Equity Team commentary: Tailwinds for Canadian equities

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Key takeaways

- Canadian equities outperformed global peers, driven by technology and gold sectors.
- Efficiency gains from AI and rapid technology adoption are expanding profit margins. .
- Increased M&A activity signals rising management confidence in future growth.
- Nuclear energy investment and gold demand continue to provide structural support for the market.

October was another positive month for Canadian equities, with the S&P/TSX Composite advancing further and now up approximately 22.4% year-to-date, supported by strength in technology and gold, outpacing most global peers including the S&P 500's approximate 16.3% return year-to-date. We regard the Canadian equity market as well-positioned for further gains given expanding profit margins through cost-saving initiatives including AI-driven efficiencies, supportive interest rate dynamics, renewed M&A activity, and ongoing structural demand for both nuclear energy and gold.

Outlook: broadening market breadth and margin expansion

We expect market breadth to expand as companies continue to benefit from efficiency gains and margin improvement. We note that as of October 31, approximately 60% of S&P 500 companies have reported Q3 with more than 70% beating consensus earnings expectations. This bodes well for S&P/TSX companies, the bulk of which report over the coming weeks. The application of AI is enabling firms to optimize operations, reduce costs, and enhance productivity—supporting sustained profitability while at the same time redirecting focus toward revenue-generating product innovation.

However, it is important to note that this drive for cost efficiencies across sectors is not solely related to AI: one of the key changes in corporate behaviours that has carried over from the pandemic is emphasis on execution and substantially faster implementation of technology generally, with significantly less testing and shorter implementation phases. The other lesson from the pandemic was the importance of corporate flexibility to pivot in the face of "crisis." Following the April 2nd "Liberation Day" change to the US global tariff regime, which acted as a starting horn, corporations immediately re-examined supply chains and cost structures. We expect the resultant efficiencies to persist even if ultimately the impact of tariffs is significantly less than initially feared under a "worst case" scenario.

At the same time, lower interest rates are creating a favourable environment for multiple expansion. Both the Federal Reserve and the Bank of Canada delivered widely anticipated 25 basis point rate cuts in October. Further cuts appear to be on hold, pending clarity on inflation and employment, given the protracted US Government shutdown and the uncertain impact of evolving trade policy. Current rate conditions remain accommodative for corporate decision making regarding capex, M&A, and buybacks.

Corporate activity and management confidence

Another encouraging development has been the significant pickup in M&A activity, which we interpret as indicative of growing management confidence in the sustainability of corporate operating performance. The willingness of companies to pursue external growth opportunities signals optimism about earnings visibility and balance sheet strength.

AI, energy demand, and the nuclear renaissance

We expect the pace of AI innovation and associated corporate competition to continue to drive substantial investment in data centres and the corresponding rise in energy demand. A notable event in October was the US Government's US$80 billion partnership with Westinghouse, a joint venture owned by Brookfield and Cameco, to accelerate the buildout of the US nuclear fleet. Shares of CCO, NexGen Energy, and BEP-u moved sharply higher on the news.

We view this initiative as a catalyst for broader private sector and international investment, with potential multiplier effects. US utilities and European governments continue to make commitments to nuclear strategies to ensure reliable, competitive baseload energy to meet growing future needs.

Gold: consolidation within a constructive trend

After moving decisively through US$4000/oz earlier in the month, gold prices retraced modestly following a perceived easing in geopolitical risks in the Middle East and China. The anticipated meeting between US President Trump and China's President Xi resulted in a one-year trade détente on further corporate sanctions and rare earth controls, respectively. In addition, other minor concessions were agreed to, including the US conceding a small rollback in IEEPA tariffs and China resuming US soybean purchases, albeit at constrained levels.

Nonetheless, we remain positive on the outlook for gold equities, which continue to demonstrate strong free cash flow and share buyback programs. Further, we believe that the underlying drivers of gold bullion strength remain intact, including foreign central bank buying amid the ongoing global push to diversify away from US Treasuries.

Summary

While macro uncertainties persist, we believe the S&P/TSX continues to offer compelling opportunities across sectors poised to benefit from these tailwinds. CIBC Asset Management is well positioned to leverage our strong fundamental research team and extensive corporate engagement to deliver strong risk-adjusted alpha returns.

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