WEEKLY STRATEGY
Perspectives

BMO Wealth Management

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Myth-Busting

"Though markets are generally rational, they occasionally do crazy things. Seizing the opportunities then offered does not require great intelligence, a degree in economics, or a familiarity with Wall Street jargon such as alpha and beta. What investors need instead is an ability to both disregard mob fears or enthusiasms, and to focus on a few simple fundamentals. A willingness to look unimaginative for a sustained period – or even to look foolish – is also essential."

- Warren Buffett, one of the world's best-known investors

The Through Line: During the traditionally quiet final few weeks of summer market participants often find themselves in a relatively slow news cycle. It's human nature to fill the void by inventing a narrative that skews negative – especially when global stocks have performed so strongly year to date. We highlight a few of the myths fevered minds may conjure up – and offer alternatives to help block the bogeyman before he has a chance to make himself at home.

Tall tales

Equity markets around the globe have enjoyed a solid run so far this year, up double digits and trading near/at all-time highs in both the U.S. and Canada. Such strength – especially in the relatively slower news cycle that characteristically happens at summer's end – can inspire imaginations to invent problematic narratives.

Myth #1: September and October are "spooky season" for stocks

Reality: Partially true. Some of the most infamous declines (and/or bear market kickoffs) have occurred in September or October. The period can be volatile, marked by declines (2023) – but also solid gains (2025). Often a vibe of back-to-school-and-work/nose-to-the-grindstone takes over, featuring higher trading volumes and increasing scrutiny of prospects for the year ahead.

The current year holds its share of challenging intermediate-term events, including the U.S. midterm elections, ongoing tensions in the Middle East and the escalating Canada-U.S. trade war. Against a backdrop of upcoming balloting, tactic #1 for non-incumbent candidates is to whip the citizenry into a frenzy of dissatisfaction – and make them angry enough to turn out and vote for change. Airwaves, mailboxes and social media feeds full of roiled rhetoric do little to boost investor spirits (at least until we're into Q3 earnings report season that provides sound fundamentals for an anchor).

That said, as long-term, primarily taxable investors, it doesn't make sense to try to time the market (getting out now and back in at a later date) when we take into account the drag of transaction costs, taxes and the potential to miss some of the market's best days, which can reduce your overall returns. In addition, the final months of the year tend to be some of the *strongest* of the year (Santa Clause rally anyone?). *For those who have extra cash, any volatility could present opportunities to rebalance or round up underweights since we believe the underlying fundamentals are very much intact (more on that below).*

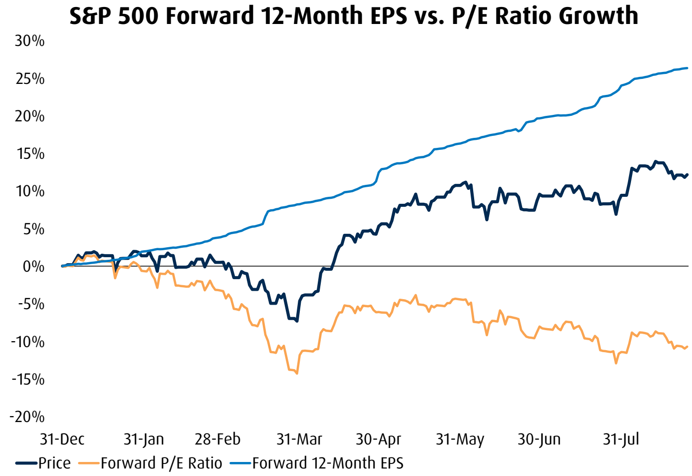
Myth #2: Valuations are out of whack

Reality: False. After a surprisingly robust Q1 reporting season, the bar was adjusted substantially higher for Q2. Companies in aggregate in both the U.S. and Canada easily beat the stepped-up numbers. **For example, in the U.S., 97% of results are in: revenues are up 15%, earnings are up 52%.** All 11 sectors contributed to the revenue increase – six of them posted double-digit increases. Ten of 11 sectors enjoyed earnings growth – seven in the double digits and two in *triple* digits.

The S&P/TSX Composite Index showed similar vitality. To date, 96% of results have been tallied; revenues advanced 20% in aggregate while earnings grew 35%. All 11 sectors showed revenue growth – eight in double digits. Nine of 11 sectors delivered earnings growth.

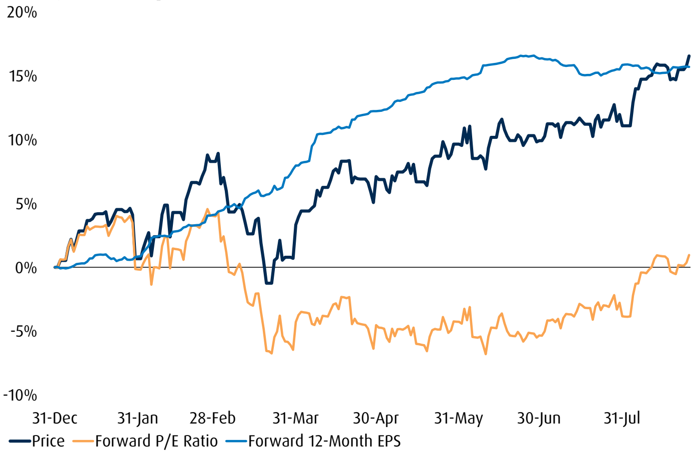
Robust and widespread increases like these typically only happen when an economy is climbing out of a recession, making the results this year that much more noteworthy. **Stock prices have moved up, though less strongly than earnings, meaning valuations have actually come down.**

S&P 500 Forward 12-Month EPS vs. P/E Ratio Growth



Source: Bloomberg L.P. (2026), as of 8/25/2026

S&P/TSX Composite Forward 12-Month EPS vs. P/E Ratio Growth

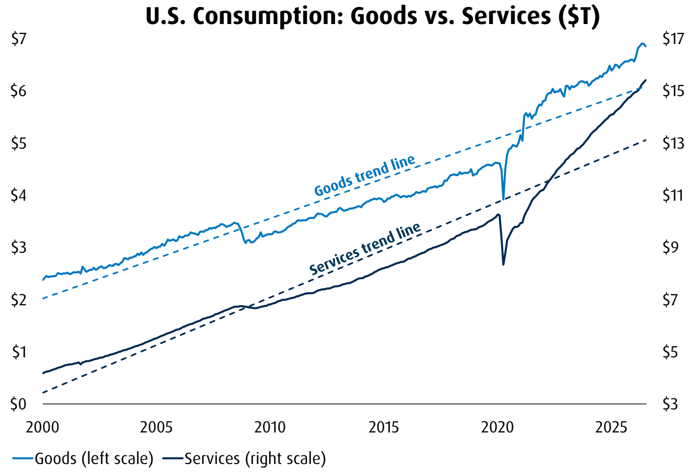


Source: Bloomberg L.P. (2026), as of 8/25/2026

Myth #3: Surely consumers will have to stop spending

Reality: False. Consumers (in aggregate) rarely cut back to any lasting degree, particularly in the U.S. (chart).

U.S. Consumption: Goods vs. Services ($T)



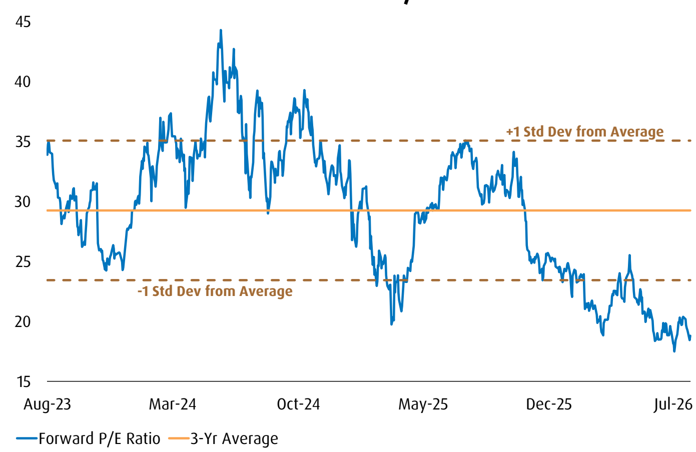
Source: Federal Reserve Bank of St. Louis (2026), as of July 2026.

Consumer spending on both goods and services has remained well above long-term trend lines since the stimulus-supported, mid- to late-pandemic days. A variety of factors contribute, including a low unemployment rate. It is important to parse the headlines carefully. While overall sentiment readings have been poor since before the pandemic, GDP and markets in aggregate are most heavily influenced by the progress of the top 10% of earners. That category benefits from growing stock portfolios and/or housing values, which increase the propensity to keep spending via the wealth effect. **We will undoubtedly hear many angst-inducing narratives in the run up to the midterms, yet it's important to remember that they are likely to have more influence on voter turnout than on macro market performance.** Specific subsectors and stocks (e.g., luxury goods manufacturers, discount retailers, restaurants) may have differing outcomes. However, **the consumers who contribute most significantly to market performance should continue to spend.**

Myth #4: The AI story is unraveling

Reality: The story is changing but is far from finished. Data center buildout has sucked the oxygen from the room for many quarters – yet the construction underway is about more than just DCs. It's roads, bridges, ports, shipyards, grid hardening, reshoring and a host of other projects trying to fast forward investment into an aging infrastructure that has suffered from underinvestment for decades. Investors in general have proven incredibly discerning in their evaluation of these companies. Case in point: Nvidia trades at a multiple of blended future earnings 25% lower today than it did at the start of the year and nearly 50% lower than one year ago. This is despite growing earnings in the upper double digits and diversifying its efforts into tangential businesses like chips for quantum computing and investment in other AI model creators (Note: NVDA is not a recommendation but is representative of how measured investors are being in assessing tech company prospects).

Nvidia Forward P/E Ratio



Source: Bloomberg L.P. (2026), as of 8/25/2026

Data centers have become a hot-button issue for the U.S. midterms. Still, **it's important for investors to differentiate between election year rhetoric and economic fundamentals.** Several states that previously accepted data centers (e.g., Pennsylvania and Texas) have now started to talk temporary pauses in response to political pressure. Slowing the pace (moderating not stopping) could be considered healthy, especially in terms of alleviating the bottlenecks in memory chips and energy access, which are pushing inflation (and longer-dated bond yields) higher.

The race to get infrastructure up and running is still accelerating and is likely to cover years, not months or quarters. The competition is as much with China as it is with other large language model (LLM) providers. For investors, watching backlogs relative to sales will be an increasingly important metric to monitor (like Alphabet's nearly $100 billion annualized cloud run rate relative to a $525 billion backlog[i]).

Myth #5: Higher inflation is always bad

Reality: It depends. While higher bond yields hurt borrowers, they help savers. Moderately higher inflation can support stocks and the economy since companies benefit from pricing power. An inflation component on top of real rates leads to higher growth (the Atlanta GDP early read indicator recently projected a 6%ish Q3 U.S. GDP though has recently hovered over 4.5%).[ii] When the upmove in rates is caused by organic growth, the bond market more easily tolerates it. Bond yields for longer-dated tranches (10, 20, 30 year) have been drifting – not vaulting – upward over the last couple of months, hinting at this more tolerant view (WSP Not-So-Boring Bonds). Higher overall growth can benefit stocks, which are widely perceived to be a solid inflation hedge given their higher growth and the potential to increase dividends regularly.

Myth #6: A new chairman of the U.S. Federal Reserve will introduce unusual volatility

Reality: Volatility yes – unusual no. Bond volatility frequently accompanies a new Fed chair because markets must adjust to the policy and precedent changes each incoming leader inevitably brings (and in keeping with shifting economic fundamentals). Rates rose immediately after Chairs Alan Greenspan, Ben Bernanke and Jerome Powell took over the top job and held slightly steady for Janet Yellen. Markets don't like change; it will take time to sort the data sets, type of guidance provided (or not) and frequency of meetings under the Fed's new leadership. Chairman Kevin Warsh has set up five independent task forces that are hard at work developing insights to help drive the process. At the time of this writing, we haven't had any progress updates (a status that could change pending his Jackson Hole speech slated for Friday, August 28). Bond investors are also watching unusual moves from Secretary Scott Bessent's Treasury Department where promises to buy longer-term debt to help keep a lid on rates have already been labeled the "Bessent put."

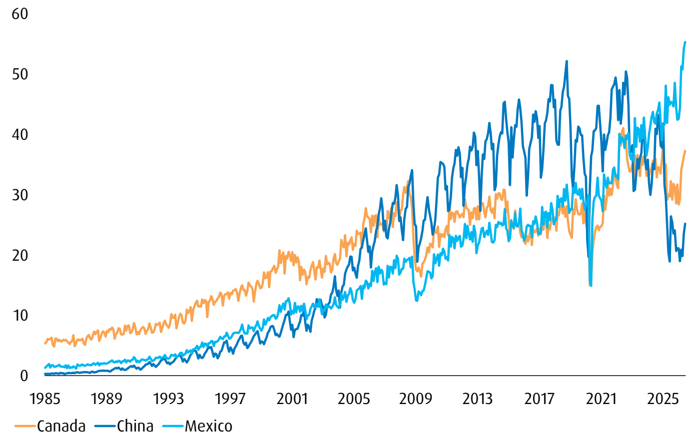
Myth #7: Nobody wins a trade war

Reality: True. But (for now) it seems that the machinations of shifting trade policy are largely being ignored at the macro level (though shares of companies in impacted industries have been much more volatile). Tariffs are taxes on the companies that import the targeted goods and ultimately taxes on the consumers who purchase them. They also breed ill will (especially at the macro level) between trading partners. The Trump administration levied new tariffs on both China and Canada this week; the ones deployed against China – 7.5% on a list of goods where that country was found to have excess manufacturing capacity that was depressing world prices – seem carefully calibrated. This could be a bargaining chip in advance of discussions next month when Chinese President Xi Jinping visits.

When the tariffs on Canada were initially applied, they impacted approximately US$20 billion in exports. Interestingly, the S&P/TSX advanced on the day the tariffs were announced – and the following two days – even though Canada retaliated by imposing $20 billion in tariffs on U.S. imports. Recall the industry composition of the TSX is less impacted by tariffed items. Perhaps, too, there is hope that negotiations and return to prior levels may still be possible since Canadian tariffs won't kick in until September 8 and the additional 50% auto industry tariffs are not scheduled until Jan 1, 2027.

Canadians are feeling deeply wounded by the new tariffs and the disparaging back and forth rhetoric that accompanied the announcement. A recent poll indicated that 75% of the populace wants Prime Minister Mark Carney to hold firm. The economic cost would be proportionately greater to Canada – though select industries (e.g., autos) would be highly impacted despite decades of work to diversify supply chains across North America. Additionally, the U.S. now imports more from Canada and Mexico than from China (chart). Those Canadian imports include much needed oil and electricity. The net trade balance is what matters between true trade partners. Each month, the U.S. exports over US$30 billion to each of Canada and Mexico – more to its two neighbors than to any other country. That amount is six times more to Canada and Mexico combined than to China.

U.S. Imports from Canada, China and Mexico ($b)



Source: Bloomberg L.P. (2026), as of 6/30/2026

Implications for investors

Many story lines that are waiting in the wings have the potential to fray investor nerves. However, the biggest story of all, a solidly progressing fundamental backdrop, remains the most intriguing. Corporate adaptability, market resilience and investor discernment remain solidly in play, creating an effective foundation for continued progress.

Next week in North America

A datapalooza of eco data to fill the last week of summer, featuring key reads on manufacturing and services in the U.S. and Canada. Wednesday will see the Bank of Canada's rates decision (our Economics team is forecasting that a steady hand will keep rates on hold). Friday will bring key employment figures for both countries, plus the U.S. Federal Reserve's Beige Book that will paint anecdotal regional color.

Monday 8/31:	**U.S.** Dallas Fed manufacturing activity | **Canada** Bloomberg Nanos confidence
Tuesday 9/1:	**U.S.** S&P Global Manufacturing PMI, ISM manufacturing survey, JOLTs, ISM manufacturing surveys, Dallas Fed services activity | **Canada** S&P Global manufacturing PMI
Wednesday 9/2:	**U.S.** ADP employment, Factory orders, Durable goods orders | **Canada** Bank of Canada rates decision
Thursday 9/3:	**U.S.** Weekly jobless claims, Challenger Jobs numbers, Trade balance, S&P Global services PMI reports, ISM services reports | **Canada** Labor productivity, International Merchandise Trade, S&P Global services PMIs
Friday 9/4:	**U.S.** Non-farm payrolls, Federal Reserve's Beige Book | **Canada** Unemployment

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Disclosure

[i] *Google Cloud Statistics: Market Share & Competition Report 2026 - TechnologyChecker.io; Alphabet Q2 2026 earnings: revenue up 24%, Cloud surges 82%

[ii] GDPNow - Federal Reserve Bank of Atlanta