Monthly Market Insights

Data and opinions as of August 31, 2026

The bond market takes the wheel

August forced every narrative through one filter: the cost of money. Strong earnings and resilient activity ran up against four linked concerns: dependence on the AI capital-spending cycle, energy-driven inflation risk, a renewed Canada–U.S. trade conflict, and the rising cost of financing large government deficits. New Federal Reserve (Fed) Chair Kevin Warsh sharpened it at Jackson Hole on Aug 28: he gave no steer on rates, called commodity strength an upside inflation risk to watch, and pushed back on forward guidance. Markets were left to price a still-hawkish hold with the 30-year Treasury near a two-decade high. For Canadian investors, the mix was relatively supportive. The domestic market leans on financials, energy, and materials. However, Canada is not insulated: weaker U.S. tech leadership, higher global yields or renewed trade friction spill in quickly.

NEI perspectives

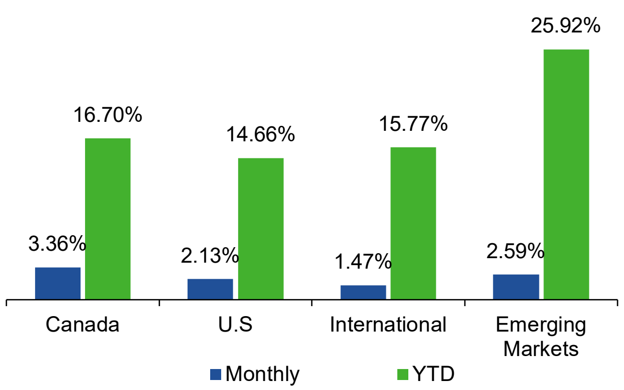
Canada–U.S. trade tension: escalation replaces negotiation. Talks collapsed and the U.S. imposed 50% tariffs on C$28 billion of Canadian goods (Aug. 22); Canada answered dollar-for-dollar with 15/25/50% counter-tariffs on C$28 billion of U.S. imports (Sept. 8), plus a C$7.5 billion support package. **Bottom line:** Direct exposure is targeted (~5% of exports), but prolonged uncertainty is the real risk to investment, supply chains, inflation and the loonie.

AI earnings: strong fundamentals, higher stakes. A blowout Nvidia quarter confirmed AI demand is accelerating, but late-month semiconductor volatility showed how much leadership rests on one theme and highlighted investor concerns about the extent to which the buildout has been debt-financed. **Bottom line:** Stay invested while diversifying beyond the largest technology winners may help manage concentration risk.

Gold, fiscal credibility and long yields: a new volatility source. With U.S. debt past $40 trillion and the 30-year at a 19-year high, the U.S. Department of the Treasury (Treasury) doubled its long-end buybacks; a liquidity patch, not a fix. Meanwhile, gold and a two-sided dollar signalled investor unease about deficits and the term premium. **Bottom line:** Policy rate cuts won't guarantee falling long yields; duration and currency exposure should be deliberate, not automatic.

– NEI Asset Allocation team

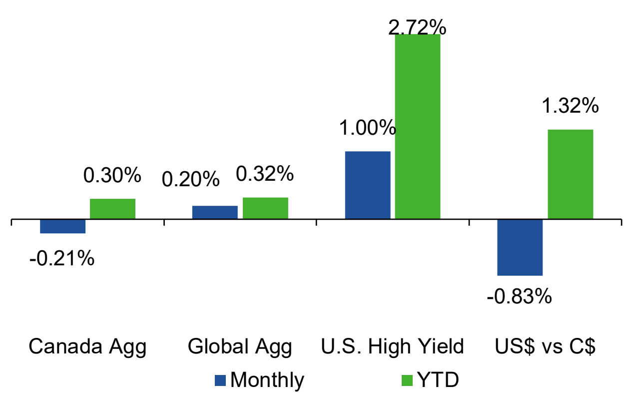
Equity returns (in C$)



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.

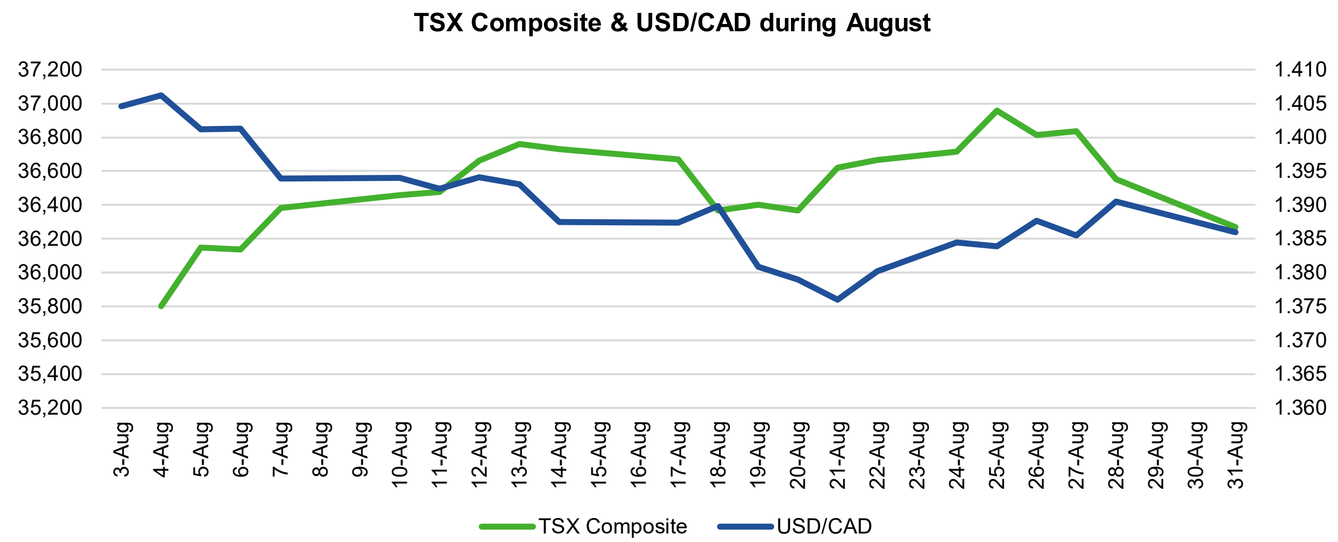
Source: Bloomberg.

Canada-U.S. trade: escalation replaces negotiation

After bilateral talks broke down on Aug. 22, the U.S. imposed a 50% Section 338 tariff on roughly C$27.6 billion of Canadian goods, notably excluding energy, potash, critical minerals and the steel/aluminum already covered under Section 232. Canada responded dollar-for-dollar: effective Sept. 8, with counter-tariffs of 15%, 25%, and 50% on C$27.6 billion of U.S. imports across ~874 tariff items—steel, dairy, appliances, agricultural equipment, pulp and paper, and electronics—with existing steel/aluminum surtaxes doubling from 25% to 50%, alongside a C$7.5 billion support package. Analysts estimate the U.S. duties hit only ~5% of Canada's total exports, so the direct exposure is targeted rather than economy-wide.

The market reaction was relatively mild: the TSX ended a five-session winning streak with a 0.76% dip that traders blamed on Jackson Hole, not tariffs. The bigger risk is the tension the standoff creates for the Bank of Canada—tariffs can slow growth and lift import prices at once, while compounding pressure on the currency. The loonie weakened toward US$0.72 (USD/CAD ~1.39) into month-end, caught between a tariff shock and a late-month bounce in the U.S. dollar after Warsh.

Chart 1: Mild reactions from the TSX and the loonie after trade talks collapsed



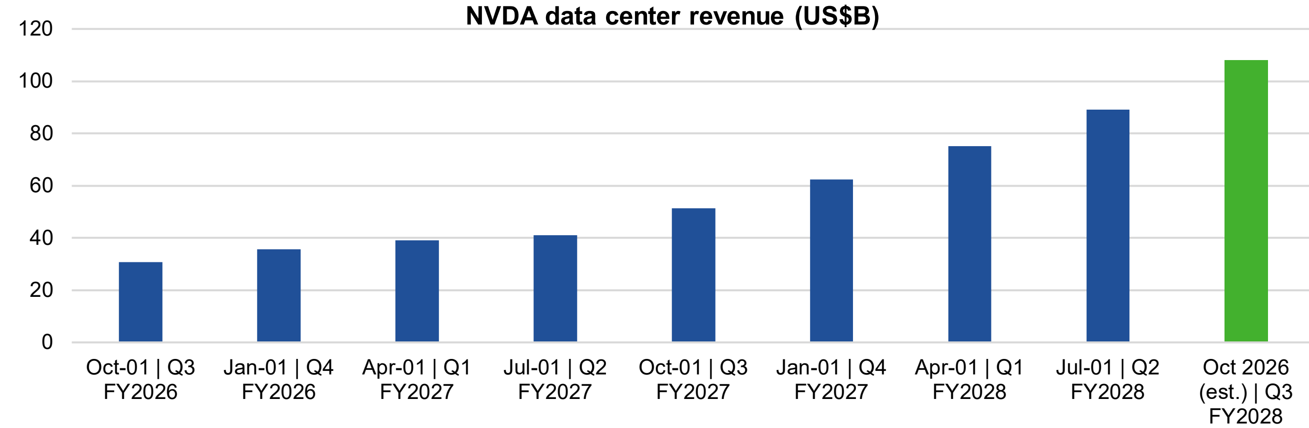
Source: Bloomberg.

Bottom line: The tariffs bite a narrow 5% of exports; it's the open-ended uncertainty—not the duties—that taxes investment, supply chains and the loonie.

AI earnings: strong, but concentration raises the stakes

Nvidia delivered the quarter the rally needed: fiscal Q2 revenue of ~$96.2 billion (up ~106% y/y), data-center revenue near $89 billion, adjusted EPS of $2.22 versus ~$2.09 expected, and Q3 guidance of ~$108 billion, well above consensus—reassuring investors that AI demand is accelerating, not fading. The rally remains anchored by profits rather than enthusiasm alone, which is constructive: earnings can validate higher prices. The catch is concentration and the interconnectivity—the same chipmakers, cloud platforms and infrastructure suppliers increasingly own, finance and sell to one another, so a stumble in one link can radiate across technology, industrials, and utilities sectors, as well as the credit markets.

Chart 2: Nvidia's quarterly data-center revenue trend shows the rising demand underpinning the rally



Source: Bloomberg.

Late-month trading proved the point. Global equities wobbled and recovered with the chipmakers and Nvidia itself giving back part of its post-earnings pop (trading down ~4.6% intraday on Aug. 28) as caution set in. The lesson for investors isn't to avoid technology. It's that a portfolio whose gains rest on one narrative can be more volatile than the headline index suggests—especially as the buildout leans more on debt, which ties AI's fortunes to the same rising cost of capital pressuring everything else.

Bottom line: Nvidia proved the demand is real, but when one stock is the market, diversification stops being optional.

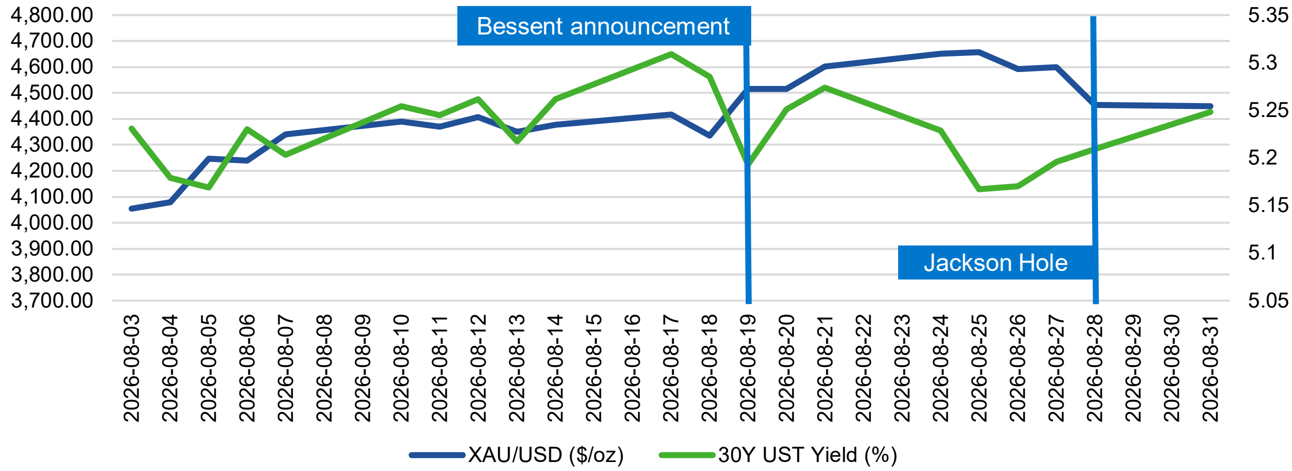
Gold, fiscal credibility and the term premium

Gold ran from ~$4,043 to a peak near $4,660 before pulling back to ~$4,471 at month-end—up ~10.5% on the month yet still ~13% below January's record, with central banks buying a record 289 tonnes in Q2 (+62% y/y) into falling prices. Crucially, this was not a clean inflation-hedge trade: gold rose through both an oil rally and a subsequent dip, so the better explanation is fiscal debasement concern plus structural official-sector demand—the market pricing the credibility of the debt, not just its inflation.

The trigger was the long end of the bond market. With total U.S. public debt topping $40 trillion and the 30-year yield hitting a 19-year high of 5.34% on Aug. 18, Treasury Secretary Bessent moved on Aug. 19 to at least double long-end liquidity-support buybacks (from $2 billion to ≥$4 billion per operation, 10–30yr, effective Sept 9–Nov 4). Yields dipped on the news, but the help was short-lived. The 30-year yield drifted back toward approximately 5.23%—because buybacks improve liquidity but don't shrink the debt or the term premium.

For Canada the spillover is direct: higher U.S. term premiums bleed into Government of Canada yields, mortgage rates and equity multiples, while a two-sided U.S. dollar—softer early in the month on fiscal worry, firmer after Warsh—muddies the Canadian-dollar return on unhedged U.S. assets. Bottom line: while deficits, sticky inflation and a hawkish Fed keep the term premium elevated, the cost of capital remains the key market driver, and gold is its real-time gauge.

Chart 3: Bond yields and gold rallied on U.S. fiscal credibility concerns



Source: Bloomberg.

Bottom line: Gold is not simply hedging inflation; it is pricing debt credibility. Buybacks address the symptom in the short run, rather than addressing the deficit, which is driving the issue.

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