GLOBAL MARKETS
Commentary

BMO Private Wealth

BMO Nesbitt Burns SEPTEMBER 2026

Brent Joyce, CFA, Chief Investment Strategist

Sensational and Sensationalism

"The one function that TV news performs very well is that, when there is no news, we give it to you with the same emphasis as if it were."

– David Brinkley, 1920–2003, American television news anchor

August was a sensational month. In fact, sensational has two main meanings: exceedingly good (not the usage we mean for the progress of Canada-U.S. trade talks) and sensationalized, or presenting information in a way intended to provoke hyped-up public interest, excitement or concern (that's the one that applies to media coverage of the tariff "wars"). Both usages of sensational apply to the events of August.

Thankfully, the exceedingly good events were the ones that moved markets. It was an outcome many found surprising and hard to understand – and, as Canadians, perhaps even a bit guilt-inducing. (What? My neighbour could be laid off because of AI or the trade war, yet I made money in stocks – even my Canadian ones?)

Still (and always) it's all about earnings

The most significant element for equity investors is earnings growth, which was nothing short of sensational/spectacular. Earnings growth for the S&P/TSX topped 35%; nine of 11 sectors posted positive results, and six logged growth north of 20%. For the S&P 500, earnings grew by over 52%, more than double analysts' expectations. Healthcare was the only sector that contracted; seven sectors chalked up growth of over 20%. Japan's Nikkei Index saw earnings growth of nearly 70%. Every sector posted positive results; all except three eclipsed 20%, six topped 50%. The list goes on and on. Europe and Mexico posted 15% growth; Australia is tracking toward 50% growth.

Undeniable broadening

These lofty numbers tend to make everyone double-check their math. They are also the kinds of numbers that aren't driven solely by AI spending. Yes, AI investment continues to be a factor. Data-centre construction, software spending and infrastructure investment remain powerful drivers of economic growth in both the U.S. and, increasingly, in Canada. Earnings also show evidence of productivity gains from AI adoption.

The broad-based nature of the growth can't be explained by this one theme alone. We have cited the many factors driving nominal economic activity (real activity plus inflation). August saw many of them: corporate resilience, adaptability, solid balance sheets, tariff rebates and a recovery in global manufacturing. Globally, purchasing managers' indexes for manufacturing activity (PMIs) are solid and rising, which supports the view that the global industrial cycle is improving. In the U.S., the ISM PMI reached its highest level since 2022; eurozone manufacturing PMIs climbed to multi-year highs.

In the U.S., credit conditions and loan demand improved, including for commercial real estate.

Japan's structural story remains positive. Corporate reforms, stronger growth and further policy normalization continued to support long-term investor interest.

Oh Canada

Canadian economic data also surprised to the upside. Employment rose by 75,000, unemployment fell to 6.4% and retail spending remained resilient.

The current account balance rocketed out of negative territory for the first time in three and a half years, reaching its highest level in two decades. Canadian GDP rebounded sharply in Q2, posting a solid 3.3% annualized advance. The first quarter was revised up from a small negative to a small positive – exorcising the technical recession. Net exports were bolstered by auto production. Consumption growth was the strongest in a year, and business investment – a prerequisite for productivity growth – jumped 12.3%. Even residential investment turned positive, rising 10.4%.

We know from earnings that corporate profits were strong. Main Street also shared in the wealth: household income rose solidly (+8.7% annualized) and pushed the savings rate up 0.4% to 3.7% (prudent for any rainy days that might lie ahead).

Sensationalism

We could stop this commentary here and risk being called naïve or Pollyannish. The rest of our discussion concerns the other definition of sensational: negative headlines that provoked public interest and concern but, when put into context, weren't all that sensational.

The media – a business very much in flux and under disruption – prey on greed and fear; when fear is present, it is the go-to emotion for attracting an audience. August featured three events that could be presented as though the sky is falling.

Yearning for the yen

The U.S. Treasury Department and the Federal Reserve coordinated with Japanese authorities to intervene in currency markets and strengthen the yen. Coordinated currency interventions are rare and usually reserved for times of financial crisis, war or natural disaster. None of these currently plague the Japanese economy, so the intervention is curious.

$40 trillion

Next, the U.S. debt crested $40 trillion for the first time ever. It is a large and worrisome number, yet so was $39 trillion. This milestone was no surprise, so why all the fuss? Simply because it reached a whole round number is no reason to change your investment strategy.

We could say a lot on this topic, none of it good. It is worth noting, however, that huge numbers are everywhere. Single companies are worth trillions (15 at last count, totalling over $30 trillion), and AI spending is estimated to top trillions. When you hear a large number, it needs to be put into context. Over the last 10 years, U.S. debt climbed from around $20 trillion to $40 trillion. U.S. household net worth rose from approximately $80 trillion to about $174 trillion. American households gained nearly $95 trillion in wealth, more than twice the increase in federal debt. This doesn't make the debt problem any better; what it does tell you is that America is a wealthy place. For now, if the choice is to mortgage future generations for the benefit of today then the world has no reason to stop lending Uncle Sam money.

"Oh, the price is actually the problem," some say. Bond yields in the 5% neighbourhood aren't a crisis – going back decades, 5% is normal. The 50-year average for 30-year U.S. Treasury yields is over 6%. In turn, the U.S. debt service as a percentage of GDP is elevated, although not into uncharted territory.

Debt binge

Debt isn't just a U.S. story. Governments the world over are borrowing as though money were still free. We can look at these elevated bond yields in another way: higher yields better compensate investors for the risks we outlined above, while higher borrowing costs are the best way to get governments to spend less. It is also better for bond yields to rise now, when the economy is doing well (which is also part of the reason yields are elevated). We should thank the sensationalists for bringing debt and deficits to the forefront; we just shouldn't overreact to them in our investment decisions.

Treasury tinkering

Lastly, and related to the former point, the U.S. Treasury announced that it will tailor its bond issuance and buybacks. Delving into the minutiae here is laborious; nevertheless, two things deserve a mention. First, some will portray this as a deep-state conspiracy in which the government is manipulating the bond market to avoid the crushing weight of the debt. Second, the Treasury's actions may ease financial conditions, potentially reducing upward pressure on bond yields.

Our take is that Treasury buybacks can temporarily calm bond markets, yet they do not eliminate the structural challenges posed by deficits, inflation and long-term funding needs. This is precisely the outcome so far. Long-dated bond yields did fall in the days immediately following the announcement, but by month end had risen again as the structural challenges remain.

The main impact for market participants is a blurring of the lines between fiscal and monetary policy at a time when new Fed Chair Kevin Warsh isn't saying much. He did, however, recently tell the world that a bond market devoid of manipulation is the best arbiter of bond yields. These mixed messages from the Fed and the Treasury Department leave investors wondering what's next.

Don't believe it? Well, the markets do

To those who call us sensational or too Pollyannish, we simply point to the best barometer we know: the markets themselves. Global stocks rose for the month. The S&P/TSX was among the top performers, posting a 2.7% gain. Some of those gains – including a new all-time high – came after trade talks broke down. The Canadian dollar did weaken on the trade news; nevertheless, earlier gains helped the loonie finish the month stronger.

The S&P 500 gained 2.5%, international developed markets (EAFE) rose 2.2% and emerging markets gained 3.4%.

U.S. de-dollarization was another theme that emerged because of all three highlighted events in August. Yes, the greenback declined against many other currencies, but it had rallied earlier in the summer. The fact that an asset price can move in both directions doesn't mean it is in freefall. The U.S. Dollar Index ended August down 0.5% for the month.

What about the bond market? Wasn't everyone up in arms about rising bond yields? Long-term U.S. Treasury yields ended the month little changed from the end of July. Of course, the doomsayers will argue that happened only because the Treasury Department announced intervention in the bond market.

Canadian bond yields rose by roughly 10 basis points across most maturities, sending the FTSE Universe Bond Index down 0.24% for the month. Mildly bruised bond investors should take comfort in the fact that the higher yields are largely being driven by evidence of a stronger Canadian economy.

Bottom line

The sensations of the month were improving manufacturing activity, broadening earnings growth, resilient Canadian economic data, easing fears of Fed rate hikes, stronger credit conditions and ongoing AI investment.

Rising global bond yields, growing fiscal concerns, elevated energy prices and renewed Canada-U.S. trade tensions, while important developments, weren't the showstoppers that the sensationalist media made them out to be.

Once again, August brought challenges. Once again, stocks and the economy remained surprisingly resilient.

Asset mix considerations – favour risk assets, fixed income is becoming more attractive

We continue to prefer equities over fixed income. But as bond yields rise, fixed income grows more attractive.

We also continue to favour overweight positions to Canadian and U.S. equities. Canadian equities offer exposure to resources, financials and energy; U.S. equities provide access to the world's most dynamic technology leaders.

On international markets, we hold a neutral view. They offer improving manufacturing momentum, though growth remains uneven.

For client risk profiles that include exposure to emerging markets, we are constructive. These equities can benefit from a softer U.S. dollar and an AI-related trade.

Within fixed income, higher yields have improved prospective returns. We see corporate bonds as attractive given the solid profit backdrop.

The last word: Keep emotions out of your portfolio

The trade news is monopolizing the public conversation in Canada. We do not want to minimize the impact on targeted industries and their communities. Then again, context is relevant and significant here.

BMO Economics estimates that approximately 5% of Canadian exports are affected and roughly 0.8% of GDP is exposed. That means 99.2% of the economy is not exposed.

The tariffs could shave approximately half a percentage point off GDP growth. On the other hand, growth is showing signs of strength. We enter this new phase on a decent footing, which includes the fiscal room to shelter affected workers and businesses.

For the Canadian stock market, the impact is even smaller, as demonstrated by its strength after the trade talks broke down. Remember that the Canadian economy is not the Canadian stock market, which is heavily weighted toward financial services, energy, and materials companies. These businesses face little to no tariff impact. Even though forestry products, cars, auto parts, dairy and consumer electronics have a footprint in the Canadian economy, the companies in these industries make up less than 10% of the stock market index.

Investment decisions must be as rational and dispassionate as possible. Unfortunately, when we are faced with fear or uncertainty stoked by sensationalist rhetoric, our fight-or-flight instincts can lead to emotional decisions that risk knocking us off course so that we aren't able to achieve our long-term investment goals. Even the seasoned journalist David Brinkley acknowledged that the news leans toward the negative and sensational. The exceedingly positive events in August outweighed the negatives, and markets climbed higher. Take that as your cue to stay calm in the face of uncertainty.

Please contact your BMO Nesbitt Burns Investment Advisor if you have any questions or would like to discuss your investments.

BMO | Private Wealth

PW6212 (09/26)