

The Bridge

From the Office of the CIO

Weekly Market Tides

Weekly Market Tides: Trends to Watch

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AI lifts the Nasdaq to a record, a hawkish Fed hike flattens the curve, and the Canadian dollar slips

1. Stocks rallied Monday as Meta's Muse ignited the AI trade

Global equity markets rallied on Monday, with several indices closing at fresh record highs. In the U.S., the Nasdaq gained more than 2%, the S&P 500 rose around 1.5%, and the Dow added roughly 0.7%. Meta led the way with an 11% jump, its best session since August 2025, after its new Muse AI agent reached the top of the App Store. The move lifted the broader Magnificent Seven and spilled into semiconductors, with AMD up 10% and crossing \$1 trillion in market capitalization for the first time, Intel up 12%, and Nvidia adding a comparatively modest 2%. A pullback in oil also supported sentiment, with Brent and WTI both easing from last week's highs on hopes that U.S.-Iran diplomatic talks would resume and that flows through the Strait of Hormuz would improve. This morning, the Nasdaq is extending Monday's gains to a fresh intraday record, while the Dow is modestly lower. Bitcoin has separately rallied more than 10% over the past week, supported by heavy institutional inflows into spot Bitcoin ETFs, large short liquidations, and renewed corporate treasury buying. AI leaders including Nvidia's Jensen Huang and OpenAI's Sam Altman are expected to attend a White House state dinner with President Xi Jinping this week as part of Thursday's Trump-Xi meeting, and Treasury Secretary Scott Bessent described the preliminary U.S.-China trade talks as "very successful."

2. A hawkish Fed hike flattens the yield curve

The Federal Reserve raised its policy rate by 25 basis points on Wednesday, September 16, its first rate increase since 2023. The decision was unanimous in a 12-0 vote. As context, the FOMC has 19 members but up to 12 vote at each meeting, with the remaining seven attending and contributing but not casting votes. Chair Kevin Warsh described the move as “serious and responsible,” saying that “inflation is too high and has been for too long.” The updated dot plot, which shows where each participant expects rates to be at the end of each year, leaned hawkish. Of the 18 members who submitted projections, 12 see one more rate hike this year, 4 see two more, and 2 see no additional hikes. Short-term Treasury yields moved sharply higher after the decision, as expected. Long-term yields eased initially on the hawkish signal. Counterintuitively, a hawkish Fed hike often supports longer-dated bonds because it signals commitment to keeping inflation in check. The result is that the yield curve, which is the gap between short-term and long-term rates, has flattened. This suggests two things at once. The bond market expects several more Fed hikes to come, but also has confidence that longer-term inflation will eventually be brought back to target.

3. The Canadian dollar weakens on the widening rate gap, while the TSX watches oil and trade

The Canadian dollar weakened to a six-week low against the U.S. dollar following the Fed's decision and has stayed under pressure since. The driver is the widening interest rate gap between the two countries. The Fed has now moved to a range of 3.75% to 4.00%, while the Bank of Canada has held its overnight rate at 2.25% for a seventh consecutive meeting. That gap makes U.S. dollar deposits more attractive on a relative basis, drawing capital away from the loonie. The next Bank of Canada decision is October 28, and Canadian market pricing has recently shifted to expect a rate hike at that meeting, following a hawkish shift in the Bank's own risk assessment toward tariffs and elevated oil prices as upside inflation risks.

For the TSX, oil and trade have been more meaningful than the Fed. Crude has retreated from last week's highs on hopes that U.S.–Iran diplomatic talks would resume and that shipments through the Strait of Hormuz would improve. That pullback may cool the energy sector, which has been one of the strongest parts of the index this year. Meanwhile, the U.S.–Canada tariff dispute that escalated in August continues to hang over Canadian exporters, with U.S. Section 338 duties of 50% targeting Canadian dairy, alcoholic beverages, and motor vehicles, alongside a range of other specific products. Separately, a weaker Canadian dollar is a translation tailwind for Canadian companies with meaningful U.S. dollar revenues, particularly the energy majors and gold miners.

Bottom line for investors

Last week and Monday brought several developments that shape the near-term setup. The Federal Reserve delivered its first rate hike since 2023 and signalled a more hawkish path from here. Short-term yields moved sharply higher and the long end eased, flattening the yield curve. Meta's Muse AI agent lifted the U.S. tech and semiconductor complex on Monday and pushed the Nasdaq to a fresh record. The Canadian dollar slipped to a six-week low as the rate gap with the U.S. widened.

For portfolios, the message stays the same. When several risks are in play, diversification across sectors, regions, and asset classes helps weather the storm. Portfolios built for a range of outcomes tend to hold up better than those tilted heavily to any single view, particularly as central bank policy, geopolitics, and the AI trade all converge in the coming weeks.

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