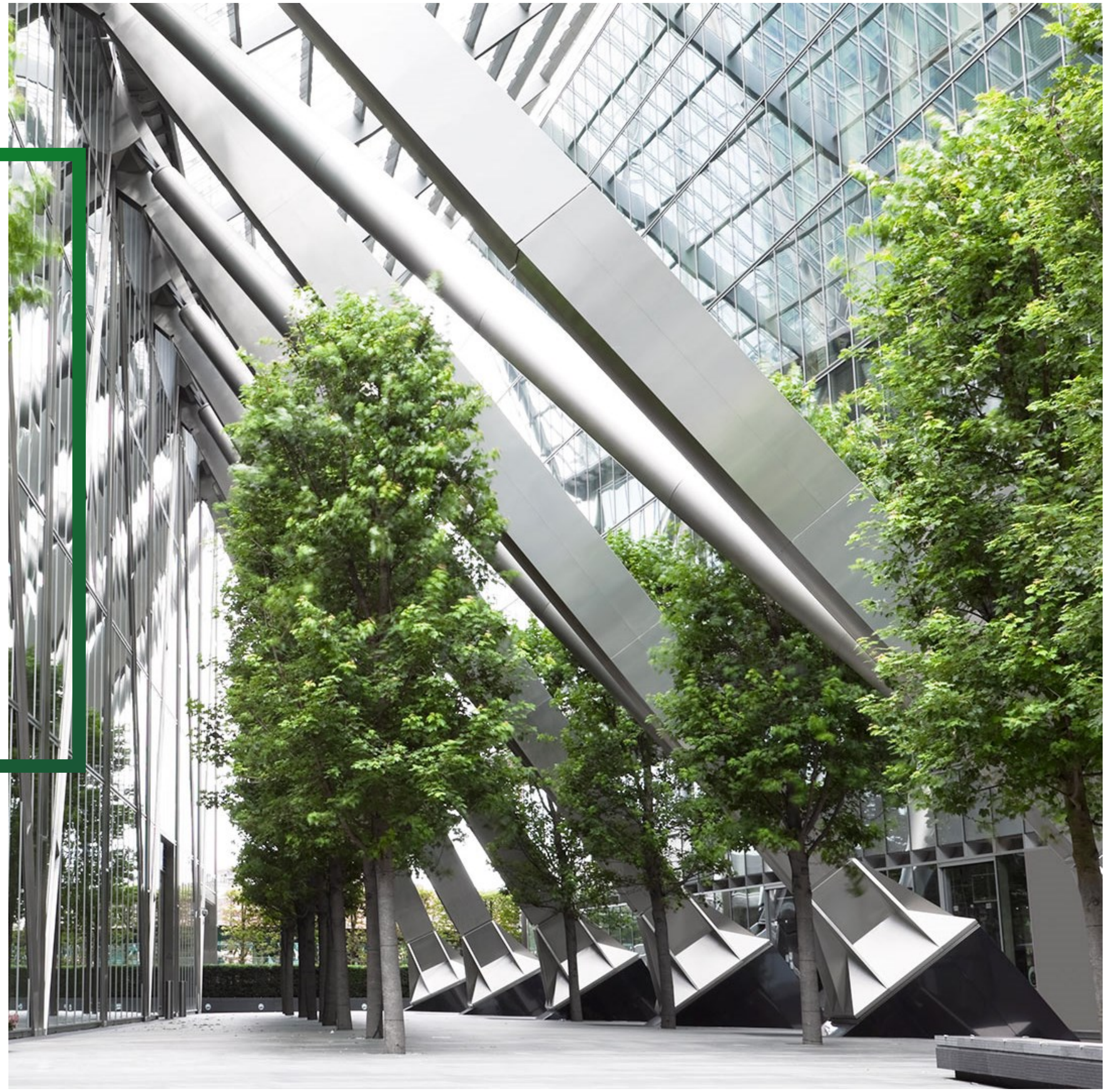
TD Securities



Canadian Outlook:

Fog of Uncertainty

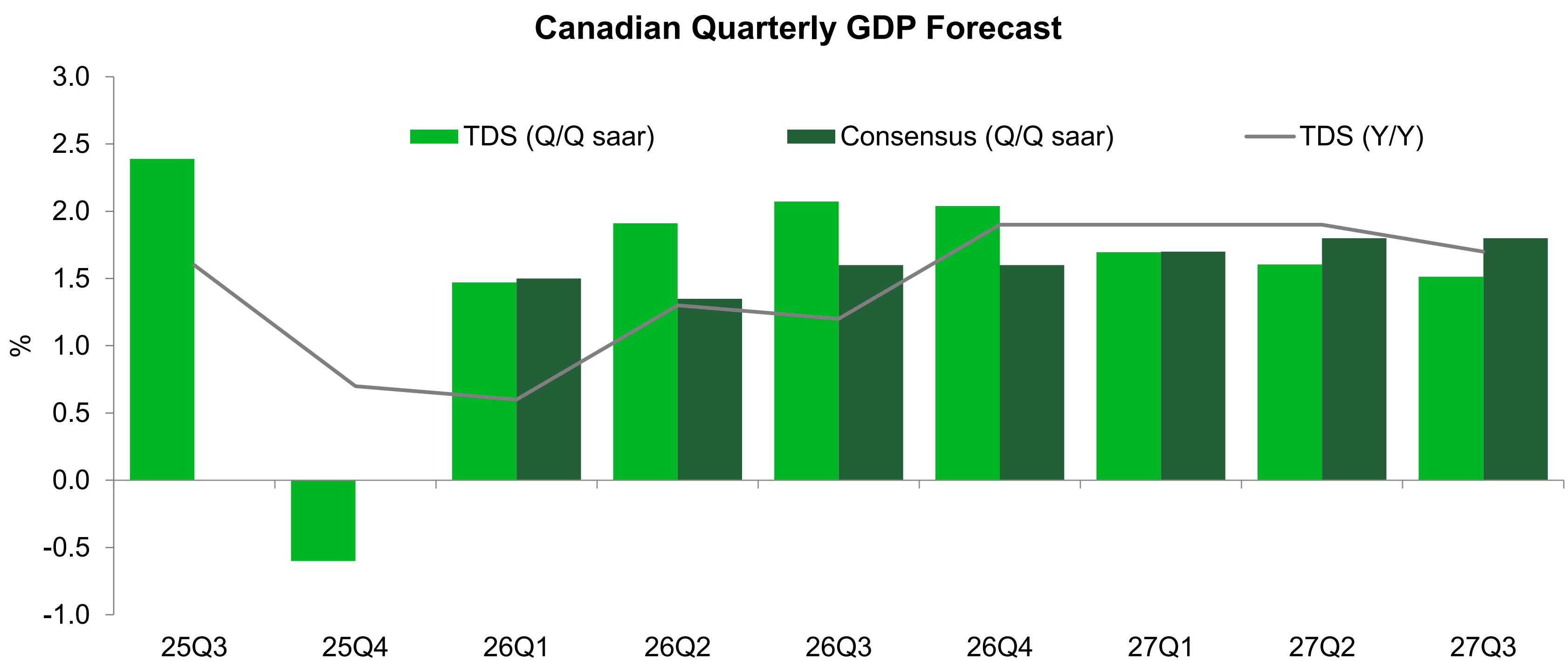
Robert Both
Senior Canada Economist

May 2026

Growth Outlook is Turning a Corner

Look for Above Trend Growth in 2026

- Canada moved further into excess supply over 2025 but we look for growth to stabilize in 2026 on expansionary fiscal stimulus and positive terms of trade shock from higher oil prices.
- Output gap forecast to close by 2027Q4 with potential growth at 1.3%/1.2% over 2026/2027.

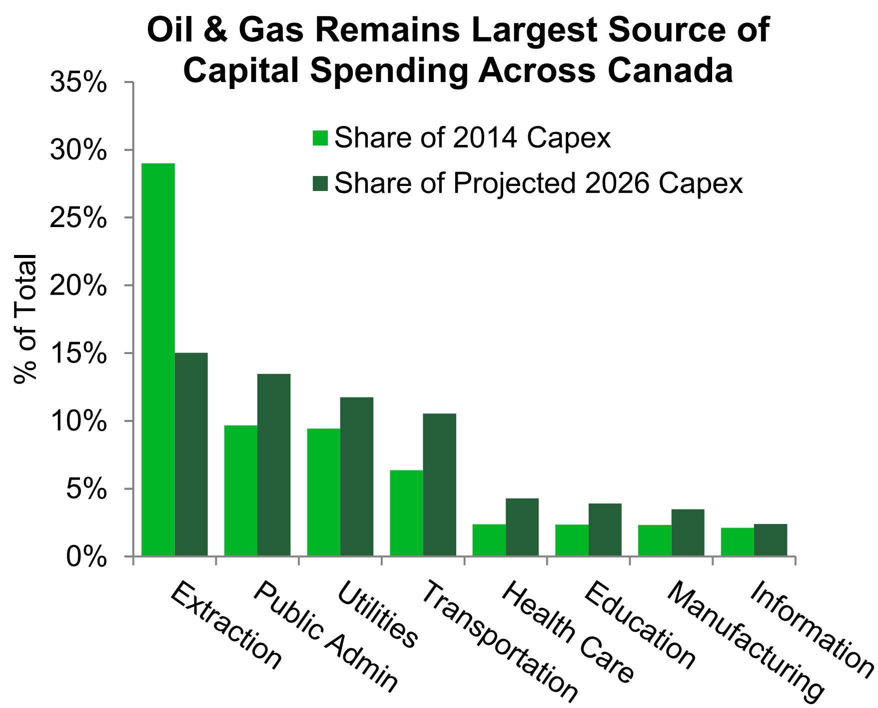


Source: Bloomberg, TD Securities

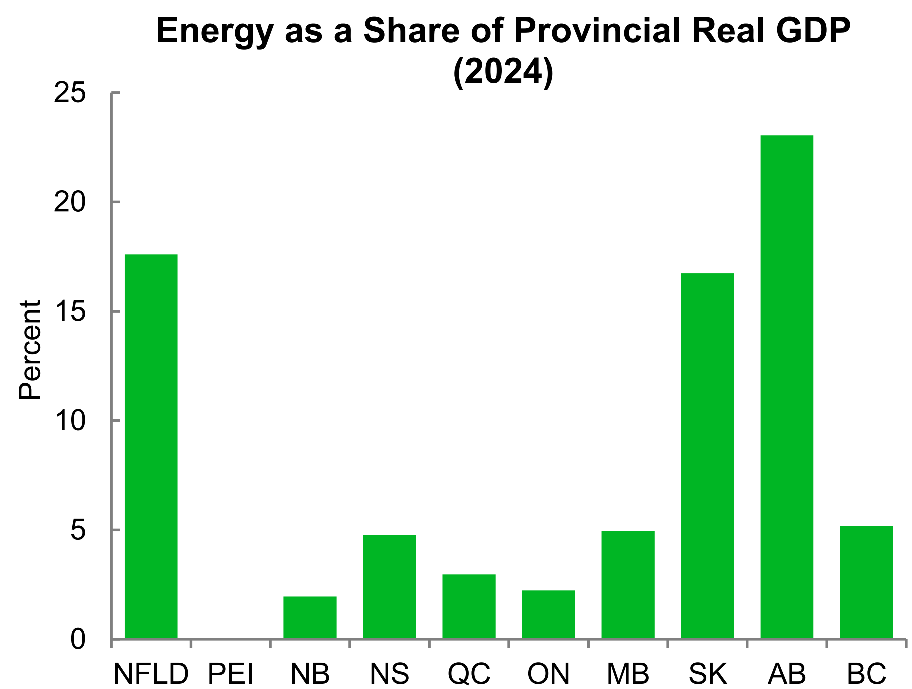
Higher Energy Prices Still Positive for GDP

But Tailwind has Faded Over the Last Decade

- We look for a 0.1pp impact on GDP from 10% move in oil prices. Economic benefits concentrated among commodity-producing regions, but tailwind outweighs drag on household sector.
- Oil/Gas remains largest source of private capital spending across Canada but just 1.3% of total employment.



Source: Statistics Canada, TD Securities

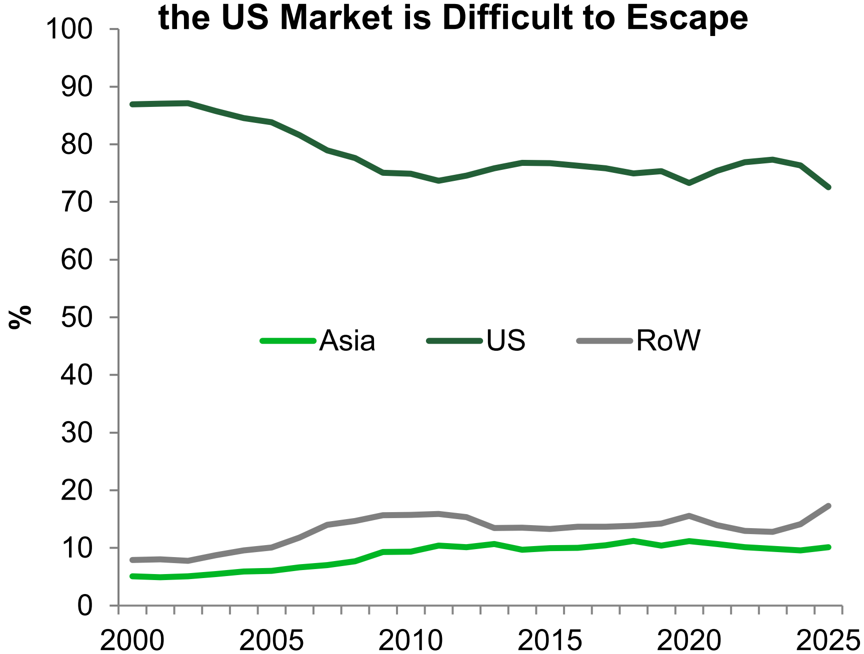


Source: Statistics Canada, TD Securities

CUSMA Certification Helps Mitigate Tariff Impacts

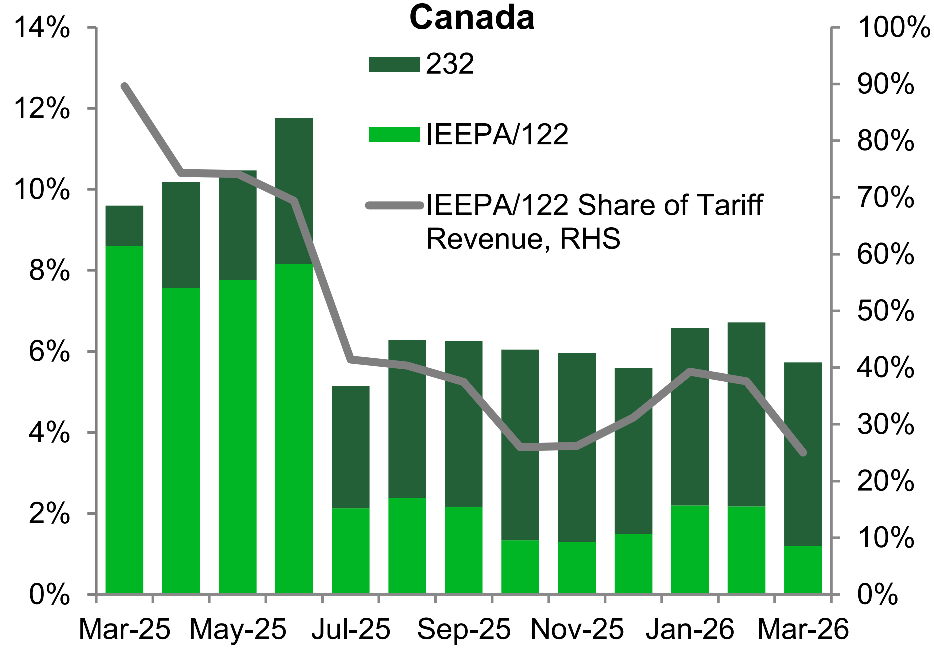
- Only 35% of US bound exports were CUSMA compliant over 25Q1, now 85-90%.
- Higher rates of CUSMA compliance have shifted the burden to sectoral tariffs (imposed under Sec. 232), limiting relief from Supreme Court ruling that declared IEEPA tariffs illegal.
- Section 122 requires congressional approval 5 months → bridge to Section 301/338 in Q3.

Share of Canadian Exports: The Gravity of the US Market is Difficult to Escape



Source: Haver, TD Securities

Breaking Down Policy-Implied Rates on Canada

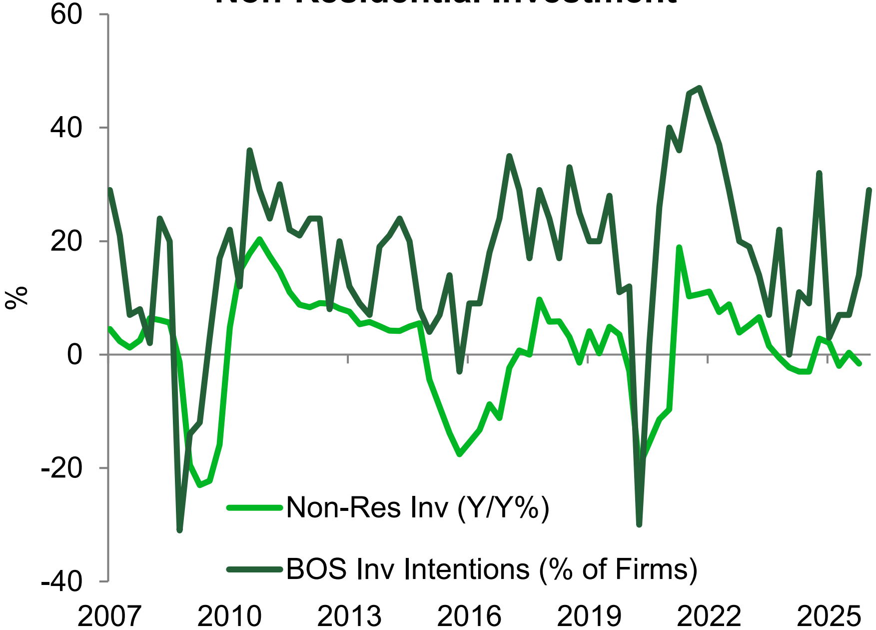


*TDS Estimates; Source: US ITC, TD Securities

Canadian Firms Have Adjusted to New Environment

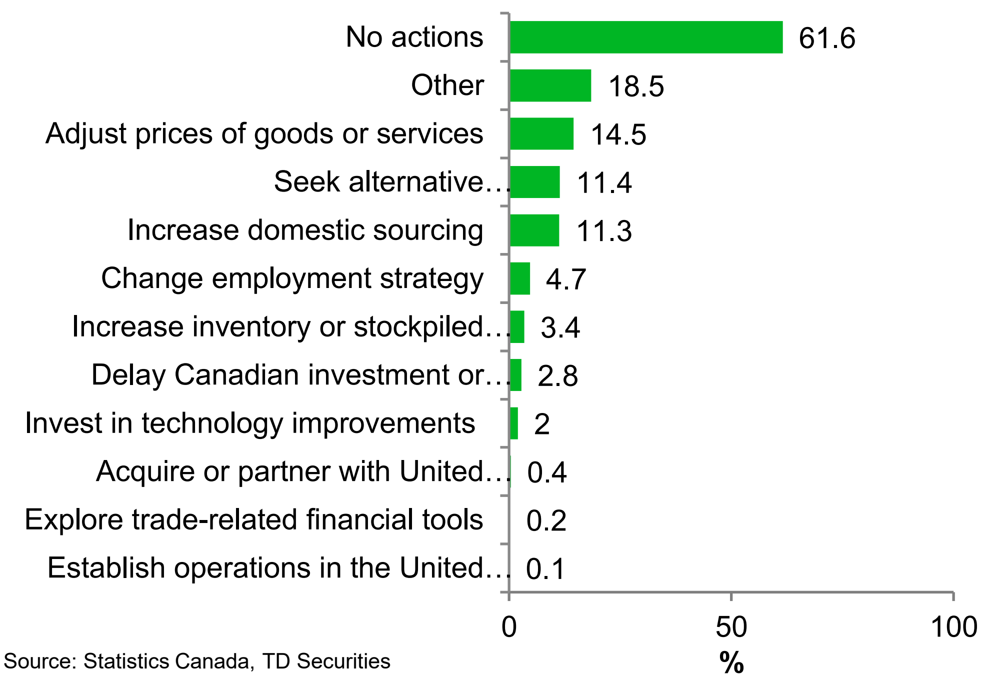
- Business sentiment has stabilized as firms adjust to heightened trade uncertainty.
- Trade uncertainty has weighed on business investment, but intentions turned positive in Q1.
- Many firms have not taken specific measures to address trade risks (Statistics Canada Survey of Business Conditions).

Bank of Canada Investment Intentions vs Non-Residential Investment



Source: Statistics Canada, Bank of Canada,, TD Securities

More than One Quarter of Businesses Have Taken Measures to Address US Risks (26Q1)



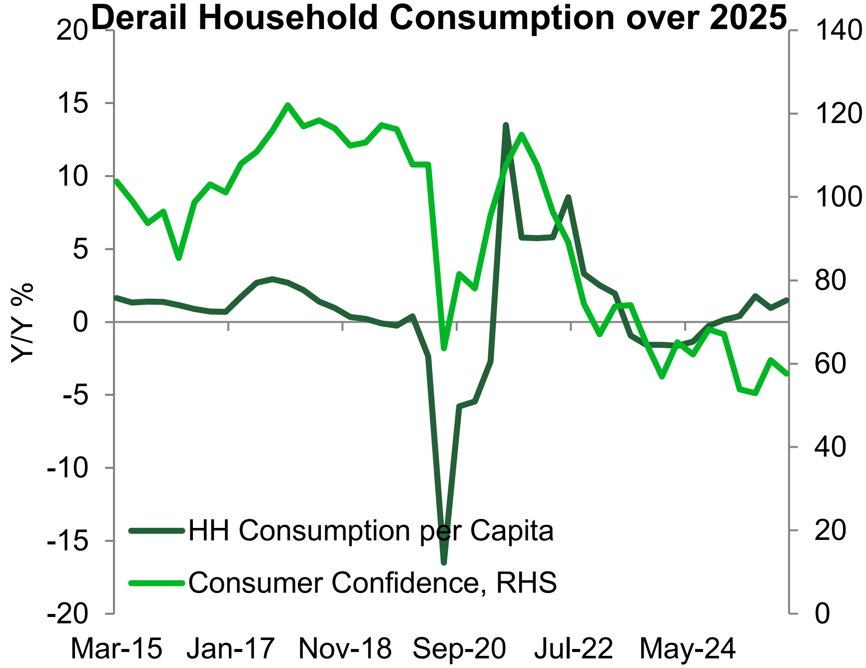
Source: Statistics Canada, TD Securities

Household Sector Has Been Source of Resilience

Consumption Helped Offset Trade Headwinds in 2025

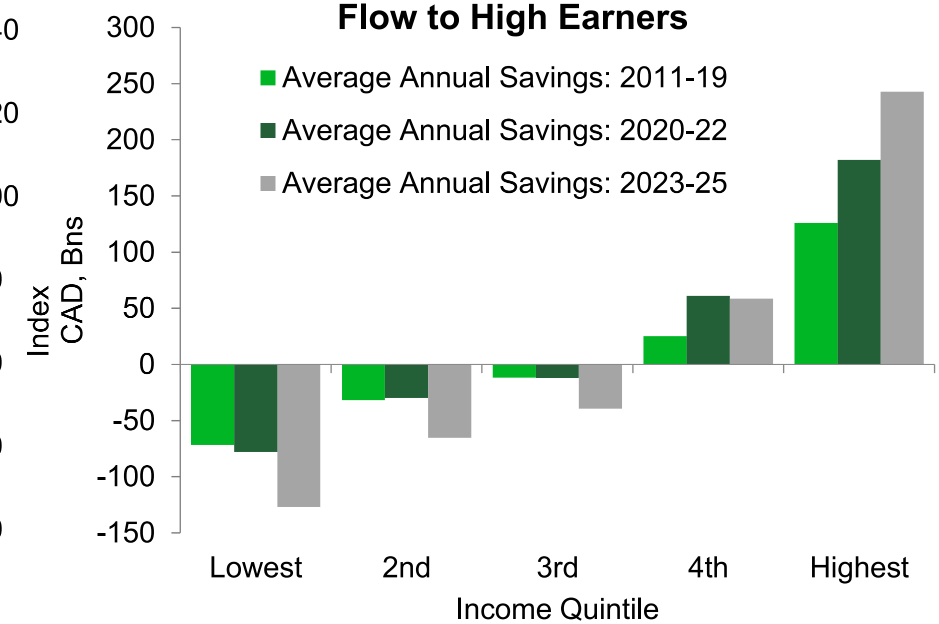
- Consumer confidence has seen a similar deterioration to business sentiment, but this did not hold back household spending in 2025. Per-capita consumption was the strongest since 2022.
- Household savings offer a source of resilience. Savings rate still sits well above LT trend but savings are increasingly concentrated among high income HHs.

Weaker Consumer Confidence Did Not Derail Household Consumption over 2025



Source: Statistics Canada, Signal49, TD Securities

Household Savings Have Continued to Flow to High Earners

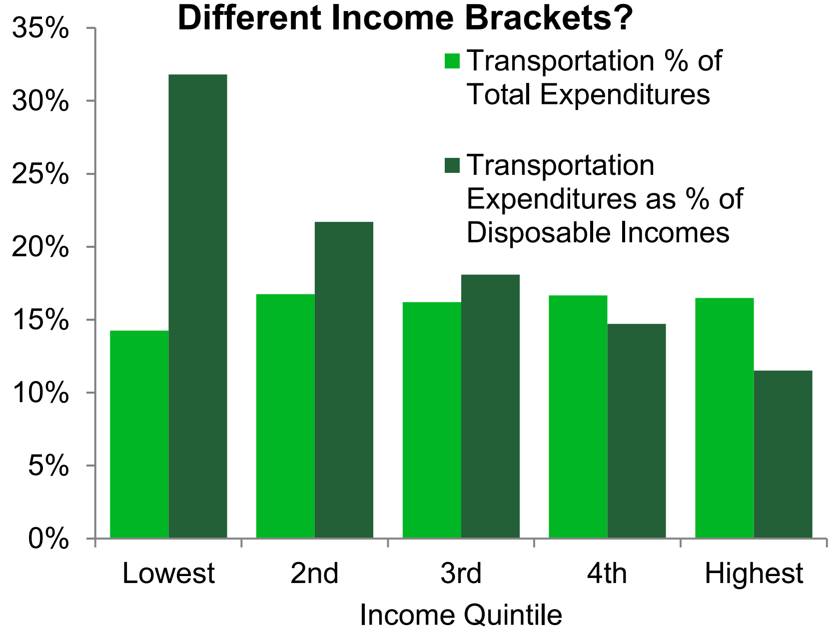


Source: Statistics Canada, TD Securities

Higher Fuel Prices Deliver New Headwind for HHs

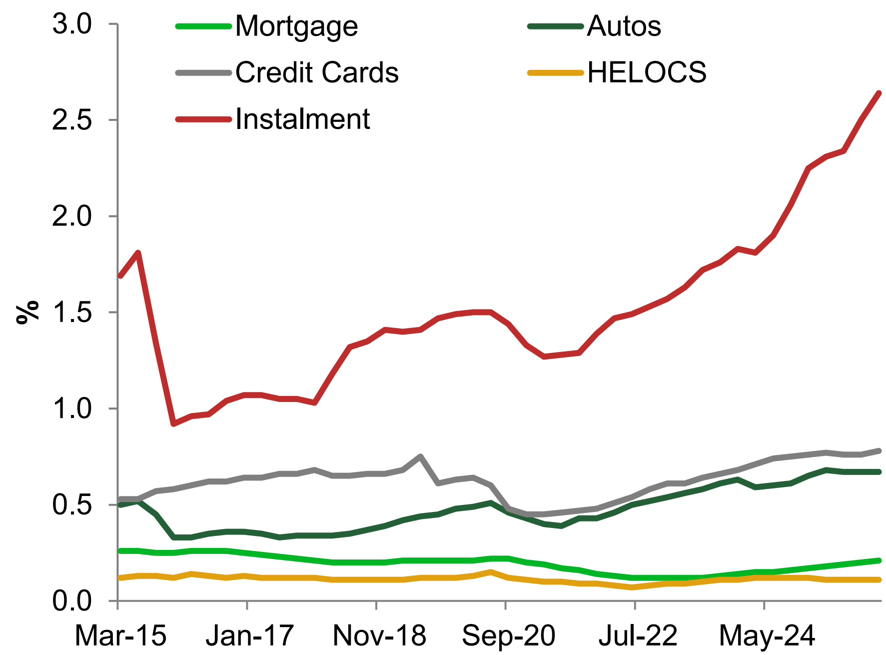
- Gasoline and other refined fuels make up 3-4% of total household consumption, $55-60bn per year.
  - Household savings have eclipsed total spending on fuel over 4 of the last 6 years.
- Lower income households will feel a bigger pinch, with larger share of incomes put towards transportation outlays and no excess savings.

How Do Higher Fuel Prices Impact Different Income Brackets?



*Gasoline/fuels are 22% of transportation spending (across all HHs)
Source: Statistics Canada, TD Securities

Household Credit Arrears Rate by Product



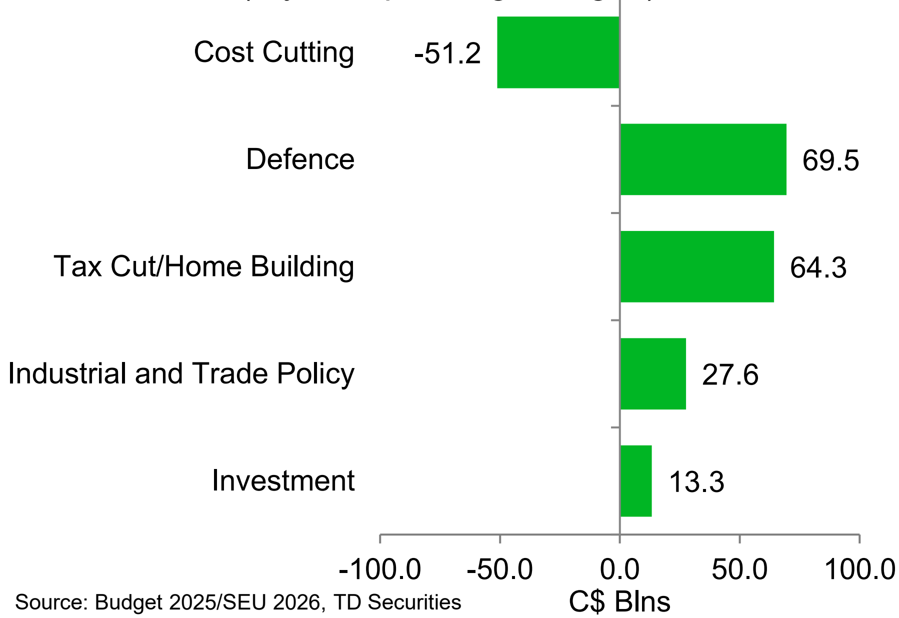
Source: Bank of Canada, TD Securities

Fiscal Policy Provides Key Driver for 2026 Growth

Look for Above Trend Growth in 2026

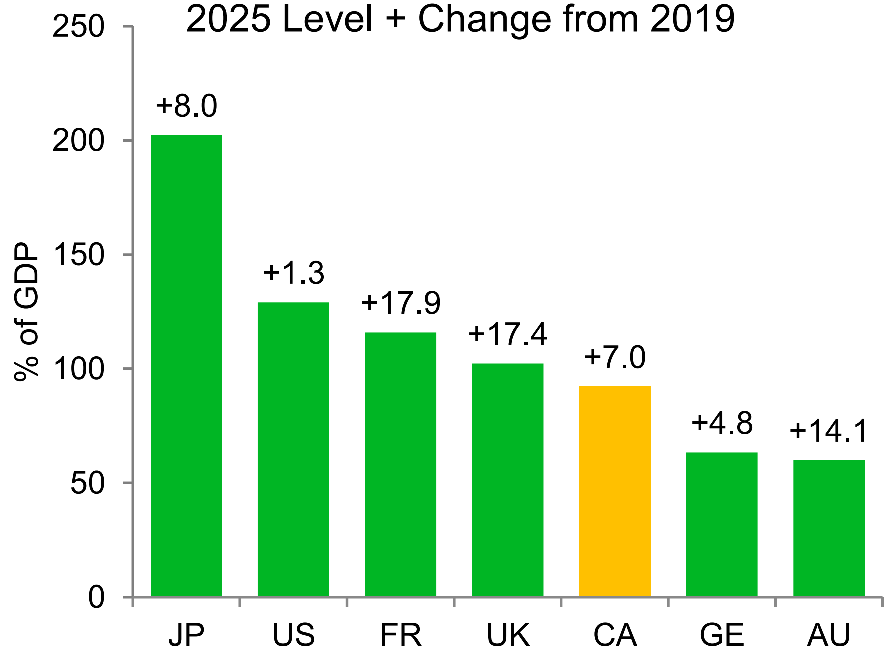
- Expansionary fiscal policy will be a key driver for growth in 2026. The Federal Government's 2025 Budget and 2026 Spring Economic Update included ~$120bn in new spending over 5 years.
- Strong fiscal backdrop gives Canada more flexibility to run deficits relative to G10 peers.

New Spending by Area in 2025 Budget and Spring Update
(5-year Spending Pledges)



Source: Budget 2025/SEU 2026, TD Securities

General Government Debt/GDP
2025 Level + Change from 2019

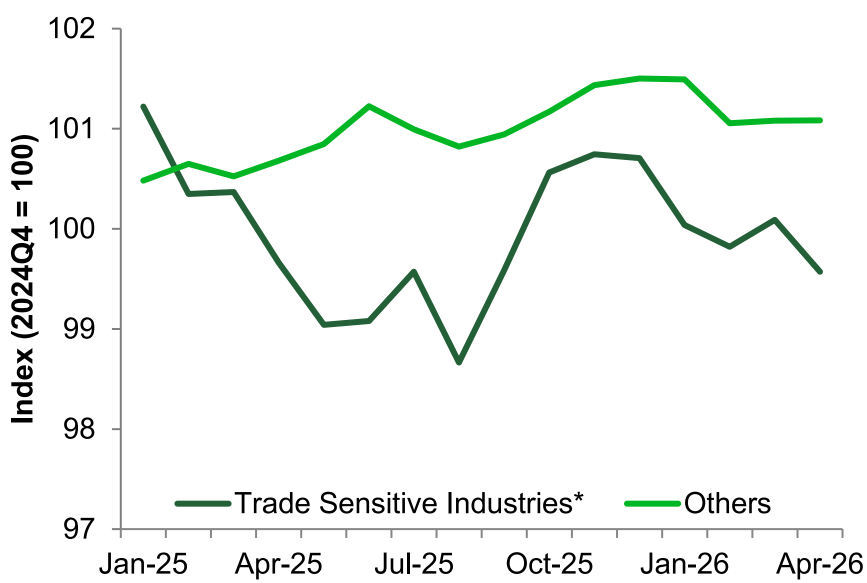


Source: Haver Analytics, TD Securities

Labour Markets Have Been Resilient, but Choppy

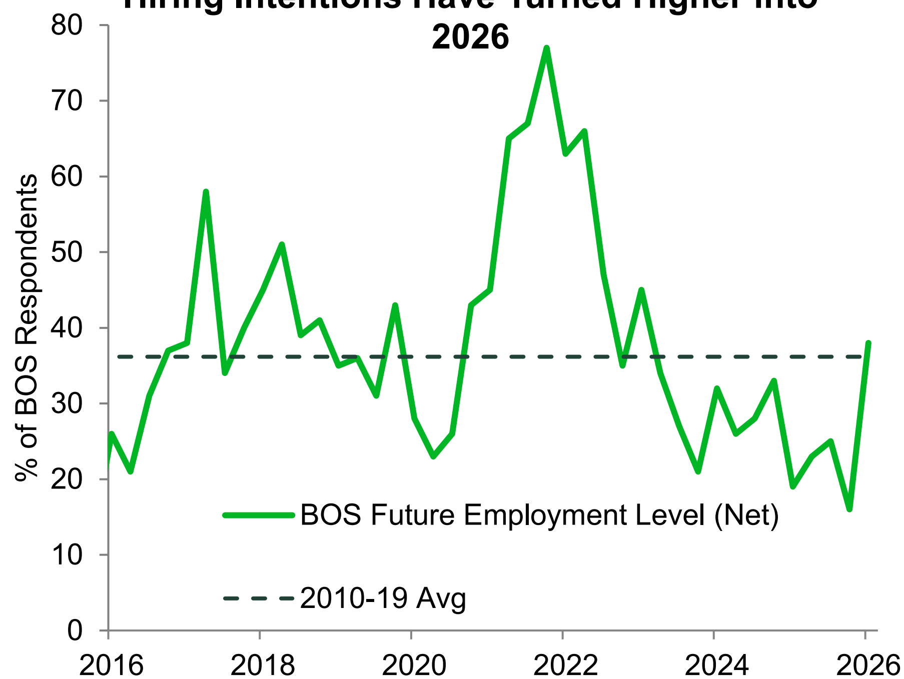
- Labour markets have been resilient amid heightened trade uncertainty:
  - 211k jobs added between Dec 2024 and Dec 2025 (vs 404k in 2024).
  - Employment rate fell by just 0.2pp as labour supply decelerates.
- Wage pressures remain with disposable incomes still running at 2.8% y/y in Q4.

Labour Market Conditions Under Pressure in Trade Sensitive Industries



Manufacturing, natural resources, agriculture, transportation/warehousing
Source: Statistics Canada, TD Securities

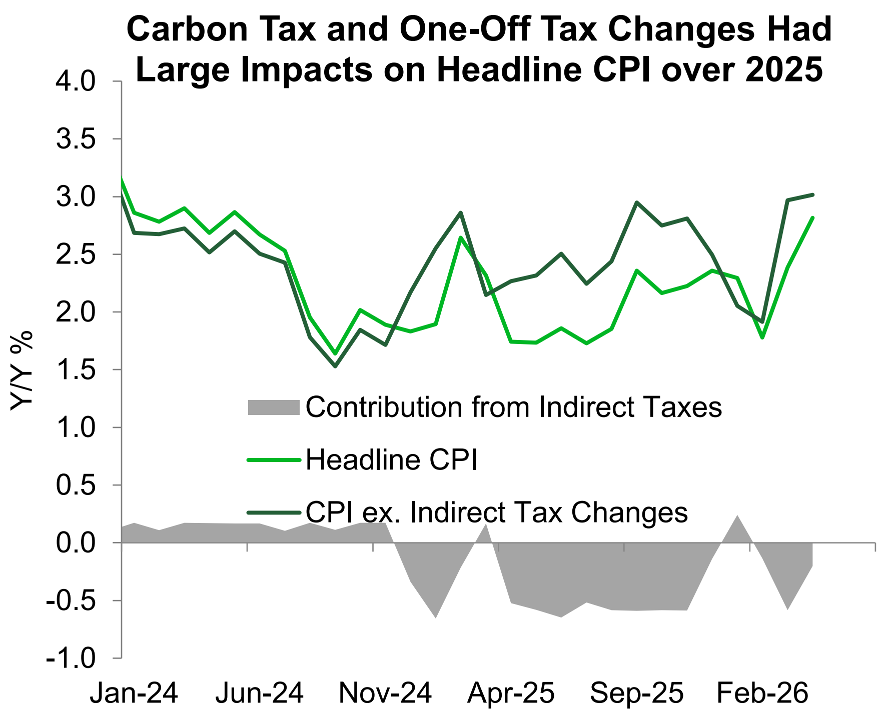
Hiring Intentions Have Turned Higher into 2026



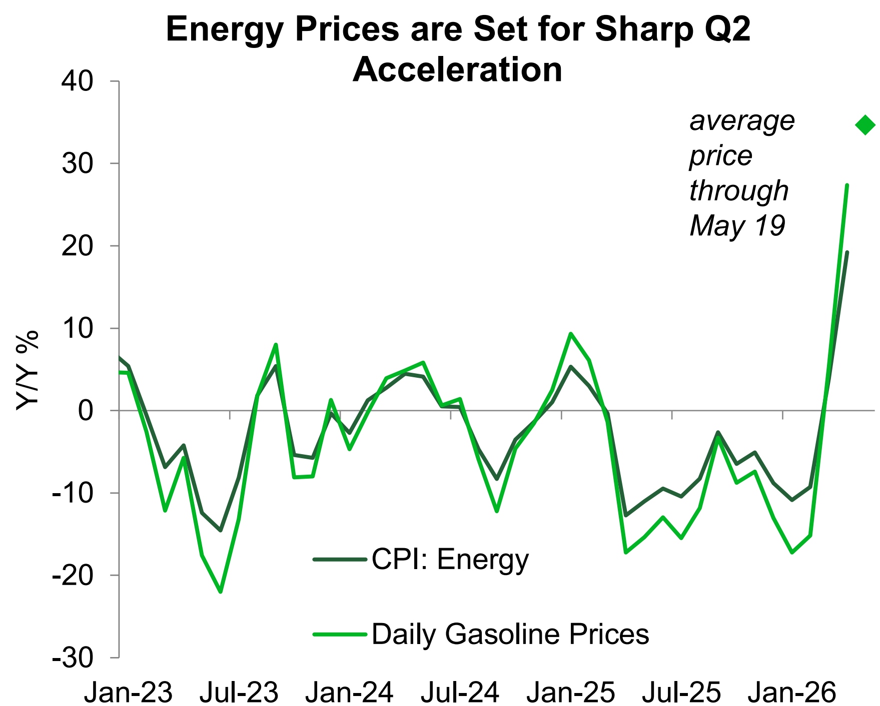
Source: Bank of Canada, CFIB, TD Securities

Iran Conflict Puts Inflation on New Trajectory

- Inflation had been running below 2% through most of last year after the Federal Government removed consumer carbon taxes in April
  - HST changes added more noise to headline CPI over Q4/Q1
- Prior to Iran shock, we had been looking for inflation to push back to mid-2s by Q2 on base-effect from carbon tax, before drifting lower to 2% by end of 2026.



Source: Statistics Canada, TD Securities



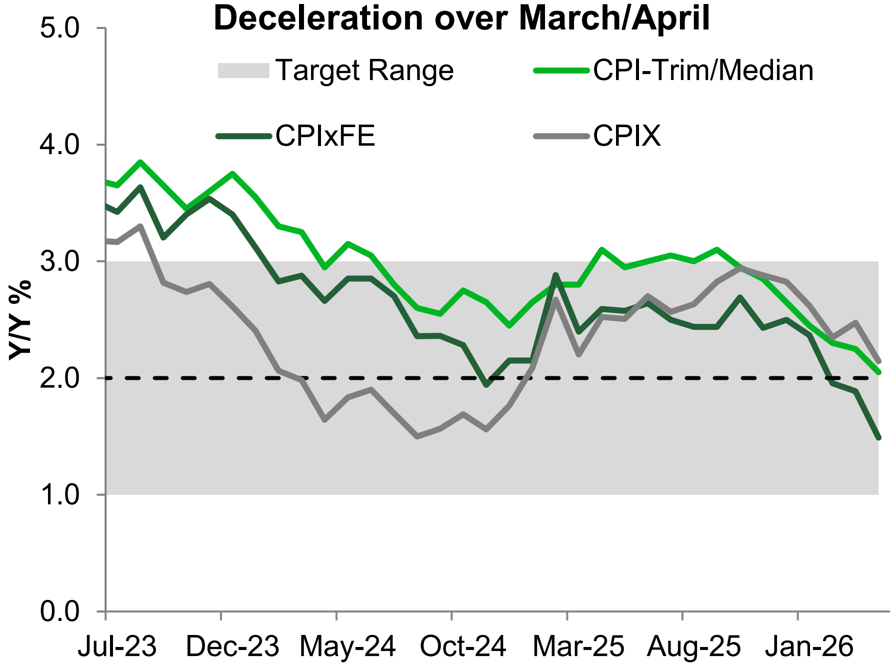
Source: Statistics Canada, Bloomberg, TD Securities

Higher Oil Prices Have Not Spilled Over to Core CPI

Look for limited impact on core measures

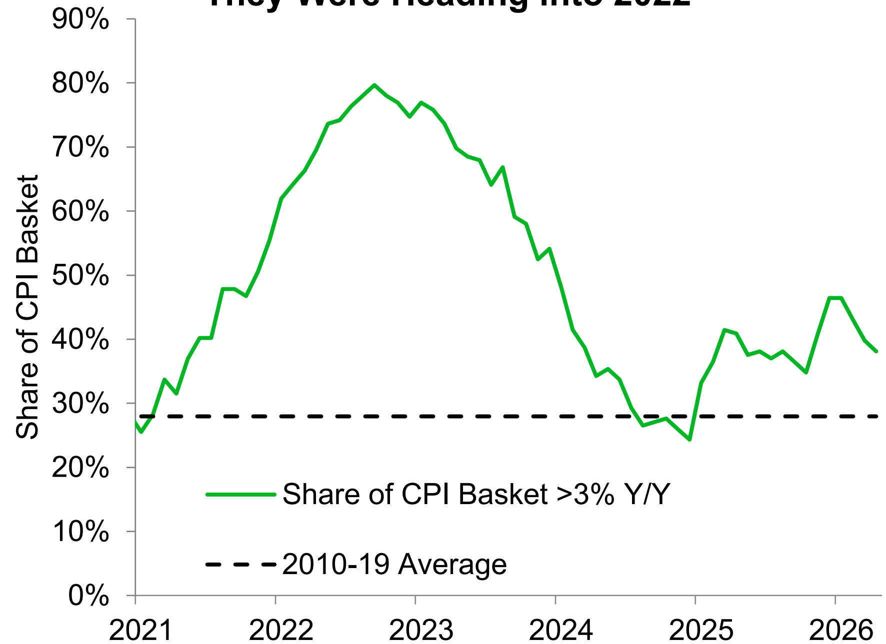
- Higher oil prices have not spilled over to broader core inflation measures (through April):
  - CPI-trim/median have slowed 0.2-0.3pp over Mar/Apr, 1.8% on 3m SAAR basis.
  - CPI diffusion measures are not showing any increase to inflation breadth.
- Leaves BoC well positioned to look through headline CPI shock.

Core Inflation Measures Saw Broad Deceleration over March/April



Source: Statistics Canada, TD Securities

Inflation Pressures are Less Broad Than They Were Heading into 2022

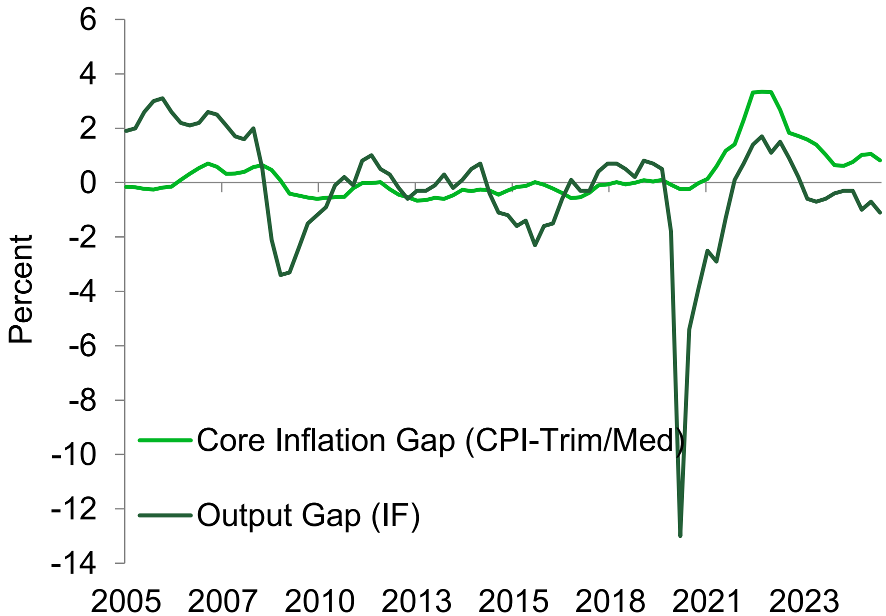


Source: Statistics Canada, TD Securities

Look for BoC to Remain On Hold Though 2026

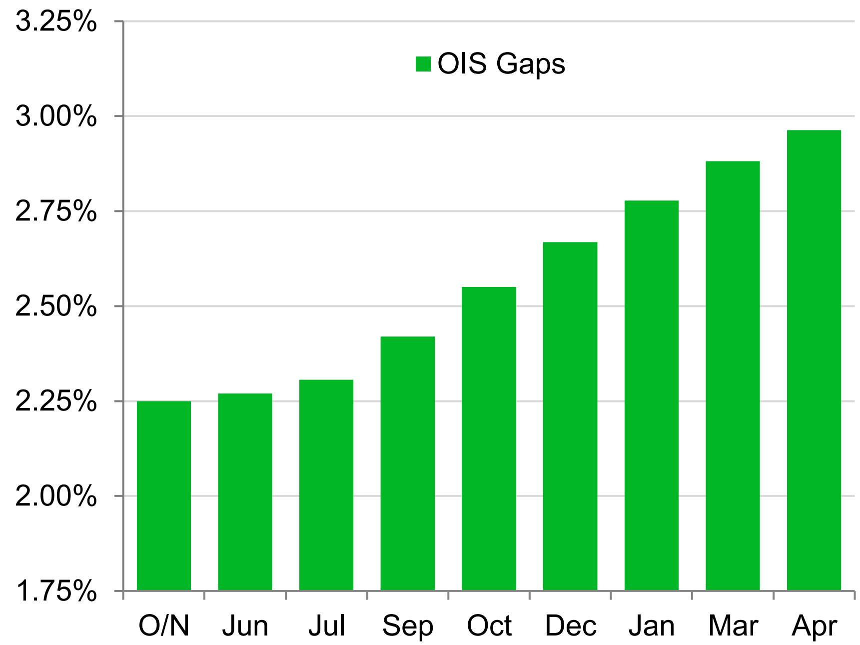
- We look for the Bank of Canada to hold interest rates at 2.25% through 2026, rate hikes in 27Q1
  - Anchored inflation expectations, few signs of core inflation spillovers, and excess supply argue for patience
  - Rate cuts would require a return to below-trend growth and geopolitical stability

Excess Supply to Pull Inflation Lower Over 2026



Source: Bank of Canada, TD Securities

Implied Overnight Rate by Meeting

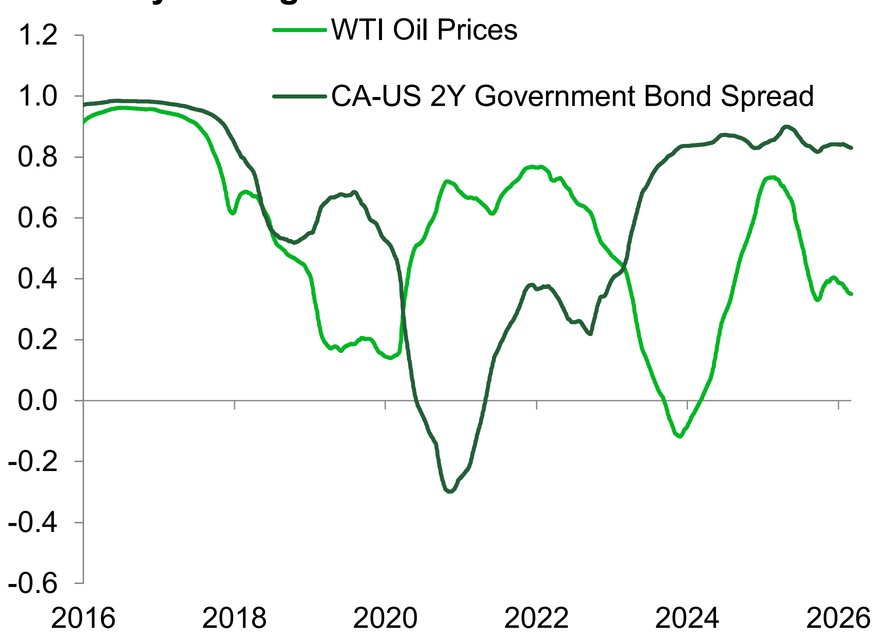


Source: Bloomberg, TD Securities

Look for a Stronger Loonie over 2026

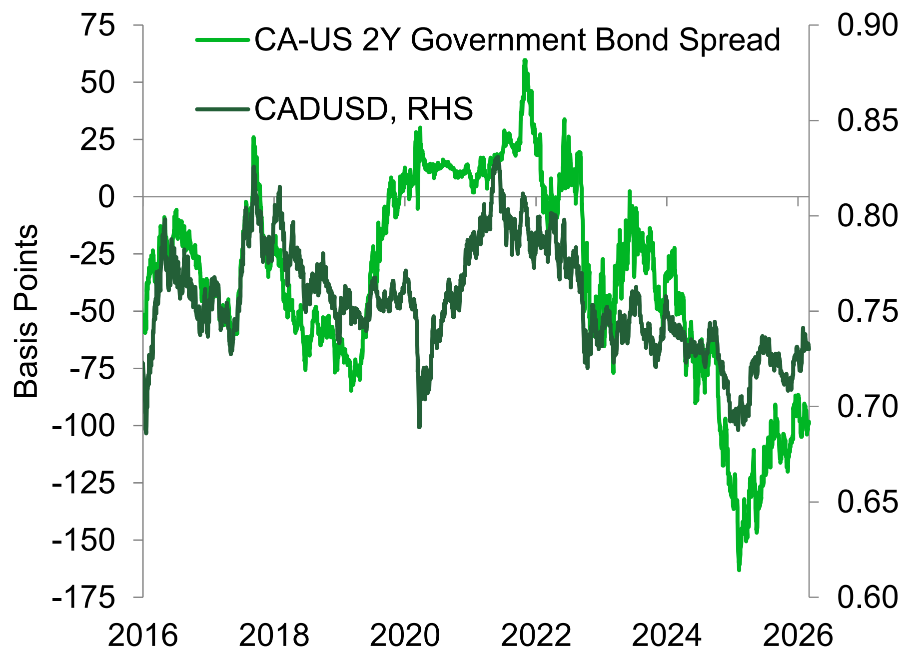
- Geopolitical uncertainty has weighed on USDCAD, limiting tailwind from higher oil prices
- Near-term Fed expectation are also holding back stronger Loonie as market pivots to price in Fed hikes
- We believe Fed's next move will be a cut (in 27Q1) with convergence between BoC/Fed providing support to the Loonie over 2027.

3y Rolling Correlations to CADUSD



Source: Bloomberg, TD Securities

CAD vs Front-End Rate Spreads



Source: Bloomberg, TD Securities

Economic Forecasts

Global Macro Forecast Summary (%)														
		25Q4	26Q1	26Q2	26Q3	26Q4	27Q1	27Q2	27Q3	27Q4	2025	2026	2027
US	GDP Growth (q/q saar)	0.5	2.0	2.0	1.8	2.0	2.1	2.4	2.2	2.3	2.1	2.1	2.1
	Headline CPI (y/y)	2.8	2.7	4.1	4.0	4.0	3.8	2.7	2.5	2.5	2.7	3.7	2.9
	Core CPI (y/y)	2.7	2.5	2.9	2.9	3.0	3.0	2.7	2.6	2.6	2.9	2.8	2.7
	Fed Funds Rate (eop, upper)	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.00	3.00	3.75	3.75	3.00
Euro Area	GDP Growth (q/q)	0.2	0.1	0.1	0.2	0.3	0.5	0.4	0.3	0.3	1.5	0.7	1.4
	Headline CPI (y/y)	2.1	2.0	3.1	3.0	3.1	2.5	1.7	1.7	1.7	2.1	2.8	1.9
	Core CPI (y/y)	2.4	2.3	2.4	2.4	2.3	2.3	2.1	2.1	2.0	2.4	2.3	2.1
	Deposit Rate (eop)	2.00	2.00	2.00	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.25	2.25
Canada	GDP Growth (q/q saar)	-0.6	1.5	1.9	2.1	2.0	1.7	1.6	1.5	1.5	1.7	1.2	1.8
	Headline CPI (y/y)	2.2	2.2	3.0	2.9	2.7	2.7	2.1	2.2	2.1	2.1	2.7	2.3
	Core CPI (y/y, avg)	2.8	2.3	2.2	2.2	2.3	2.5	2.3	2.2	2.0	2.9	2.2	2.3
	Overnight Rate (eop)	2.25	2.25	2.25	2.25	2.25	2.75	2.75	2.75	2.75	2.25	2.25	2.75
UK	GDP Growth (q/q)	0.2	0.6	0.3	0.1	0.2	0.4	0.4	0.4	0.4	1.4	1.2	1.3
	Headline CPI (y/y)	3.4	3.1	3.1	3.5	3.5	3.2	2.7	2.2	2.2	3.4	3.3	2.6
	Core CPI (y/y)	3.3	3.2	2.7	2.7	2.9	2.7	2.5	2.2	2.2	3.5	2.9	2.4
	Bank Rate (eop)	3.75	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.75	3.50	3.50
World	**GDP Growth**										**3.4**	**3.0**	**3.0**

Source: Macrobond, TD Securities

FX Forecasts

		Global FX Forecasts								
		Spot	2026				2027			
		20-May-26	Q1 A	Q2 F	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
G10	**BBDXY**	1201	1215	1193	1181	1165	1160	1154	1149	1143
	EURUSD	1.16	1.16	1.17	1.18	1.20	1.21	1.21	1.22	1.22
	GBPUSD	1.34	1.32	1.34	1.36	1.38	1.39	1.39	1.40	1.40
	AUDUSD	0.72	0.69	0.72	0.72	0.73	0.74	0.74	0.75	0.75
	NZDUSD	0.59	0.57	0.59	0.60	0.60	0.61	0.61	0.62	0.62
	USDCAD	1.37	1.39	1.37	1.35	1.34	1.34	1.33	1.33	1.32
	USDJPY	159	159	157	156	154	153	151	150	148
	USDCHF	0.79	0.80	0.77	0.77	0.76	0.76	0.77	0.77	0.77
	USDNOK	9.27	9.69	9.23	9.32	9.25	9.17	9.09	9.01	8.93
	USDSEK	9.33	9.47	9.27	9.03	8.75	8.67	8.60	8.52	8.44

Source: TD Securities

Rates Forecast

Summary G10 Rates Forecasts										
		Spot	2026				2027			
		20-May-26	Q1 A	Q2 F	Q3 F	Q4 F	Q1 F	Q2 F	Q3 F	Q4 F
United States	Fed Funds Rate *	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.00	3.00
	3m	3.65	3.68	3.61	3.61	3.49	3.01	2.91	2.86	2.86
	2y	4.05	3.83	3.90	3.90	3.85	3.55	3.35	3.15	3.20
	5y	4.24	3.98	4.00	3.95	3.90	3.70	3.55	3.40	3.40
	10y	4.58	4.35	4.40	4.30	4.25	4.10	4.00	3.90	3.90
	30y	5.11	4.91	4.90	4.85	4.80	4.65	4.55	4.40	4.35
Canada	Overnight Rate	2.25	2.25	2.25	2.25	2.25	2.75	2.75	2.75	2.75
	3m	2.31	2.33	2.20	2.20	2.40	2.75	2.75	2.75	2.75
	2y	2.94	2.89	2.75	2.80	2.85	2.85	2.85	2.85	2.85
	5y	3.24	3.14	3.00	3.10	3.15	3.15	3.15	3.10	3.05
	10y	3.59	3.51	3.55	3.50	3.45	3.35	3.30	3.25	3.25
	30y	3.95	3.90	3.95	3.90	3.85	3.75	3.70	3.65	3.65

Source: TD Securities; *Upper bound of target range

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