

Monthly *insights*

Investment insight

Investors have navigated a long list of concerns this year, from persistent inflation to geopolitical uncertainty. Yet the underlying economic and corporate backdrop has proven more resilient than the headlines might suggest.

Inflation trends

Inflation remains one of the key headwinds investors are watching. Price pressures have eased from their peaks, but inflation remains above central bank targets in several major economies, and policymakers have become more cautious as a result.

Investor watchpoint

Headlines often drive short-term market moves. But over longer periods, economic growth, corporate earnings, and business investment have generally mattered more. Keeping both in view can help investors stay focused on long-term goals.

Headwinds persist, but tailwinds dominate

There is no shortage of concerns, but the foundations remain solid.

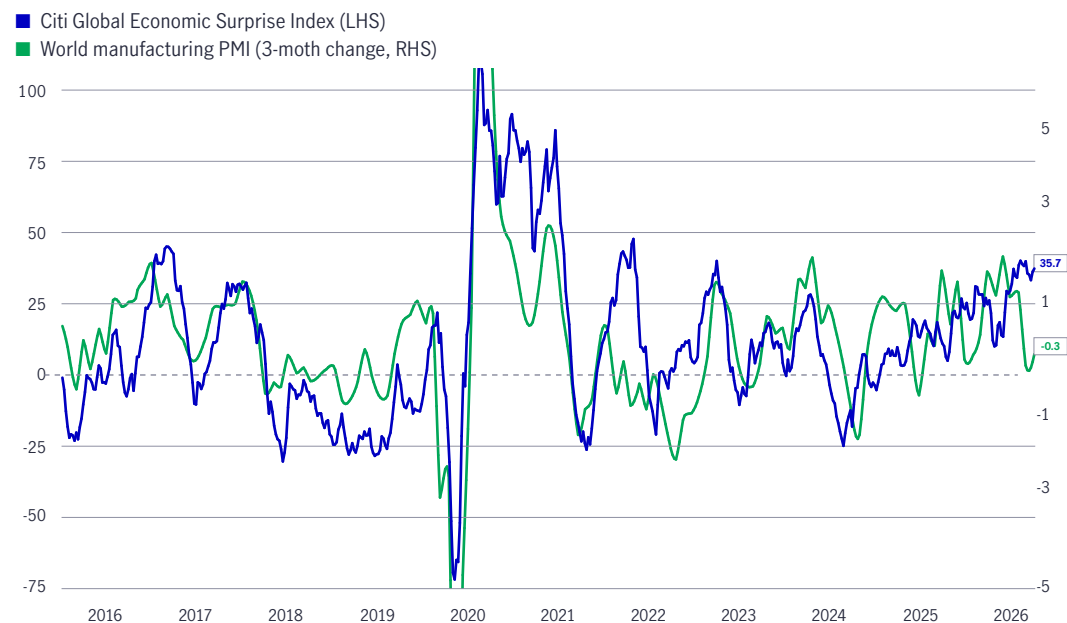
Investors have plenty to consider as the year enters its final stretch. Persistent inflation, geopolitical uncertainty, extended valuations, rising government deficits, and an unclear path for monetary policy have all featured prominently in recent months. Central banks have also turned more hawkish: on September 16, the U.S. Federal Reserve (Fed) raised its policy rate by 0.25 percentage points to a range of 3.75% to 4.00%, its first increase since July 2023. Together, these factors help explain why investor mood has shifted so frequently this year.

Despite these concerns, several fundamentals have held up well, including steady economic growth, resilient corporate earnings, a firm labour market, improving industrial activity, and continued consumer spending. Fiscal support from governments and accelerating business investment tied to the build-out of AI are also supporting economic activity.

None of this means the headwinds have disappeared, but so far, the forces supporting the economy have outweighed them.

Economic data has been coming in better than expected.

Global economic data releases are surpassing expectations



Source: S&P Global, Citi, Macrobond, Manulife Investment Management, as of Wednesday, September 9, 2026. The gray areas represent recession.

Economic surprise indexes measure whether economic data releases are coming in above or below forecasters' expectations; a reading above zero means data has generally been beating forecasts. The Citi Global Economic Surprise Index has spent most of the past two years in positive territory and stood at 35.7 as of September 9, suggesting growth has been more resilient than the mood of the headlines might imply. Positive surprises don't persist indefinitely, however. As of the same date, the three-month change in the global manufacturing PMI had slipped to -0.3, a sign that factory momentum has cooled, even as the broader economy continues to hold up.

Putting today's concerns in context

Headlines tell us what could go wrong; context helps explain what it may mean.

Several of this year's recurring themes are worth unpacking, because understanding them makes the headlines easier to interpret.

One of the most closely watched themes is AI. Spending on data centres, chips, and AI networks has become an important source of economic activity, and it's natural to wonder whether that pace can last. In the U.S., monthly orders for core capital goods, a common gauge of business investment, had climbed to a record of roughly US\$85 billion as of September 9. Past waves of innovation, from electrification to the personal computer, brought both real productivity gains and bouts of excess enthusiasm. What will matter is how broadly the technology is put to practical use, and that story is still being written.

Government finances are another recurring theme. Many countries borrowed heavily over the past two decades, when interest rates were low. As that debt is renewed at today's higher rates, interest payments take up a larger share of government budgets, which can shape tax and spending decisions for years to come. Long-term borrowing costs reflect this. As of September 25, the U.S. 10-year Treasury yield stood at 5.16% and Canada's 10-year government bond yield at 3.92%.

Then there's the question of valuations. When markets have risen strongly, it's natural to ask whether prices have run too far. It helps to remember that a valuation is simply a ratio, with price on one side and earnings on the other. Growing earnings can bring that ratio back toward more familiar levels even if prices hold steady, which is why the path of corporate profits deserves as much attention as the level of the market itself.

What has tended to matter more over time

Fundamentals have historically outlasted the headlines.

The concerns dominating headlines have changed over the years, from the pandemic to trade tensions and geopolitical conflict. While each has influenced markets in the short term, long-term outcomes have tended to be driven more by economic growth, corporate earnings, productivity, and business investment. Because risks and opportunities aren't evenly distributed across regions, sectors, and asset classes, diversification and a long-term perspective remain among the most effective ways to navigate changing market environments.

Why a long-term approach still matters

Cash offers comfort in the short term, but its purchasing power can quietly erode over time.

Cash plays an important role in any plan: it's stable, easy to access, and ready for near-term needs. Over longer periods, however, inflation and taxes tend to shrink what it can buy. In that sense, cash is a lot like a bucket of water, while equities are more like a stream. The bucket is right there when you need it, but each time you dip into it, the level drops, and even left untouched, some of it slowly evaporates.

The stream is less predictable. Its flow rises and falls with the seasons, and some summers it runs lower. Yet over time, its course continues forward. For long-term investors, the greater risk is often not short-term market volatility but remaining on the sidelines while waiting for certainty that rarely arrives.

How money is invested matters as much as whether it is invested. Concentrated portfolios can become heavily dependent on the fortunes of a small number of companies, sectors, or investment themes. Diversification, disciplined rebalancing, and maintaining an allocation aligned with long-term objectives remain important ways to manage risk through changing market environments rather than chasing recent winners.

Bottom line

Staying focused on fundamentals matters more than reacting to headlines.

Headwinds are real, and some may persist. But the foundations of the economy, including growth, earnings, employment, and business investment, have remained resilient. The more lasting questions are often about balance: how much to keep in the bucket, how the rest is invested to participate in the stream of long-term growth, and whether a portfolio is as diversified as intended. Success is often less about predicting the next headline and more about maintaining a disciplined approach aligned with long-term objectives.

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