growth that lies ahead.

“The market doesn’t hate tariffs; the market hates uncertainty.”  
– Philip Petursson



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