

The G7's next "exceptional" story(?)

Report for the week ending November 07,
2025

Dylan Smith

Monologue

In last week's monologue ("The AI economy vs. the real economy"), I came out forcefully against Jerome Powell's view that AI-related investment growth is detached from the "real economy" because it is interest-rate-insensitive.

Perhaps investors have been thinking along the same lines. As markets have digested the more uncertain interest rate outlook following last week's meeting – a task not helped by the mixed bag of private labor market data this week – the AI narrative has started to come under pressure again.

Totting up the updates on data center investment from the tech "hyperscalers" that we've learned about this earnings season gives us a figure \$390bn this year, growing to \$615bn by 2027, according to [Barclays analysts](#).

That's a bit much, even for this bull market, to get entirely comfortable with, especially as companies increasingly turn to external debt to finance these outlays. Thus, this week saw a significant course correction in markets, led by the S&P 500 Information Technology sector, which was down -4.5% on the week. Nvidia, Meta, Palantir, and Oracle together shed \$800bn of market cap.

In case you're wondering—yes, we have outlined how the economy and markets would likely play out in the event of an AI-centered market crash. It's Scenario 2 in our recently published [Q4 Quarterly Outlook](#).

In a sign of just how news-sensitive prices have become, the weekly performance data would have been gloomier without a sharp bounce in late trading on Friday when news of a potential deal to end the U.S. government shutdown emerged. With the SNAP federal food stamps program now delayed (with Supreme Court approval) and air travel effectively being rationed, we're at the point in the shutdown where permanent economic costs are starting to accrue. I expect a deal as soon as this week (Kalshi traders have set Monday, November 17th, as the predicted reopening day).

From a big-picture perspective, the shutdown for now remains a blip in the overall economic narrative, but given the scale of the rally on the very flimsy news reports on Friday evening, this could provide some temporary support to equities and might quiet the AI-skeptics for a while.

Shifting gears a little, I'd like to draw attention to our Memo this week, which introduces "Canada Corner," an occasional feature that we'll run when we have views on important developments regarding America's northern neighbor. We start with the bold proposition that this week's Budget signals a turning of the corner for Canada's outlook. If Canada can minimize the damage in next year's USMCA review, it stands to outperform its G7 peers.

Is it going too far to ask if American exceptionalism might give way to a Canadian renaissance?

Reads of the Week

- [Measuring Geoeconomics](#): The authors come up with a smart way to quantify geopolitical shocks, and find that their effects are stagflationary.
 - [The Debate Over Private Credit Returns Is Just Heating Up](#): Dust off your IRR vs. TVPI playbook, the discourse over the return profile of private credit is gaining prominence.
-

Market Monitor

It was a losing week for Wall Street, with big tech and AI coming under intense pressure. The Information Technology and Communication Services sectors of the S&P 500 index dropped -4.5% and -2.0% respectively, and the tech-heavy Nasdaq gave up -2.4%. It wasn't just an AI story, however. In a sign that markets might be adjusting to a less certain interest rate outlook and are taking weakening activity more seriously, the Dow Jones Industrial Average fell by -1.1% and the Russell 2000 small-cap index by -1.3%. WTI crude oil prices remained below \$60 per barrel amid a worsening global supply/demand imbalance.

The U.S. Treasuries yield curve flattened as rates ticked up on the short end. Of note, benchmark 10-year Government of Canada bond yields fell by five basis points to 3.1% in the wake of the Budget announcement (more on that in this week's memo). But in something of a mixed message, the Canadian dollar lost -1.4% against the greenback. At USD/CAD 1.41, it's now at its weakest level since February.

Corporate credit also picked up on bad vibes, especially at the high-risk end. Spreads to maturity in the Pitchbook | LCD CCC-rated leveraged loan index jumped up a full 55 basis points. [Claims by private capital executives](#) that four-fifths of firms in their industry will be "zombies" within the next decade probably don't help matters in this corner of the market.

Interestingly, Gold did not enjoy its usual uptick during a broadly risk-off week, staying flat a hair below \$4k per ounce. Having enjoyed a +53% surge this year, even the goldbugs appear to think the rally is over for now.

Turning to the private markets, a week into a new month is a good time to check in on PE deal activity (see tables below). The news on that front has been resoundingly positive, with U.S. deal flow carrying its September momentum into October (with more data still to trickle in). Between corporate M&A and secondary buyouts, October looks set to be the strongest month of what's been an up year for exits. The PE industry is on track to nearly triple last year's total exit deal value.

The Week in Markets

As of Friday October 31, 2025

	Latest*	Change since last week (units)	Change since last week (%)	Change since last month (units)	Change since last month (%)	Year-to-date change (units)	Year-to-date change (%)
Equity							
S&P 500	6729	-93.5	-1.4	384	6.0	847	14.4
Information Technology			-4.5		8.8		23.8
Financials			1.0		1.6		9.0
Consumer Discretionary			2.5		7.6		5.5
Communication Services			-2.0		8.5		23.7
Health Care			1.2		12.0		6.0
Industrials			-0.9		1.6		16.3
Consumer Staples			0.3		-4.6		0.2
Energy			2.1		5.8		4.6
Utilities			-0.1		4.7		18.2
Real Estate			1.0		0.1		1.6
Materials			-0.5		-2.4		2.6
Nasdaq Composite	23005	-577	-2.4	1835	8.7	3694	19.1
Dow Jones Industrial Average	46987	-535	-1.1	2794	6.3	4443	10.4
Russell 2000	6046	-82.3	-1.3	526	9.5	504	9.1
Sovereign Fixed Income							
US: 2-year Treasury Note	3.55	-0.060		-0.14		-0.7	
US: 5-year Treasury Note	3.67	-0.050		-0.1		-0.71	
US: 10-year Treasury Note	4.11	0		-0.11		-0.47	
FRA: 10-year OAT benchmark	3.46	0.050		0.16		0.28	
GER: 10-year Bund benchmark	2.67	0.020		0.030		0.28	
CHN: 10-year CGB benchmark	1.81	0.00440		0.114		0.139	
CAN: 10-year GoC benchmark	3.1	-0.050		-0.28		-0.13	
Corporate Bond Spreads							
US: A-rated	77	6.4		0		2.9	
US: BBB-rated	112	9.7		3.3		10.3	
Leveraged Loan Spreads							
US: B-rated	402	2.22		-0.208		-7.81	
US: BB rated	262	2.1		1.5		6.81	
US: CCC-rated	1408	55.1		156		137	
Foreign Exchange Rates							
DXY US Dollar Index	99.6		0.1		1.4		-8.2
EUR/USD	1.15		-0.9		-0.1		11.0
USD/CAD	1.41		1.4		2.4		-1.8
USD/CNY	7.12		0.3		-0.9		-2.4
USD/JPY	154		1.6		4.8		-1.7
GBP/USD	1.31		-1.1		-1.6		4.2
USD/CHF	0.809		1.4		-0.2		-9.8
Commodities							
WTI Crude	59.8	-0.35	-0.6	-3.91	-6.1	-11.8	-16.5
Gold	3994	-0.050	0.0	622	18.4	1385	53.1
S&P GSCI Commodities			-0.2		2.7		0.7
S&P GSCI Industrial Metals			-1.1		8.7		13.1
S&P GSCI Agriculture			0.4		4.3		-8.9

* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

Source: S&P Global, Russell Investment Group, Nasdaq, U.S. Department of Treasury, Macrobond Financial AB, Central Bank of Germany (Deutsche Bundesbank), Bank of Canada, Intercontinental Exchange (ICE), International Monetary Fund (IMF), LBMA (London Bullion Market Association), Robert Shiller, Chicago Board Options Exchange (CBOE), U.S. Department of Labor, Pitchbook | LCD, arcMacro



Private Equity Trends: Deals

United States

		Month to date*	Prior month	Same month last year	Quarter-to-date	Prior quarter	Same quarter last year	Year-to-date	Current run rate**	Prior year	Run rate as a % of prior year
		Oct 2025	Sep 2025	Oct 2024	Q4 2025	Q3 2025	Q4 2024	2025	2025	2024	2025
Buyout/LBO	Count (#)	430	560	695	530	1686	1967	5704	7605	7481	102%
	Capital (\$B)	17.1	39.5	46.2	18.4	166.5	130.2	384.0	512.0	374.7	137%
Add-on	Count (#)	322	411	503	405	1212	1367	4191	5588	5438	103%
	Capital (\$B)	3.3	6.1	3.6	3.3	32.0	19.3	90.5	121.0	60.9	199%
Growth/Expansion	Count (#)	126	155	160	150	443	476	1553	2071	1957	106%
	Capital (\$B)	9.0	8.5	11.0	9.3	14.8	24.1	77.4	103.0	96.5	107%
Public-to-Private	Count (#)	4	5	6	4	18	18	58	77	59	131%
	Capital (\$B)	4.0	17.4	10.8	4.0	73.1	55.5	133.1	177.0	103.3	171%
PIPE	Count (#)	309	190	221	340	585	787	2072	2763	2584	107%
	Capital (\$B)	8.1	10.7	5.2	8.9	22.9	26.8	57.2	76.0	72.6	105%

* Incomplete data

** Calculated based on month prior due to current month incompleteness

Pitchbook, arcMacro

Private Equity Trends: Exits

United States

		Month to date*	Prior month	Same month last year	Quarter-to-date	Prior quarter	Same quarter last year	Year-to-date	Current run rate**	Prior year	Run rate as % of prior year
		Oct 2025	Sep 2025	Oct 2024	Q4 2025	Q3 2025	Q4 2024	2025	2025	2024	2025
Corporate M&A	Count (#)	65	52	74	72	173	212	533	711	839	85%
	Capital (\$B)	19.9	18.2	16.0	22.0	109.8	31.8	319.8	426.0	150.6	283%
Secondary buyout	Count (#)	40	33	58	49	97	135	336	448	416	108%
	Capital (\$B)	48.3	11.1	5.6	49.5	35.0	17.5	125.0	167.0	62.0	269%
IPO	Count (#)	-	1	2	0	1	2	2	3	6	50%
	Capital (\$B)	0.0	0.6	0.6	0.0	0.6	0.6	0.8	1.0	7.8	13%

* Incomplete data

** Calculated based on month prior due to current month data incompleteness

Pitchbook, arcMacro

Macro Monitor

The key U.S. and global data and events this past week:

- **ISM PMIs** (October): Manufacturing fell to a more contractionary reading of 48.7 (previous: 49.1, consensus: 49.5) while services strengthened to 52.4 (previous: 50.0, consensus: 50.8).
- **ADP employment change** (October): Recovered to +42k private nonfarm payrolls growth, up from -29k in September.

With the federal government still shuttered, we missed out on another non-farm payrolls week. The imperfect but still valuable signal from private labor market data suppliers was unremarkable—if there was a signal, it was that the labor market continued to loosen very gradually.

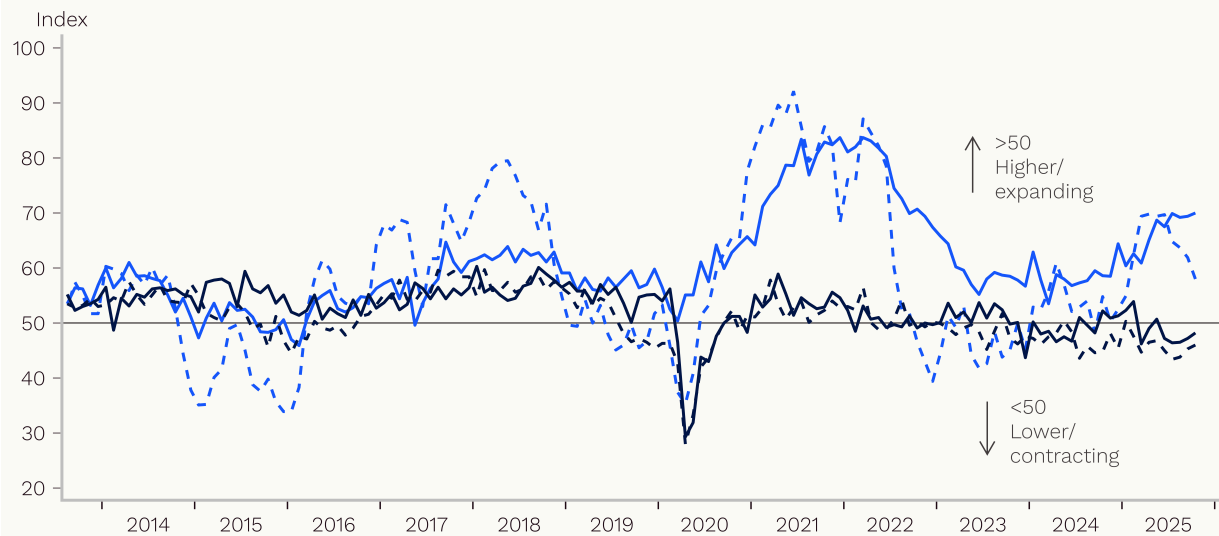
There was a lot of media focus on job cuts announced by large firms (Amazon's 15k layoffs headlined). In response, we can only draw your attention to the inestimable [Guy Berger](#), who points out that job cut announcements only ever constitute a tiny sliver of the 1.7 million job cuts that happen every month, and don't provide a good signal on what the direction that the aggregate data are moving.

Our summary of the ISM PMIs from this month is, in a word, "stagflationary." The charts speak for themselves:

Stagflationary ISM

United States, ISM Manufacturing Report on Business (PMI)

— Manufacturing prices — Services prices - - Manufacturing employment — Services employment

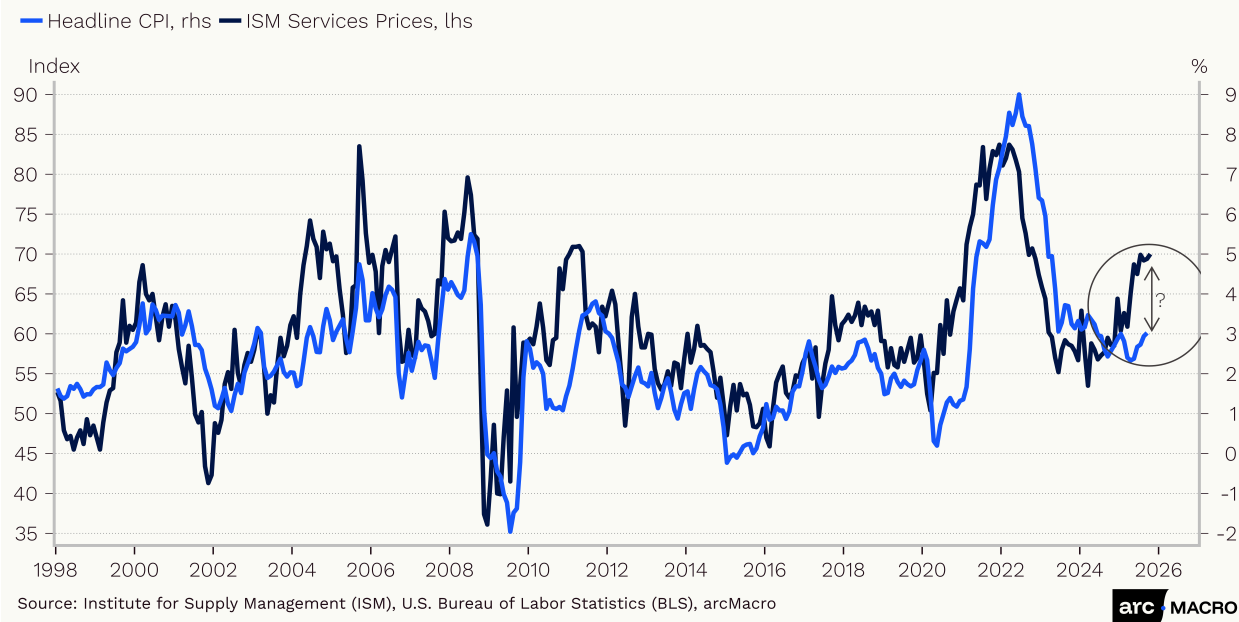


Source: Institute for Supply Management (ISM), arcMacro

arc MACRO

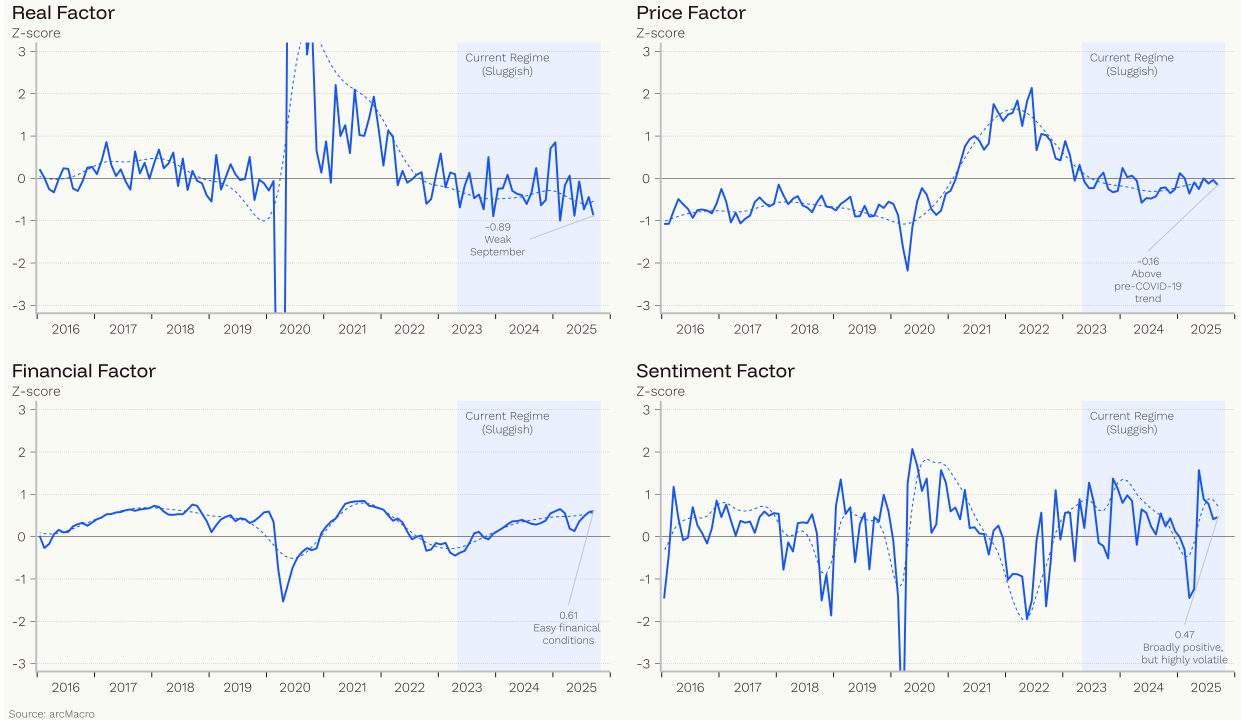
Inflationary pressure is rising

United States, ISM Manufacturing Report on Business (PMI) & Consumer Price Index (CPI)



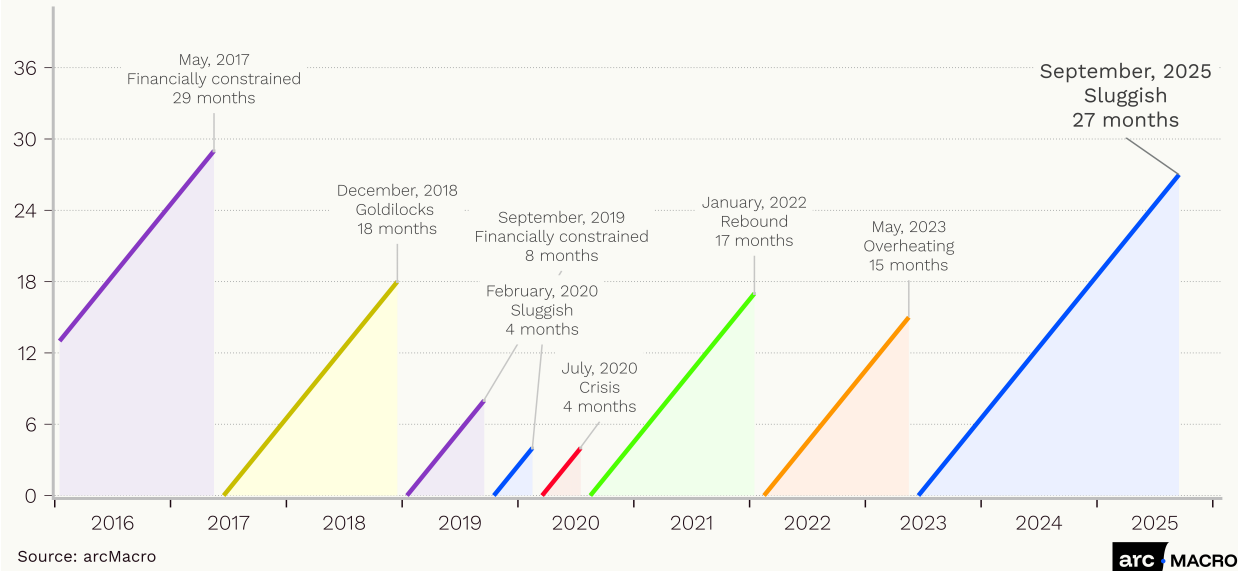
The ISM also publishes comments from select survey responses. These were the most enlightening:

- “Overall, prices on all products have gone up, some significantly. We are trying to keep up with the wild fluctuations and pass along what costs we can to our customers.”
- “... maintaining employees has been more difficult since a return-to-office order was implemented.”
- “Tariffs continue to cause disruption in contracts and contracting...”
- “In general, business is really strained. Money is sitting tighter, and geopolitical changes add to the uncertainty/risk factor.”



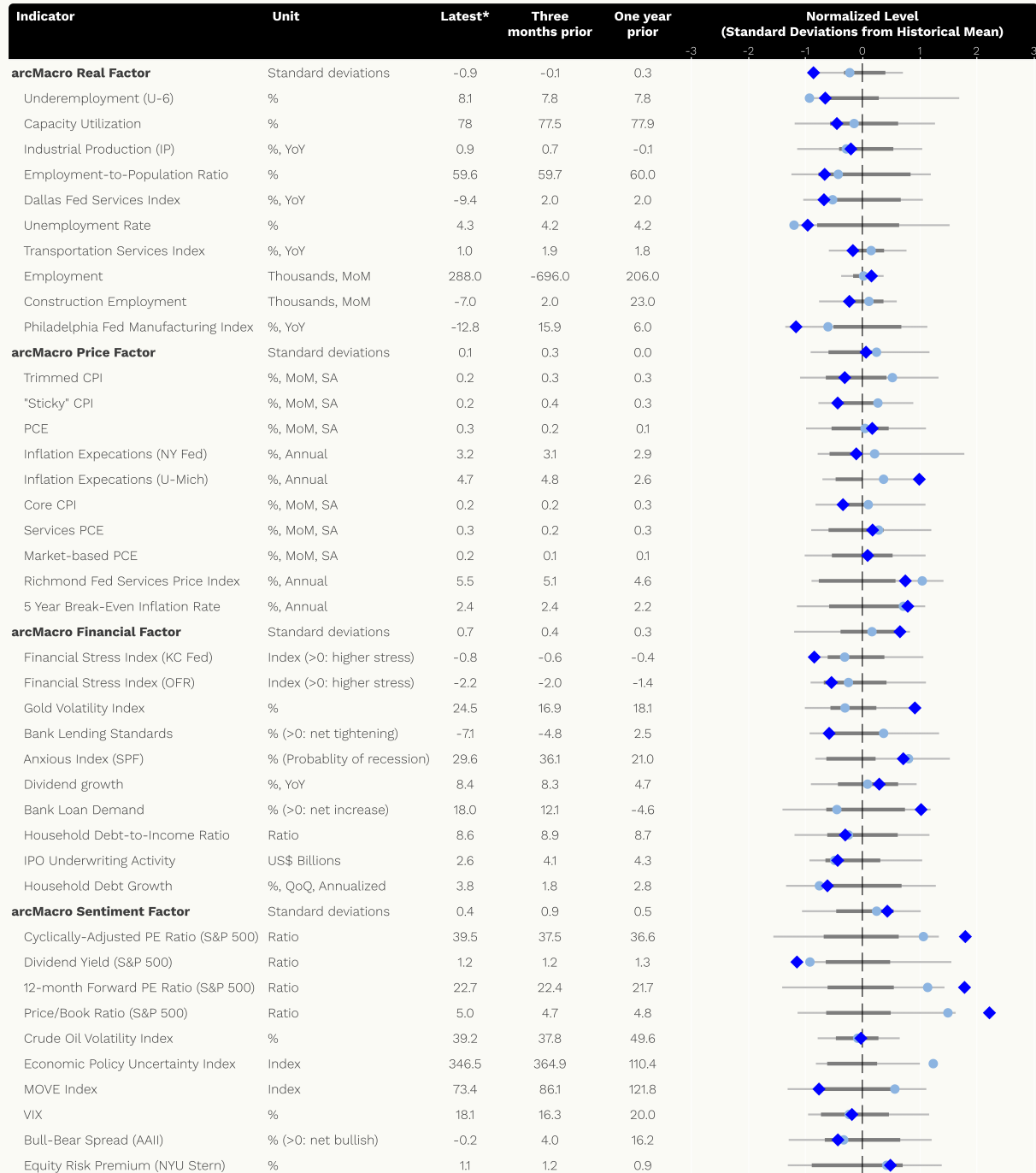
arcMacro Regime Summary United States

— Stagflation — Sluggish — Rebound — Overheating — Goldilocks — Financially constrained — Crisis



arcMacro Factor Input Monitor

Top 10 inputs by factor loading



■ 10th-90th Percentile ■ 25th to 75th Percentile ● Mean of past 5 years ◆ Latest Value

Source: arcMacro, BLS, Fed, Dallas Fed, DOT, Philadelphia Fed, Cleveland Fed, Atlanta Fed, BEA, New York Fed, University of Michigan, Richmond Fed, Macrobond, Kansas City Fed, The Office of Financial Research (OFR), CBOE, S&P Global, SIFMA, Robert Shiller, Economic Policy Uncertainty, ICE BofAML, LJKmfa, AAIL
 *Most recent published data point. Time period and frequency do not necessarily align.

What we'll be watching next week

There will be no U.S. October inflation report (or any other significant U.S. data) next week. The tic-toc of the U.S. federal government reopening negotiations will set the narrative for markets. Globally, we'll be keeping an eye on U.K. unemployment and GDP, Japan's preliminary Q3 growth numbers, and Canadian inflation (which can offer a weak signal on U.S. price trends).

Memo:

Canada Corner — Carney puts Canada's Fiscal Space to Work

Bottom line: Canada has been in the economic doldrums, but it may be seeing the bottom. It is best-placed among its G7 peers in terms of fiscal space and has a focused government intent on using that space to re-ignite private investment. If negotiators can minimize the damage in upcoming USMCA renegotiations, we think Canada has among the best medium-term outlooks in the developed world.

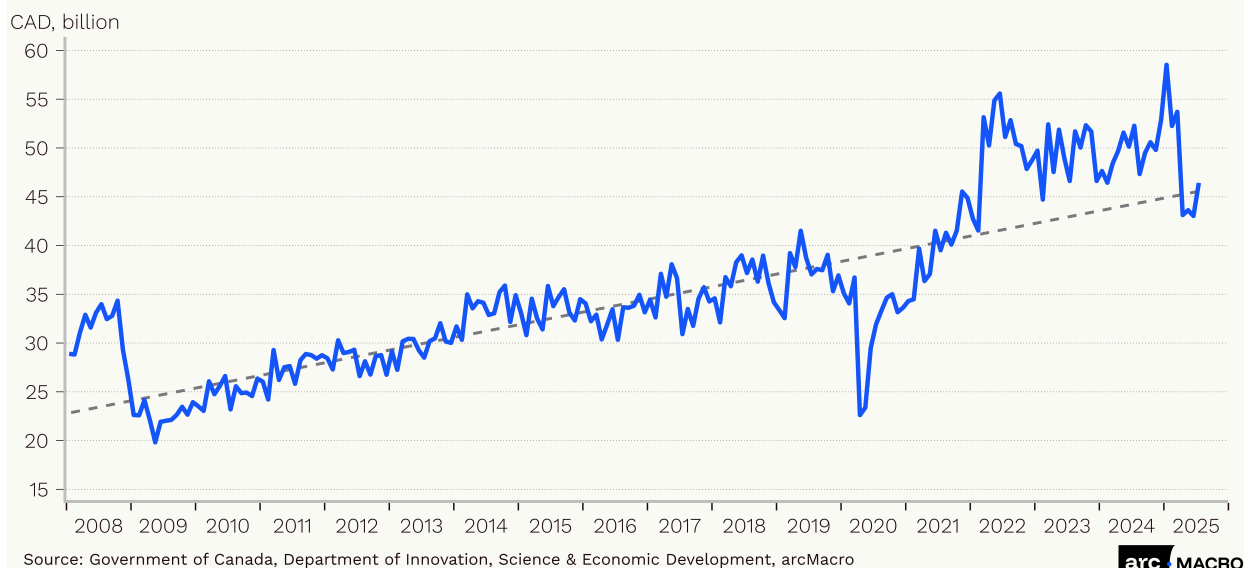
It's quite possible that Canada's next quarterly GDP update will put the country into an "official" recession, defined as two sequential quarters of economic contraction.

There is no question about who would cop the blame. Canada's exports to the U.S. in Q3 were -14.3% below the level a year ago in CAD terms, before tariff-in-chief Donald Trump won the Presidency. Despite having the lowest average tariff rate with the U.S. of any country in the world (85% of cross-border trade is tariff-free), Canada's economy is so intertwined with its larger neighbor that it has been hit hard by targeted tariffs in the metals, lumber, and automotive sectors.

U.S. tariffs are harming exports

Canada, Exports to the U.S.

— Trend (2010-2019)

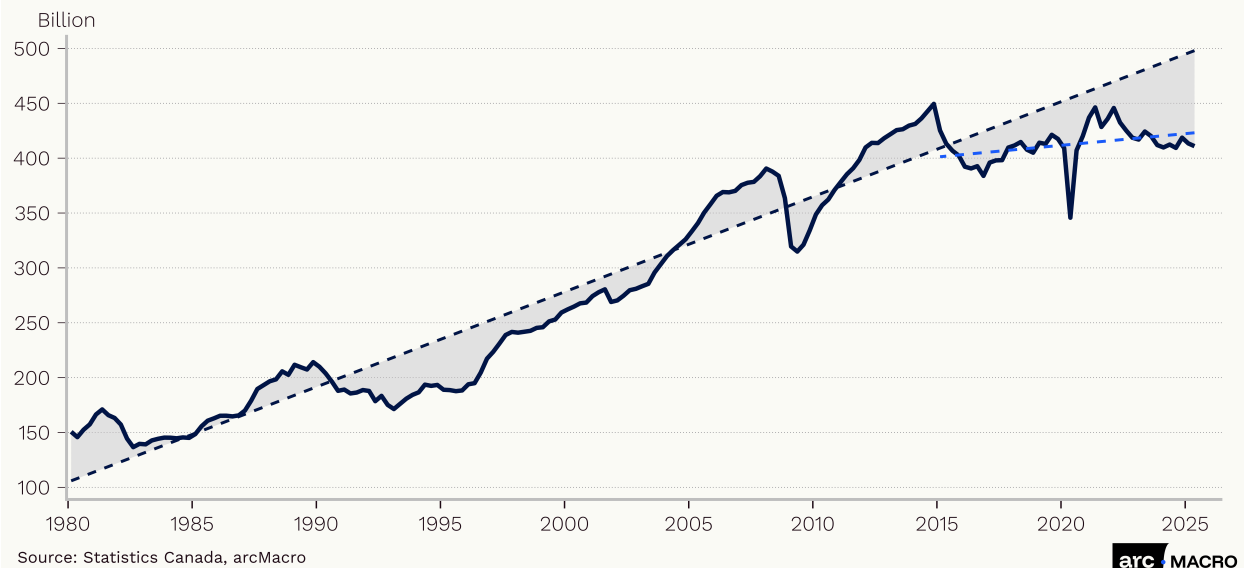


The truth is that Canada's current malaise goes much deeper than its trade woes. Around 2015, private investment plateaued in the wake of a collapse in the oil price, and has never recovered. A decade later, the consequences are showing. The unemployment rate has climbed to 6.9% (it actually edged down a little in October in this week's Labor Force Survey). Policy settings are appropriately accommodative. The Bank of Canada has lowered its policy rate to 2.25% (where it has signaled it will pause), opening up a -1.6 percentage point gap to the effective Federal Funds Rate. This has enabled the Canadian Dollar to fall to 1.41 against the greenback — partly offsetting the terms-of-trade shock caused by the imposition of import tariffs in the U.S., while also highlighting the extent of Canada's economic weakness.

Canada has been underinvesting in its economy since 2015

Canada, real business gross fixed capital formation, 2017 CAD

— Trend, 2015-2025 — Trend, 1980-2015

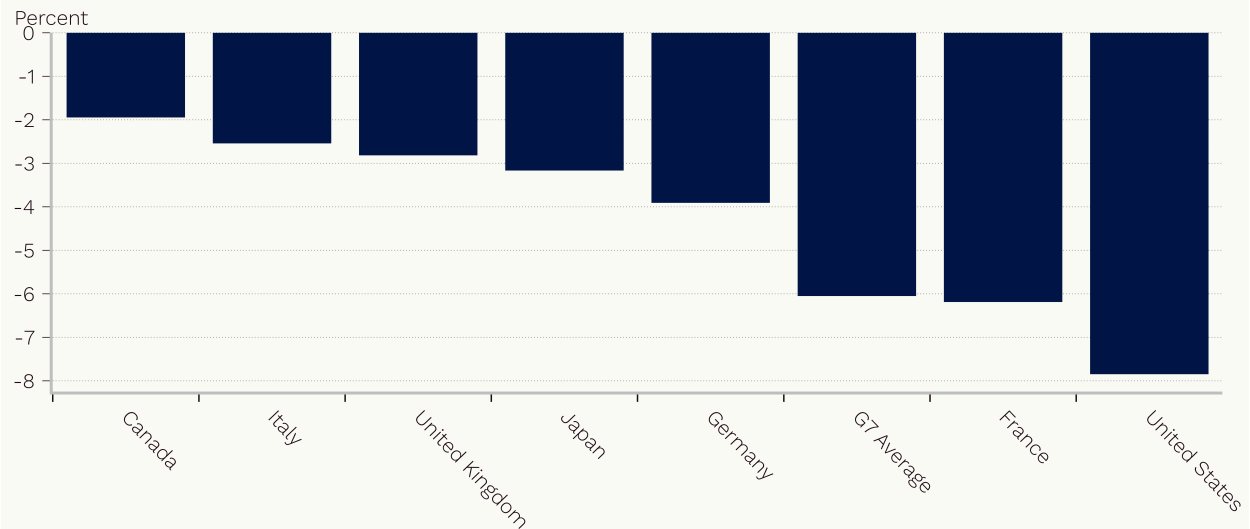


Underinvestment is not a unique problem. Aside from the U.S., the rest of the G7 and most advanced economies are suffering similar issues. Among its peers, Canada has perhaps the most fiscal space, a windfall from a disciplined fiscal regime that stretched from the mid-1990s to the COVID-19 pandemic. Canada's unique, fully funded public pension system helps too.

Canada's projected deficit is the lowest among peers

G7, Projected general government balance, 2026-2030 average, percent of GDP

■ IMF Fiscal Monitor, Net Lending/Borrowing (Overall Balance), Estimate, Percent of GDP



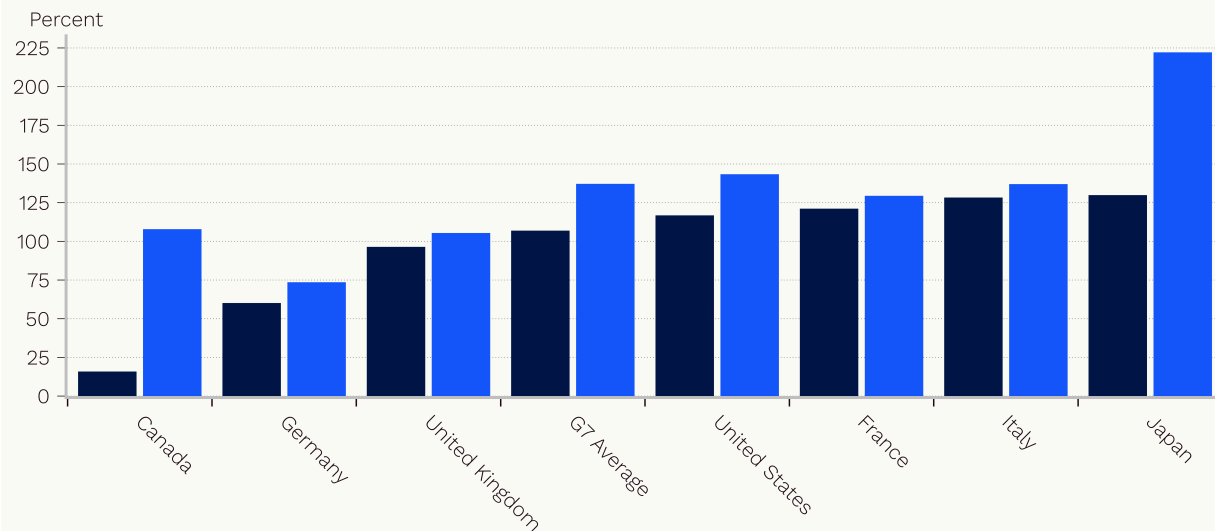
Source: International Monetary Fund (IMF), arcMacro

arc MACRO

Canada's funded pension system buys it some additional fiscal space

G7, Projected general government debt, 2030, percent of GDP

■ Net Debt ■ Gross Debt



Source: International Monetary Fund (IMF), arcMacro

arc MACRO

Enter the Carney government, which this week published its first budget. It's aimed squarely at kick-starting investment growth, in part through higher public investment, but mostly via a series of tax and regulatory measures designed to spur private capital outlays. The deficit is higher, with costs kept in check through a

Federal government-wide spending review. Key provisions include:

- CAD 280bn allocated over five years to infrastructure, defense, housing, and productivity-related initiatives.
- CAD 60bn in savings from departmental restructuring and workforce adjustment.
- The federal deficit rises from -1.2% of GDP in 2024-25 to +2.5% in 2025-26, then slides to -0.6% over the following five years.
- The Federal debt-to-GDP ratio peaks at 43.3%.
- Two "fiscal anchors" – balancing the operational budget by 2028-19 and setting the deficit-to-GDP ratio on a declining path over a five-year horizon – have been codified.

Tellingly, the local business community has not rebelled against the deficit. In fact, the response to the tax and investment incentives that raise the deficit has been warm. If local businesses buy in, Canada will be on track for economic improvement, helped by the weak exchange rate. As always with multi-year policy outlooks, execution will be critical.

The budget also highlights that Canada has returned to its senses on immigration policy, with the target brought down further over the next one to two years, and Canada likely to experience a slight population contraction. This will give the labor market and provincial governments some time to adjust to the rapid surge in newcomers in 2021-2024, before returning to healthy immigration levels and a focus on closing skills gaps.

In our view, the Carney government is making decisive use of its fiscal space, setting Canada on a firmer footing for future growth than its peers.

That would be a strong conclusion, but there is a serious dark cloud on the horizon that we need to address. The USMCA trade agreement (NAFTA's successor) is due to be reviewed in July 2026 before an extension can be implemented. Negotiations with the U.S. are off to a rocky start, posing a significant risk to Canada's economic outlook. U.S. midterm politics will further complicate talks.

If this hurdle can be successfully navigated, we're bullish on Canada relative to advanced economy peers.