Financial HARTbeat

Hold, raise or cut.
Oct 5th 2026

Good Morning,

Raise: Inflation is too high and the economy is running too hot.

Hold: Inflation and growth are uncertain, so policymakers wait for more data.

Cut: Growth is slowing, unemployment is rising, and inflation is under control.

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Also, catch the playback of our Annual Outlook ***Click here***

Chart of the Day: Odds tilted back to hold…big swing..

		Bank of Canada	Federal Reserve	European Central Bank
Rates	President / Chair	Tiff Macklem	Kevin Warsh	Christine Lagarde
	Policy rate	Overnight rate	Fed Funds rate	Deposit facility rate
	Current policy rate	2.25%	4.00%	2.50%
Next meeting	Next meeting date	October 28, 2026	October 28, 2026	October 29, 2026
	Market-implied policy rate*	2.37%	4.04%	2.49%
	Spread vs. current rate	+12 bp	+4 bp	-1 bp
	Probability of…			
	… hike	49%	17%	0%
	… hold	51%	83%	95%
	… cut	0%	0%	5%
Rate cuts	25bps hikes (cuts) priced in...			
	... next 3 months	1.1	1.1	0.6
	... next 6 months	-	2.2	1.4
	... next 12 months	-	3.4	-

*Derived from OIS (Bank of Canada, European Central Bank) and Fed Funds Futures (Federal Reserve).

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Top News

U.S. stock index futures were relatively unchanged this morning as technology shares eased from record highs, while investors looked for fresh clues on the monetary policy path with Treasury yields and oil prices still elevated. The tech-heavy Nasdaq rose near record highs in the prior session after weaker-than-expected jobs data dampened expectations for a rate hike from the Federal Reserve at its policy meeting this month. According to the CME FedWatch tool, traders now see an 80% chance of the Federal Reserve holding interest rates steady this month, though a December rate hike remains largely priced in. In the bond market, the benchmark 10-year U.S. Treasury yields exceeded 5.28%, near multi-year highs amid concerns over deteriorating government finances, heavy debt issuance and elevated energy costs.

Brent crude futures were slightly higher but hovered near the psychologically important $100-a-barrel level as concerns over Gulf oil infrastructure disruptions amid the ongoing US Israel war persisted. In fact, shipping data showed today that Gulf oil exporters topped pre-war levels for about half of September, though attacks on tankers and logistical constraints cloud the outlook for sustained higher flows.

Some investors expect higher yields to derail the equity rally, but so far this year, optimism about robust corporate results has kept US stocks momentum alive. October will bring the quarterly earnings season back in focus as roughly 70% of the S&P 500's market capitalization is expected to have reported by month-end. According to data compiled by Reuters, the near-term forecast remains upbeat based on year-end targets of Wall Street giants. The median year-end target of at least 20 brokerages stood at over 7,900. In Canada, futures tracking the main stock index were also little changed on Monday as gold prices climbed, lending some support to the commodity-heavy Canadian market.

While odds of an October rate hike by the Bank of Canada have receded, investors still expect the central bank to raise lending rates at least once before the end of 2026, according to LSEG-compiled data.

Among company news, Canada's Suncor Energy said it had agreed to sell its interests in three offshore oil assets to London based Ithaca Energy for C$1.2 billion in upfront cash, while Cenovus Energy said it would acquire Athabasca Oil in a cash-and-stock transaction valuing the Canadian oil producer at an implied enterprise value of C$5.7 billion.

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Elsewhere, Euro zone business activity expanded at its fastest pace in nearly 3-1/2 years in September as demand remained strong despite inflation worries stemming from the Middle East war. Inflation in the bloc jumped more than expected to 3.8% last month from 3.2% in August on soaring energy costs, raising the risk the European Central Bank will lift interest rates to a higher-than-expected level.

Japan's service sector expanded at a weaker pace in September as business activity and new orders grew more slowly and earthquake disruption dampened demand.

Bond Prices Attractive (Argus)

We have different ways of looking at market valuations, and most are signaling that stocks are reasonably valued, though hardly bargains. Our primary asset-allocation model is our Stock/Bond Barometer, which goes back to 1960 and takes into account real-time price levels, historical growth rates, and forward-looking forecasts. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading is a modest premium for stocks of 0.18 sigma, with a standard deviation of 1.06. The current valuation is a 1.03 sigma premium for stocks, just outside of the normal range for the first time in 25 years. While stock prices can live at high valuations, investors rebalancing portfolios may want to consider the current high yields in the fixed-income arena. Other valuation measures show reasonable multiples for stocks. The current forward P/E ratio for the S&P 500 is 19, within the range of 15-24, as earnings estimates continue to rise. On price/book, dividend yield and price/sales ratios, stocks are priced at the high end of historical ranges, given that tech stocks, with low capital bases and generally low yields, are the biggest component of the market. We check other ratios as well.

The gap between the S&P 500 earnings yield and the real 10-year government bond yield is 290 basis points, not far from the historical average and well below nosebleed valuation levels of 200 basis points back in the days of the "dot-com" bubble. On the Fed's stock-valuation model, the earnings yield is just below the 10-year Treasury bond yield, signaling value for stocks. Lastly, the ratio of the S&P 500 price to an ounce of gold is 1.8, within the normal range of 1-3. These valuation measures suggest to us that the stock market is not in danger of entering bubble territory at this juncture, but could benefit from lower interest rates down the road.

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Bond Yields (bps (basis points) negative means prices up and positive means prices down)

Figure 1: Key Interest Rates (Canada & U.S.)

Canadian Key Rate	Last	Change bps	Canadian Key Rate	Last	Change bps
CDA o/n	2.25%	0.0	CDA 5 year	3.63%	0.3
CDA Prime	4.45%	0.0	CDA 10 year	3.95%	0.5
CDA 3 month T-Bill	2.40%	0.0	CDA 20 year	4.20%	0.6
CDA 6 month T-Bill	2.56%	0.5	CDA 30 year	4.30%	0.6
CDA 1 Year	2.92%	1.0			
CDA 2 year	3.26%	-0.8			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	3.75-4.00%	0.0	US 5 year	5.05%	-0.7
US Prime	7.00%	0.0	US 10 year	5.27%	-0.6
US 3 month T-Bill	4.01%	0.2	US 30 year	5.62%	-0.6
US 6 month T-Bill	4.28%	-0.9	5YR Sovereign CDS	42.73	
US 1 Year	4.45%	-0.6	10YR Sovereign CDS	51.18	
US 2 year	4.82%	-0.7			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	696.66	0.02%	0.06%
BMO Laddered Preferred Shares (ETF)	12.75	0.16%	3.41%

Source: LSEG

Keep looking forward! Have a great day!
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