# Monthly Market Insights

Data and opinions as of October 31, 2026

## Higher oil prices push Canadian rates up as AI and household risks grow

Oil prices climbed back above US$110 a barrel in October as attacks in the Middle East kept tanker traffic through the Strait of Hormuz well below normal. That kept inflation elevated and led to different decisions from the two central banks: the Bank of Canada raised rates, while the Fed held. At the same time, AI companies turned to investors for record amounts of funding, spreading AI risk more widely across portfolios. In Canada, high oil prices are helping energy exports but hurting households, who are paying more at the pump and now on variable-rate loans.

## NEI perspectives

**Canada raised rates; the U.S. held.** Higher oil prices are keeping inflation above target. The Bank of Canada responded with its first rate increase since 2023, while the Federal Reserve (Fed) held steady and bond markets doubted it would raise rates further. **Bottom line:** Long-term interest rates are likely to stay high, which matters for bond returns and mortgage rates in Canada no matter what the Bank of Canada does next.

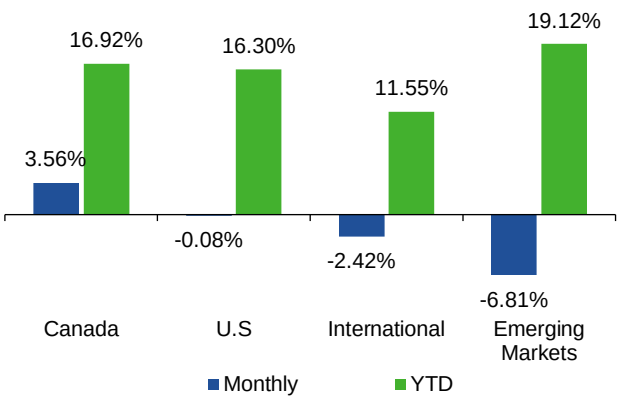
**AI risk is showing up in more places.** AI companies are raising record amounts of money by issuing shares and bonds, and AI stocks were volatile in October. **Bottom line:** Clients who never bought AI stocks directly likely own more AI exposure than they think through index funds and bond funds.

**Canada: energy helps the economy, but households feel the squeeze.** Oil exports are largely exempt from U.S. tariffs and are supporting growth, while households face higher gas prices, higher borrowing costs and a softer job market. **Bottom line:** The economy may look better on paper than it feels for many clients, especially those with variable-rate mortgages or renewals coming up.

**– NEI Asset Allocation team**

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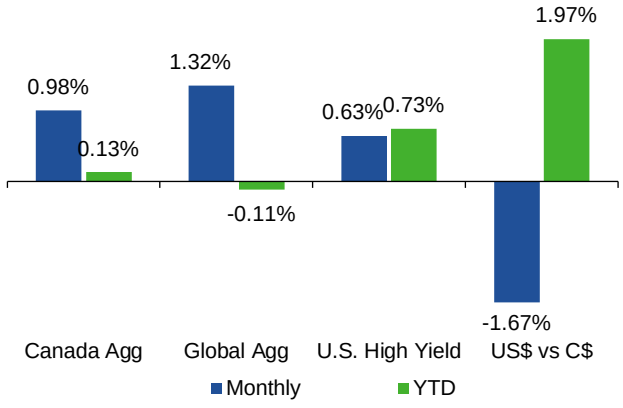
**Equity returns (in C$)**




**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.

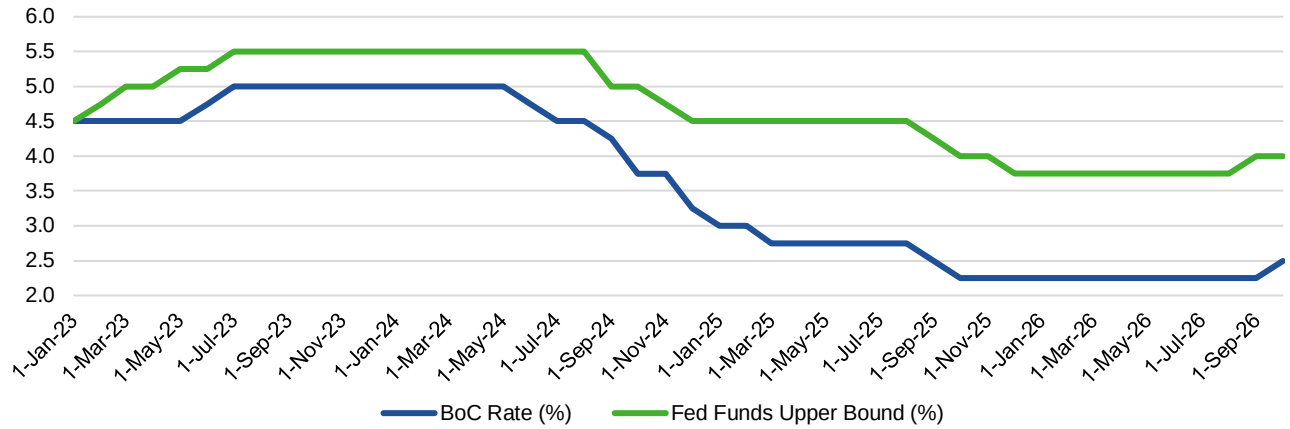
Source: Bloomberg.

## The Bank of Canada raises rates while the Fed waits

The Bank of Canada raised its policy rate to 2.50% on October 28, its first increase in more than three years, and said more increases may be needed. Inflation is 3.1%, but most of that comes from gasoline. Without gas, inflation is 2.2%, close to the Bank's 2% target. So why raise rates? The Bank is worried that high fuel prices will last and start pushing up other prices. The problem is less about how much oil is being produced and more about getting fuel to market: tanker traffic through Hormuz is still about 43% below normal, and diesel supplies are tight. The Bank now expects inflation to stay above 3% through much of 2027.

The Fed kept its rate at 3.75–4.00%, though two of its members voted for an increase. Fed Chair Warsh said more increases are still possible, but markets did not fully believe him: bond pricing suggested investors expect the Fed to put up with somewhat higher inflation rather than respond aggressively. That is despite a strong U.S. economy, which grew at a 3.4% annual pace in the third quarter. Bank of Canada Governor Macklem also warned that worries about U.S. government debt are pushing interest rates up around the world.

**Chart 1: The Bank of Canada raised rates in October as the Fed held**



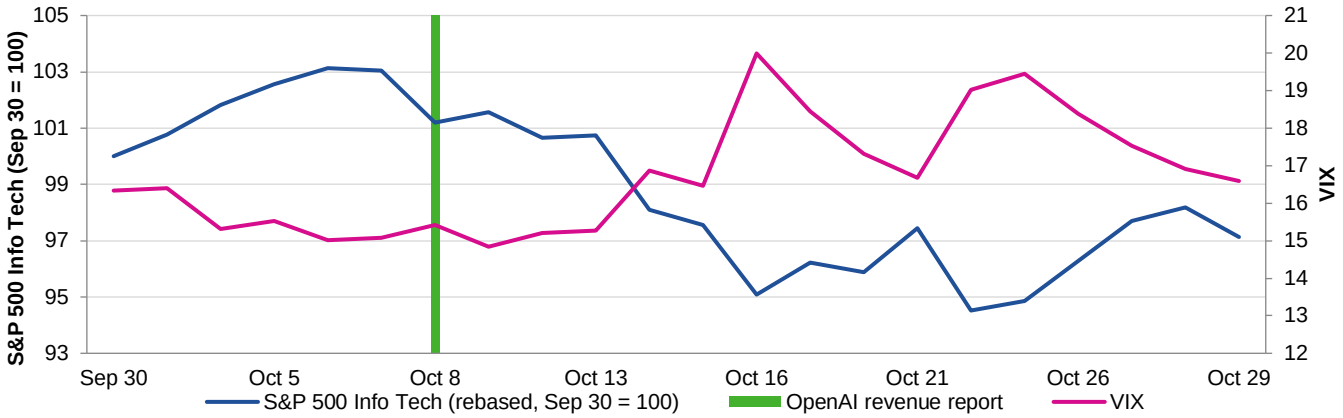

Source: Bloomberg.

**Bottom line:** Higher oil prices are keeping inflation and interest rates high. Even if oil prices ease, long-term rates may stay elevated, which affects bond returns and fixed mortgage rates for Canadians.

## AI risk is showing up in more of the portfolio

October was a tougher month for AI stocks. On October 8, reports that OpenAI is earning less revenue than it had suggested pushed the Nasdaq down 1.25%, and Samsung's chip profits later came in below expectations. After technology stocks fell about 8%, many hedge funds stopped betting against individual AI stocks and started betting against the whole market instead. When that happens, stocks tend to rise and fall together, which can make the overall market more volatile.

**Chart 2 – Volatility rose as technology stocks sold off**




Source: Bloomberg.

How AI is being paid for is also changing. Meta filed to raise up to US$95 billion by selling new shares, and Anthropic, a major AI developer, filed to go public. Much of this new stock will end up in index funds automatically. AI companies have also borrowed heavily, helping push global bond issuance to a record in 2026, and rating agency Fitch named AI spending as a growing risk for credit markets heading into 2027.

**Bottom line:** AI is no longer just a tech-stock story. Through index funds and corporate bonds, most portfolios now carry substantial AI risk, making diversification a more complex objective to achieve.

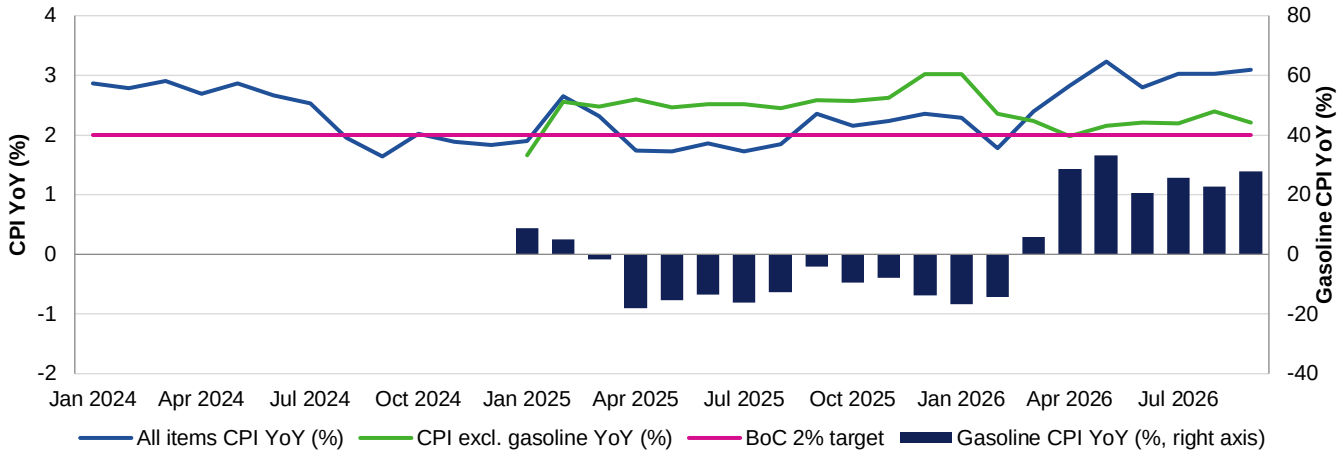
## Canada: energy helps the economy, but households feel the squeeze

High oil prices are a mixed blessing for Canada. Energy, potash and critical minerals are exempt from the 50% U.S. tariffs, and about 80% of exports to the U.S. still face no tariff at all. The Bank of Canada estimates the average U.S. tariff on Canadian goods is just 7.5%. Oil and gas investment is supporting growth, and Ottawa is fast-tracking a Pacific oil pipeline to sell more energy to Asia. Trade risks have not gone away, though: the U.S. changes its tariff list again on October 30, and CUSMA consultations close on November 3.

Households are on the other side of the ledger. They are paying for higher oil prices twice: at the pump, where gasoline is up 27.8% from a year ago, and through higher borrowing costs. More than half of Canadian borrowers have variable-rate mortgages, so the rate increase affects them quickly, and a wave of mortgage renewals is coming in 2027.

The job market is also softening. Canada lost 68,300 jobs in September and unemployment rose to 6.5%. The Bank of Canada expects growth to slow in the fourth quarter as tariffs weigh on businesses. For credit unions and their members, loan and mortgage health may say more about how the economy is really doing than headline growth numbers.

**Chart 3 – Gasoline is driving inflation; most other prices are rising more slowly**




Source: Bloomberg.

**Bottom line:** The overall economy is holding up thanks to energy, but many households are under more pressure than the headline numbers suggest. Clients with variable-rate mortgages or upcoming renewals may be the most exposed.

Data and opinions as of October 31, 2026.

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