

Weekly Bottom Line

September 19, 2025

Highlights

Canada

- Despite rate cuts from the Bank of Canada and the U.S. Federal Reserve, bond yields rebounded post-Fed press conference, leaving Canadian yields and equities flat for the week.
- Core inflation metrics remain elevated on a year-on-year basis, but more recent trends show significant slowing, with fewer CPI categories rising rapidly and both goods and services inflation cooling markedly.
- The upcoming federal budget will be crucial for economic direction and future Bank of Canada rate decisions.

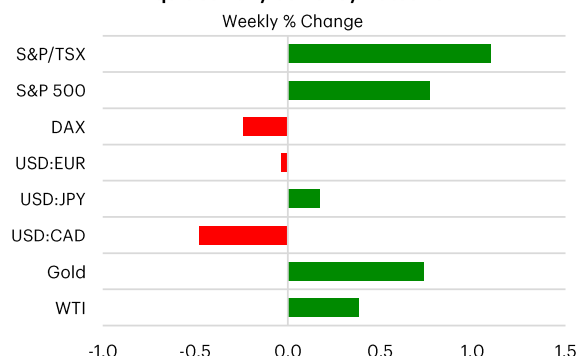
U.S.

- The Fed resumed rate cuts at this week's FOMC meeting, lowering the policy rate by 25 basis points to 4.00%-4.25%.
- The Fed's "dot" plot pointed to two more cuts by the end of this year, but it also showed one member who expects a lot more easing.
- Retail sales came in better than expected in August, rising 0.6% on the month. Sales in the control group, which strip out volatile categories, rose an even better 0.7%.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6634	6584	6634	4983
S&P/TSX Comp.	29600	29284	29600	22507
DAX	23642	23698	24550	18720
FTSE 100	9231	9283	9321	7679
Nikkei	45046	44768	45303	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.14	4.06	4.79	3.71
Canada 10-yr Bond	3.20	3.19	3.60	2.83
Germany 10-yr Bund	2.75	2.72	2.90	2.03
UK 10-yr Gilt	4.71	4.67	4.89	3.89
Japan 10-yr Bond	1.65	1.59	1.65	0.82
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.72	0.74	0.69
Euro (USD per EUR)	1.17	1.17	1.19	1.02
Pound (USD per GBP)	1.35	1.36	1.37	1.22
Yen (JPY per USD)	147.9	147.7	158.4	140.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	62.9	62.7	80.0	57.1
Natural Gas (\$US/MMBtu)	3.08	2.86	9.33	1.22
Copper (\$US/met. tonne)	9868.9	9994.1	10219.3	8571.4
Gold (\$US/troy oz.)	3669.2	3643.1	3690.0	2563.3

*As of 11:39 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equities Rally as Policy Rates Fall



Note: Data as of 11:42 AM ET, Friday, September 19, 2025.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.00 - 4.25%
Bank of Canada (Overnight Rate)	2.50%
European Central Bank (Refi Rate)	2.15%
Bank of England (Repo Rate)	4.00%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – A Cool-Down and a Cut

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It was a busy week with updates on inflation and retail sales, along with rate cuts from the Bank of Canada and the U.S. Federal Reserve Bank. Despite the Fed's rate cut, U.S. bond yields popped, taking global yields with them. For Canada, this now leaves the 10-year bond yield basically unchanged from the start of the week, and the TSX hovering near its record high. For all the ructions in the market, the economic details showcase why we maintain our view that the Bank of Canada was right to cut at this meeting, and that another cut in October is the right way to go.

The story starts with inflation. Eliminating the consumer carbon tax has dragged down top line inflation since April, so all eyes have been laser focused on core measures. From that lens things sure seem ugly, with the Bank's preferred measures still reading around 3.0% year-on-year (y/y), and the old exclusion measures CPI ex-food and energy and CPIX at 2.4% and 2.6% y/y, respectively. But these measures mask what's been going on in recent months, instead reflecting the spring's run-up in prices. On a three-month basis (Chart 1) inflation across all core measures has slowed precipitously in the past two months. Moreover, the breadth of inflation has sunk with it. The share of CPI categories rising at more than 3% (annualized) over the past three months has fallen to roughly 38%, sharply lower from the 58% share registered in the spring (Chart 2).

Previously strong prints in core goods prices have faded and it's now running at 1.2% (3-mo. annualized), and services prices too have cooled to 1.5% (3-mo. annualized).

Chart 1: Canadian Core Inflation Measures Continue to Cool

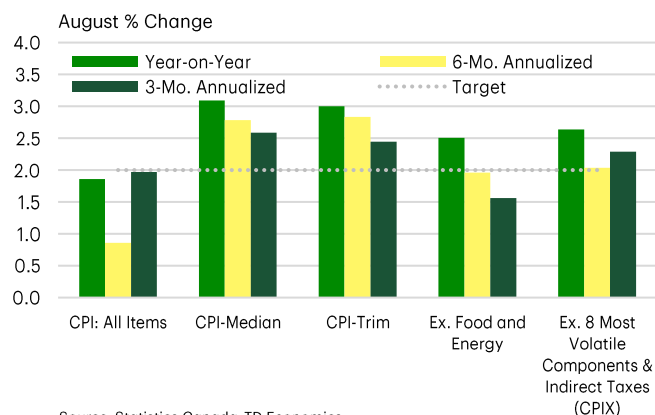
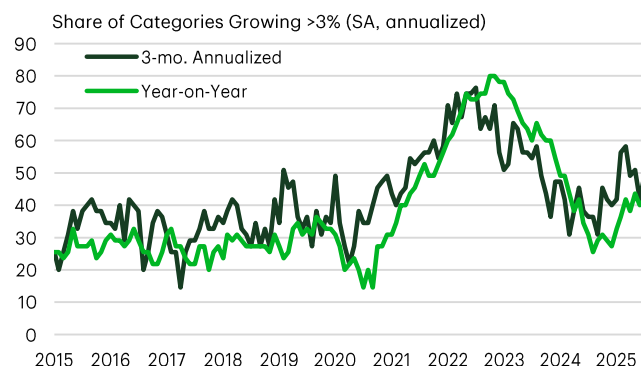


Chart 2: Canadian Inflation Breadth



We expect soft momentum in these key categories to continue as domestic demand struggles to gain traction in the wake of the trade shock. This week's retail data for July bolstered that view. Although the data remain volatile, growth is petering out, and we now expect nominal retail spending in Q3 to register a below-trend 1.6% annualized gain.

Weaker business prospects are expected to push the unemployment rate higher heading into 2026, with restrained population growth limiting the degree of weakness in the labour market. The soft demand backdrop, coupled with the federal government's removal of most retaliatory tariffs are tempering worries about a possible resurgence of inflation in the back half of 2025.

The wildcard in all of this is what is to come from the Federal government's budget. We learned this week that it will be released on November 4th, but continue to await details. Five projects have been called out for the Projects of National Significance list, along with planned spending on Build Canada Homes, tariff mitigation measures for affected industries and re-skilling for affected workers. In the coming weeks we will be keenly watching for any news on the structure of proposed savings measures and for signs on the timing of planned (but not yet announced) investment outlays. The scale and timing of the cuts and investments could materially affect the trajectory of the economy and the BoC's calculus on where the policy rate should be heading into 2026.

U.S. – Powell’s ‘Risk Management’ Cut

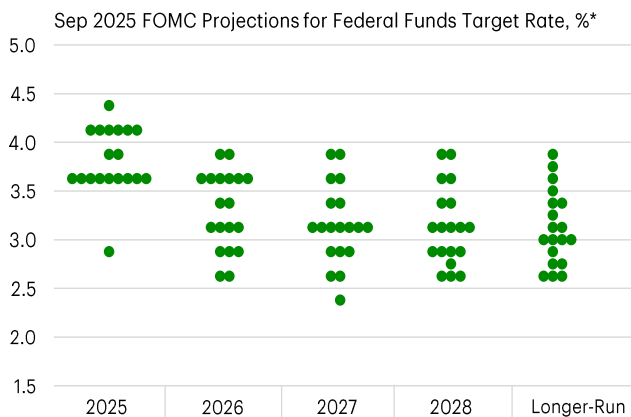
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The Federal Reserve resumed its easing cycle after a nine-month pause, cutting the policy rate by 25 basis points at this week’s FOMC meeting. The move was widely anticipated, and while bond yields initially dipped, they ultimately rose as markets digested the broader implications. Equities, however, rallied, with the S&P 500 climbing another 1% on the week at time of writing.

The FOMC statement signaled a shift in emphasis from the ‘price stability’ mandate toward ‘full employment’, noting that “downside risks to employment have risen”. This echoed Fed Chair Powell’s remarks at Jackson Hole last month and set the tone for what he later described as a “risk management cut”. In essence, while inflation remains elevated, the Fed deemed it prudent to begin easing the policy rate to help guard against further labor market deterioration.

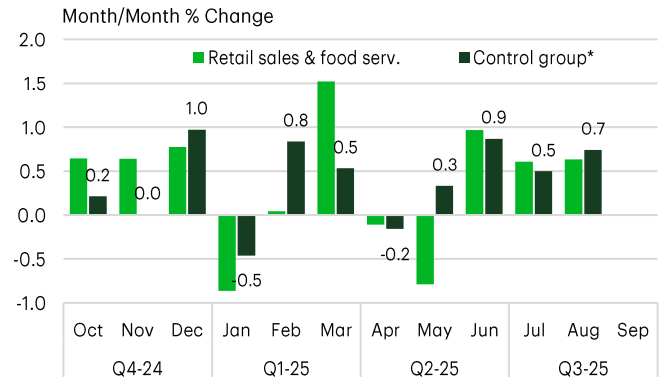
The decision was accompanied by the latest Summary of Economic Projections (SEP), which offered a mixed picture. Unemployment rate forecasts were largely unchanged, while growth projections for 2025 and 2026 were nudged up 20 basis points (bps) to 1.6% and 1.8%, respectively. Core inflation expectations for next year were also bumped up by 20 bps to 2.6%, with this measure now projected to return to target only by 2028 – which would mark seven consecutive years above the Fed’s 2% goal. The median forecast now calls for three cuts by year-end (including this week’s) up from two,

Chart 1: Fed’s Dot Plot Points to Two More Cuts This Year



*Midpoint of Target Range. Source: Federal Reserve Board, TD Economics.

Chart 2: Retail Sales Showed Decent Momentum Through August



Source: BEA, TD Economics. *Excludes volatile categories.

and is in tune with our expectations. But one member projected the equivalent of three jumbo 50 bps cuts total (Chart 1). Stephen Miran, President Trump’s newly appointed Fed governor, is likely the one projecting more aggressive cuts as he was the lone dissent at this week’s meeting, favoring a larger 50 bps cut.

Economic data released this week did little to bolster the case for continued easing. Initial jobless claims fell back last week, following a surge in the week prior. And while housing remained a soft spot, with homebuilding pulling back in August, consumption-related data came in better than anticipated. August retail sales and food services rose 0.6% on the month, matching July’s gain. Sales in the ‘control group’ – which strip out volatile components – rose a solid 0.7%, building on gains in the prior two months (Chart 2). While tariffs are still expected to chip away at spending power and weigh on consumption, this recent data suggests consumers may still have some gas in the tank.

The bottom line is that while the Fed has resumed rate cuts to guard against further labor market weakness, its “risk management” approach means future moves will remain highly data dependent. The Fed will continue to have a hard time balancing the risks with respect to its dual mandate. But ultimately, we believe that the tariff impact on inflation will be temporary, and we expect the central bank to continue to cut rates to support the economy (see our latest Quarterly Economic Forecast [here](#)).

Exhibits

Recent Key Economic Indicators: Sep 15 - 19, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 15	Empire Manufacturing	Sep	Index	-8.7	11.9
Sep 16	Retail Sales Advance	Aug	M/M % Chg.	0.6	0.6
Sep 16	Retail Sales Ex Auto and Gas	Aug	M/M % Chg.	0.7	0.3
Sep 16	Industrial Production	Aug	M/M % Chg.	0.1	-0.4
Sep 16	Manufacturing (SIC) Production	Aug	M/M % Chg.	0.2	-0.1
Sep 16	Capacity Utilization	Aug	%	77.4	77.4
Sep 16	Business Inventories	Jul	M/M % Chg.	0.2	0.2
Sep 16	NAHB Housing Market Index	Sep	Index	32.0	32.0
Sep 17	Housing Starts	Aug	Thsd	1307.0	1429.0
Sep 17	Building Permits	Aug	Thsd	1312.0	1362.0
Sep 17	FOMC Rate Decision (Upper Bound)	Sep 17	%	4.3	4.5
Sep 18	Initial Jobless Claims	Sep 13	Thsd	231.0	264.0
Canada					
Sep 15	Manufacturing Sales	Jul	M/M % Chg.	2.5	0.3
Sep 15	Existing Home Sales	Aug	Mlns	1.1	3.8
Sep 16	Housing Starts	Aug	Thsd	245.8	293.5
Sep 16	Consumer Price Index NSA	Aug	M/M % Chg.	-0.1	0.3
Sep 16	Consumer Price Index	Aug	Y/Y % Chg.	1.9	1.7
Sep 17	Bank of Canada Rate Decision	Sep 17	%	2.5	2.8
Sep 18	CFIB Business Barometer	Sep	Index	50.2	48.3
Sep 19	Retail Sales	Jul	M/M % Chg.	-0.8	1.6
Sep 19	Retail Sales Ex Auto	Jul	M/M % Chg.	-1.2	2.2
International					
Sep 16	UK ILO Unemployment Rate	Jul	Q/Q % Chg.	4.7	4.7
Sep 17	UK Consumer Price Index	Aug	Y/Y % Chg.	3.8	3.8
Sep 17	EZ Consumer Price Index	Aug	Y/Y % Chg.	2.0	2.1
Sep 18	UK Bank of England Bank Rate	Sep 18	%	4.0	4.0
Sep 18	JN Natl Consumer Price Index	Aug	Y/Y % Chg.	2.8	3.1
Sep 19	UK Retail Sales Ex Auto Fuel	Aug	Y/Y % Chg.	1.2	1.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 22 - 26, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 22	9:45	<i>Fed's Williams Speaks on Monetary Policy Panel</i>				
Sep 22	10:00	<i>Fed's Musalem Speaks of Economic Outlook and Monetary Policy</i>				
Sep 22	12:00	<i>Fed's Hammack Speaks on Reserve Banks and the Economy</i>				
Sep 22	12:00	<i>Fed's Barkin Speaks at Howard Co Chamber</i>				
Sep 22	12:00	<i>Fed's Miran Speaks at The Economic Club of NY</i>				
Sep 23	9:00	<i>Fed's Bowman Speaks on Economic Outlook</i>				
Sep 23	9:45	S&P Global US Manufacturing PMI	Sep	Index	51.8	53.0
Sep 23	9:45	S&P Global US Services PMI	Sep	Index	53.8	54.5
Sep 23	9:45	S&P Global US Composite PMI	Sep	Index	-	54.6
Sep 23	10:00	<i>Fed's Bostic Participates in Live Podcast Interview</i>				
Sep 23	12:35	<i>Fed's Powell Speaks on Economic Outlook</i>				
Sep 24	10:00	New Home Sales	Aug	Thsd	650.0	652.0
Sep 24	16:10	<i>Fed's Daly Gives Keynote Remarks on Monetary Policy</i>				
Sep 24	0:00	Building Permits	Aug	Thsd	-	1312.0
Sep 25	8:20	<i>Fed's Goolsbee Speaks on Trends for West Michigan</i>				
Sep 25	8:30	Advance Goods Trade Balance	Aug	Blns	-95.6	-103.6
Sep 25	8:30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	3.3	3.3
Sep 25	8:30	Personal Consumption	2Q	Q/Q % Chg.	1.9	1.6
Sep 25	8:30	Durable Goods Orders	Aug	M/M % Chg.	-0.5	-2.8
Sep 25	8:30	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	-0.2	1.1
Sep 25	8:30	Initial Jobless Claims	Sep 20	Thsd	236.0	231.0
Sep 25	9:00	<i>Fed's Williams Gives Welcoming Remarks at US Dollar Conference</i>				
Sep 25	10:00	Existing Home Sales	Aug	Mlns	4.0	4.0
Sep 25	10:00	<i>Fed's Bowman in Moderated Discussion</i>				
Sep 25	13:00	<i>Fed's Barr Speaks on Bank Stress Testing</i>				
Sep 25	13:40	<i>Fed's Logan Speaks in a Panel</i>				
Sep 25	15:30	<i>Fed's Daly Conversation with Mark Packard</i>				
Sep 26	8:30	Personal Income	Aug	M/M % Chg.	0.3	0.4
Sep 26	8:30	Real Personal Spending	Aug	M/M % Chg.	0.2	0.3
Sep 26	9:00	<i>Fed's Barkin Conversation at the PIIE</i>				
Sep 26	13:00	<i>Fed's Bowman Speaks on Monetary Policy</i>				
Canada						
Sep 22	8:30	Industrial Product Price	Aug	M/M % Chg.	-	0.7
Sep 22	9:45	<i>Panel: BoC Sharon Kozicki</i>				
Sep 22	13:15	<i>Panel: BoC Carolyn Rogers</i>				
Sep 23	14:30	<i>Speech: Tiff Macklem</i>				
Sep 25	8:30	Payroll Employment Change - SEPH	Jul	Thsd	-	-32.9
Sep 26	8:30	Gross Domestic Product	Jul	M/M % Chg.	0.1	-0.1
Sep 26	12:00	Bloomberg Sept. Canada Economic Survey	Sep			
International						
Sep 25	19:30 JN	Tokyo Consumer Price Index	Sep	Y/Y % Chg.	2.8	2.6

*Eastern Standard Time. Source: Bloomberg, TD Economics.

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