MONTREAL WEST ISLAND REAL ESTATE

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MARKET ANALYSIS & HISTORICAL PERSPECTIVE | 5 MIN READ

Hedge 3.0: The U-Turn — When Policymakers Ease Too Early

Montreal West Island Real Estate — market insights from Pearl Kezele & Jason Fitzpatrick

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Sept 16, 2026	2.50% / prime 4.70%	$112M to $221M
Fed hiked 25bp to 3.75–4.00% — first increase since 2023, unanimous, under Chair Kevin Warsh	Bank of Canada hiked Oct 29, 2026 — first increase since July 2023	Desjardins credit-loss provisions, Q3 2026 vs a year earlier — nearly doubled

The hedge saga continues. Hedge 1.0 was "buy when people are fearful." Hedge 2.0 was fifty years of proof that prices climb the escalator while rates ride the roller coaster (The Perfect Hedge). Hedge 3.0 is the pattern now unfolding in real time: the U-turn.

Both central banks have run the same three steps. Raise, cut, raise again.

The US Federal Reserve raised eleven times from March 2022 to July 2023, taking its rate from near zero to 5.25–5.50%. Then it cut six times, down to 3.50–3.75% by December 2025. Then, on September 16, 2026, it hiked again — up 25 basis points to 3.75–4.00%, its first increase since 2023, unanimously, under new Chair Kevin Warsh. It held on October 28, but the vote was 10–2, with both dissenters wanting another hike. Markets were pricing a December hike at roughly 78% in early November, and near 89% by November 10.

The Bank of Canada ran the same sequence. Nine cuts from June 2024 to October 2025 took its policy rate from 5.00% to 2.25%. Then, announced October 28 and effective October 29, 2026, it hiked back to 2.50% — its first increase since July 2023. Prime moved to 4.70% at all Big Six banks the same day. Inflation has sat around 3% since April, above the Bank's 2% target, and the Bank now expects it above 3% through much of 2027.

Different countries, same concerns. And the same sequence, within six weeks of each other.

Burns wrote the playbook first

Volcker wasn't the first to run the stop-go play — Arthur Burns was. Burns chaired the Fed through the 1970s: he pushed the funds rate to 12.92% by July 1974, then cut it back to under 5% by early 1976 while inflation was still running 5–6.7%. Inflation came back — 13.3% by December 1979, 14.8% by March 1980 — and each easing had left it at a higher floor. Burns told Congress in February 1974 that sharply restrictive policy would cause "intolerably high unemployment" — he chose to wait out the oil shock instead. That is the original stop-go: ease before inflation is beaten, and it returns higher. Volcker inherited the bill.

Volcker is the play

The sharpest illustration of what can go wrong is Volcker — and it is the spine of this piece.

Paul Volcker took over the Fed in August 1979 with inflation at 11.8%. He pushed the federal funds rate to 17.61% by April 1980. Then, in the middle of a short recession and under credit controls, the Fed eased — the rate fell to 9.03% by July 1980, while inflation was still above 13%.

Easing too early did not end the pain. It forced a much bigger tightening later. The funds rate went back to about 19% by December 1980 and peaked at 19.10% in June 1981. The prime rate hit a record 21.50%. The 30-year mortgage averaged 18.63% in the week of October 9, 1981. Unemployment peaked at 10.8% in late 1982, and the economy suffered a double-dip recession — January to July 1980, then July 1981 to November 1982, with only twelve months of expansion between them.

That is the stop-go trap: ease before inflation is beaten, and the cure has to be harsher the second time.

> **Ease before inflation is beaten, and the cure has to be harsher the second time.**

The honest numbers on the market

A reel making the rounds says the stock market "got cut in half both times." That overstates it, and we do not repeat numbers we cannot stand behind. In 1973–74 the S&P 500 fell 48.2% — fairly described as about half. In 1980–82 it fell 27.1% — a severe bear market, not a halving. Both episodes ended in recession. But two episodes are a pattern to watch, not a law — and the most recent hiking cycle, 2022–23, the fastest in forty years, was not followed by a recession at all.

That is the interpreter's job: show the pattern, name the risk, and never call the score. We have no crystal ball. My read — and it is a read, not a forecast — is that the market probably pulls back on the order of 17%, and retail investors holding the bag pay for it while the big money repositions. The history says the risk is real. It does not say the outcome is certain.

The Canadian evidence, this week

Quebec's own bank just put numbers on the same story. Desjardins reported its third-quarter results on November 12: its residential mortgage book grew to $212 billion, up 6.5% since the end of 2025, and mortgage delinquencies actually fell — the gross impaired ratio was 0.22%, down from 0.25% a year ago. But Desjardins nearly doubled what it set aside for credit losses, to $221 million from $112 million a year earlier, driven by impaired business loans and a weaker economic outlook.

Read that carefully: the mortgage book itself is clean. The bank is bracing for what is coming, not reacting to what has already happened. That is the renewal wave in bank numbers — the stress has not hit mortgage delinquencies yet, but the biggest lender in Quebec is provisioning like it sees it coming.

For buyers

We called 2026 a Goldilocks year for buyers, and it still is — while the window is open. Listings are up, choice is real, and you have room to negotiate. But Goldilocks is a window, not a guarantee, and the U-turn is the thing that could close it: every further hike reprices what you can borrow, and every month you wait on a rate that may not come back is a month the escalator keeps moving. Get your exact number first — pre-approval turns vague anxiety into a figure you can decide on — and decide on your numbers, not on a headline.

For sellers

Your asset is the hedge. Every rate spike of the last half-century was supposed to end the story, and none of them did — because the payment is temporary and the asset is permanent. But the U-turn changes the tactics, not the thesis: price for the market in front of you, because buyers' borrowing power is being repriced in real time. The well-priced home still sells in about a month. The hopeful price is what expires.

At Montreal West Island Real Estate, we represent both buyers and sellers, and we read the market the same way for both: sourced facts, honest interpretation, no crystal ball.

Curious what your home is worth in this market? Ask Pearl & Jason for a free home valuation — we'll show you where you stand.

Sources: Federal Reserve FOMC statements, September 16 and October 28, 2026; Bank of Canada policy rate announcement, October 28, 2026 (effective October 29; policy rate 2.50%, prime 4.70%); Desjardins Group third-quarter 2026 results, November 12, 2026 (provisions for credit losses $221 million vs $112 million; residential mortgage portfolio $212 billion; gross impaired residential mortgage ratio 0.22% vs 0.25%), via Canadian Mortgage Trends, November 13, 2026; Federal Reserve / FRED federal funds rate history and CPI inflation (Arthur Burns stop-go 1972–80; Volcker disinflation 1979–82; funds rate 17.61% April 1980, 9.03% July 1980, 19.10% June 1981; prime 21.50% December 19, 1980; 30-year mortgage 18.63% week of October 9, 1981); NBER recession dates (November 1973–March 1975; January–July 1980; July 1981–November 1982); S&P 500 drawdowns -48.2% (1973–74) and -27.1% (1980–82). December Fed hike odds vary by source and date (about 78% early November, near 89% November 10) and are quoted as a range, not a fixed number.

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