

WEEKLY STRATEGY Perspectives



Private Wealth

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All Clear – Or Eye of the Storm?

"We can't live in a state of perpetual doubt, so we make up the best story possible and we live as if the story were true."

– Daniel Kahneman, winner of the 2002 Nobel economics prize for his work on behavioral finance

The Through Line: Equity markets have largely been signaling sunny skies ahead – even though recent economic data hint clouds may be gathering. It's a delicate dance between macro news that has begun to track softer than projected and micro news, which is more energetic. History tells us a bit of murkiness is not unusual while consumers, businesses and policymakers adjust to a markedly altered policy landscape. We expect more clarity as the year draws to a close and market focus turns to enhanced capital spending and a Federal Reserve that has resumed cutting interest rates.

How it started

U.S. and Canadian economies have done a heroic job year to date in their efforts to shrug off the worst of trade uncertainty and substantial policy changes that have altered the course of everything from immigration and geopolitical alliances to government staffing. It helped that the stepping off point was solid, particularly in the U.S. where inflation was headed toward the Federal Reserve's 2% target, unemployment remained at multi-decade lows, and GDP and productivity growth had been chugging along at above-average rates for several years. Resilience was also evident in Q1 corporate earnings, which increased by double digits despite the uptick in uncertainty.

How it's going

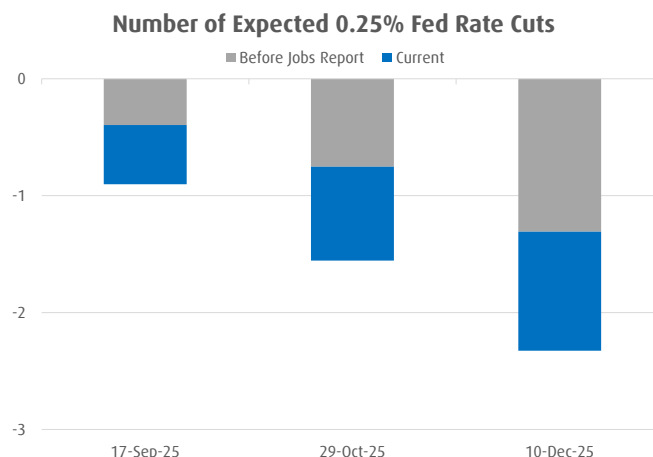
Then came last Friday's softer-than-expected U.S. nonfarm payrolls (NFP) report accompanied by a set of revisions that largely erased prior months' hiring gains. Equity markets initially expressed surprise at the numbers via large declines; the downward revisions in particular challenged the collective view of a delicately balanced labor market. We suspect changes in immigration policy, accelerating demographics (e.g., baby boomer retirements) and dislocations caused by shifting tariff policy complicated measurement – particularly since these data are collected via survey.

The NFP report was followed a few days later by a disappointing Institute of Supply Management (ISM) survey showing higher costs and lower growth in the services sector; many respondents linked the tangential impact of shifting tariff policy to their results. For much of the year, it seemed logical that the services sector would be more insulated from the impacts of fluctuating trade policy than goods-producing companies. So this report prompted a bit

of soul-searching across stock and bond markets. Slowing growth in sales and employment, plus rising costs, created fears that stagflation clouds might be gathering on the horizon.

When bad news is good news

President Donald Trump didn't like last Friday's NFP report. But the bond market clearly did, pushing down yields on 10-year government bonds. Mortgage rates also dropped and declined again to a 10-month low after the ISM reports. The bond market is inferring that weaker macro numbers will prompt the Fed to resume its rate-cutting campaign sooner – and perhaps make larger cuts – than had been projected as recently as last Thursday. We noted last week ([WSP - Tracking the 10-year](#)) that bond markets too have been flashing helpful signals.



'Current' as of August 5, 2025. Source: Bloomberg L.P. (2025).

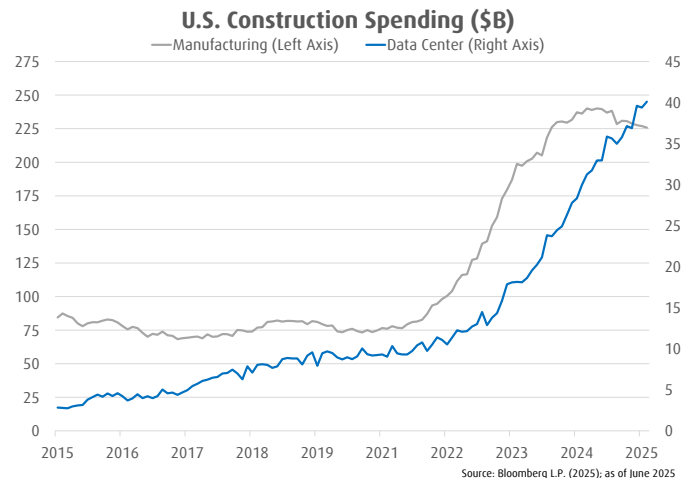
How much weight should investors give these macroeconomic snapshots – particularly in an environment subjected to the quantity of upheaval this year has seen? Do they represent the one-two punch that forces growth to its knees, or are other factors at work diminishing their usefulness? Could the improved operational clarity that has come in recent weeks (i.e., from the passage of the One Big Beautiful Bill and trade frameworks with key trading partners) mean the numbers represent a period of peak murkiness that has already passed?

Fortunately, we are in the midst of earnings season, which is supplying a variety of insights that could help form a more concrete, bottom-up read of what the future holds than the muddy macro can provide.

Earnings insights from Q2 reports to date

Earnings season in the U.S. is well past peak with 88% of S&P 500 companies releasing results as of this writing. Recall the bar was reset substantially lower during the last quarterly-report period in response to Liberation Day tariff announcements – teeing up the potential for a healthy round of beats. **According to Bloomberg, approximately 81% of companies that have reported have beaten expectations and earnings have surprised to the upside by nearly 9%. Aggregate earnings growth is running just under 12% - well above the low single digits projected at season's start.** A handful of themes have emerged:

- **The race to build AI and data center infrastructure continues.** Bloomberg estimates a total of \$450 billion in spending across the top five hyperscalers in 2026. This is an increase of \$100 billion over this year's run rate.¹ Investors seem to be tolerating (sometimes even celebrating) such capital expenditures provided that the company is illustrating margin maintenance in other core businesses or demonstrating profitable AI use. On the flip side, shares of those companies unable to illustrate margin improvement and/or direct AI revenue have been punished. In addition to physical CapEx, technology companies are poaching each other's talent via rumored nine-figure salaries. **Clearly the game favors the super-sized, making it tough for smaller players to compete.** Blowout earnings from Canadian tech company Celestica, which supplies specialized components for data-center builds, shows the global nature of the theme, and is an example of a Canadian company thriving despite tariff uncertainty.
- **Infrastructure and grid spending rolls on.** Despite the current administration's withdrawal of a number of Biden-era spending plans teed up under the IRA and other infrastructure acts, substantial private sector spending on grid enhancement and infrastructure projects continues. The policy and trade uncertainty year to date has put some small- and mid-sized projects in pause mode, though large-scale construction has carried on. CapEx plans in other areas (e.g., plant expansion, research and development, new production lines) are expected to pick up, considering preferable tax treatment for such domestic expenditures in the OBBB (chart).
- **Tariff impacts are becoming clearer.** Many companies, including autos, technology, consumer goods and healthcare, were able to quantify the impact of tariffs on their operational results. Companies continue to deploy a variety of workaround strategies (rearranging supply chains, reformulating product, altering packaging sizes, renegotiating contracts) where they can. They are also hinting that options are limited, which may lead to targeted/selective price increases in the future. Remember, though, that corporate margins in aggregate are near all-time highs, leaving them better positioned to absorb the levies.



- **Managements have stopped euphemising layoffs.** They're actually overtly calling out workforce right-sizing and deployment of robotics, AI, plus other cost-saving technologies. Investors frequently reward such strategic fine-tuning via increased share prices.
- **Many consumer goods companies are still assessing potential damage.** They front-loaded and, in some cases, reloaded when the reprieve with China happened. Much of the accelerated inventory has been worked down, leaving retail in particular in a tricky spot going into the all-important back-to-school and holiday selling seasons. Consumers are downright weary of high prices, so passing any portion of tariff cost along may be difficult for all but the most unique brands where few adequate substitutions exist.
- **Mergers & Acquisitions seem to be accelerating.** We're seeing larger and bolder deals such as the announced mega merger of Union Pacific and Norfolk Southern.

Implications for investors

In trying to parse the importance of recent economic data, it is important for investors to remember that the stock market is not the economy. The aggregate activity that makes up GDP may be quite different from the composition of a particular index (e.g., the Dow 30, the S&P 500 or the S&P/TSX).

Stock markets are constantly looking forward, prognosticating on the likelihood and strength of growth into the future. On the other hand, many economic series (e.g., employment numbers) are trailing indicators of activity that has already happened. Therefore, stock markets may move in ways that seem counter to aggregate economic measures – especially in the short term.

Time will tell whether the soft patch in data that is starting to register has already passed peak squishiness or has more to go. It is important to remember that many of the hundreds of policy changes initiated by the Trump administration this year are aimed at dramatically remaking the global trading system. These shifts will likely touch virtually every company and consumer on the planet in some form. Just as importantly, the changes are being pushed along at warp speed. It's like asking a battleship of an economy to turn with the precision and nimbleness of a small sailboat. Some degree of choppiness (in data if not in markets) is to be expected during the fits and starts while things are reordered.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Canadian GDP showing resilience – Canadian real GDP fell 0.1% in May, as expected, and matched April's number. But the early read on June is for a modest comeback (flash estimate is +0.1%). Taken together, the economy is estimated to have seen essentially no growth in the second quarter overall owing to peak trade uncertainty and tariff front-running. Still, StatCan's preliminary estimate for Q2 is notably less weak than yesterday's Bank of Canada forecast of -1.5% and BMO's call of -0.8% for the quarter. The good news here is that the Canadian economy seems to have soldiered through the period of maximum trade uncertainty, registering less damage than initially expected. There's not much to sway the BoC's outlook, although the central bank may be slightly surprised by the initial stable result for Q2 GDP.

Additional color on recent U.S. economic data – Last week's FOMC policy statement on the rates decision once again reiterated the view that U.S. "labor market conditions remain solid." Chair Jerome Powell has highlighted labor market strength as a positive factor, affording the Fed an opportunity to maintain a patient policy stance while waiting to see if U.S. trade policy leads to persistent inflation. However, Friday's NFP release suggested this view of labor market strength may be illusory. The Bureau of Labor Statistics (BLS) jobs report contained a substantial 258,000 downward revision to the combined May and June figures. Revisions to NFP are normal, but not on this scale. President Trump posted on Truth Social that the "Jobs Report was RIGGED" and fired the head of the BLS, whom he accused of concocting fake numbers for political reasons. **Initial NFP estimates are based on a limited sample size and educated assumptions, then trued up as additional survey responses are tallied and seasonal adjustments are incorporated.** Staffing cuts at the BLS and falling response rates have had an increasingly negative impact on data quality, but no evidence has been provided to show that revised NFP data was incorrect. In fact, two reports this week lend credibility to the view that job growth is slowing. The Conference Board's Employment Trends Index fell to its lowest level since October 2024. Similarly, the Institute for Supply Management (ISM) released results from its July services sector survey showed the Employment Index contracting for a second consecutive month, while the Price Index rose to its highest level since October 2022. The market increasingly believes data suggesting a weakening labor market will prompt a September rate cut from the FOMC. The CME FedWatch tool now puts the odds of a cut next month at over 90%. Those odds could fall if further data show that tariffs are beginning to flow through into persistent inflationary pressure. This combination of rising inflation and unemployment is the definition of stagflation; if it came to fruition, the Fed's dual mandates would be dueling for priority.

Tariffs gain a bit more clarity – On August 7, a full 127 days after the Liberation Day announcement, broad-based country-level reciprocal tariffs went into effect. Coming into 2025, the average tariff was around 2% to 3%. Since the initial announcement, most

countries had been paying a 10% baseline tariff, and companies filled warehouses ahead of implementation. Canada and Mexico faced higher tariffs, but only USMCA non-compliant goods are affected, which mutes their all-in tariff rate. The Yale Budget Lab estimates the new average tariff rate will jump to 18.3% – the highest level since 1934. Pre-positioned inventories are now being drawn down, so the real-world effects of tariffs are starting to emerge, and more companies are discussing price increases to offset tariff headwinds. The key debate within the Federal Reserve is whether tariffs will result in a one-time price adjustment or act as a catalyst for more persistent inflationary pressure. San Francisco Federal Reserve President Mary Daly said she is willing to wait and see whether tariffs trigger sustained inflation but has not yet seen such signs. Dr. Daly added that it may be appropriate for the Fed to make three rate cuts this year. Taking the opposing view, Atlanta Fed President Raphael Bostic argues that the lack of tariff-induced inflation thus far reflects company pricing strategies as they waited for greater clarity. That clarity has now arrived, and Dr. Bostic believes the U.S. economy will likely experience a longer period of elevated inflation readings. Even with the policy path laid out, uncertainty persists around how tariffs will filter through to consumer prices and Fed decision making.

Canada's merchandise trade deficit was little changed – The merchandise trade deficit was C\$5.9 billion in June, down from a revised C\$5.5 billion (previously also \$5.9 billion) in May. Exports were up 0.9%, led by energy (+3.8%, as higher energy prices helped drive the first increase since January). Farm, fishing and intermediate food products were also higher (+6.7%). Imports rose 1.4% for their first increase in four months thanks to a one-time shipment in industrial machinery and equipment (+27.7%) destined for an offshore oil project in Newfoundland. Excluding this category, imports were down 1.9%. Despite the usual volatility, Canada's trade figures met expectations for June. While trade flows have recovered a touch from the spring, normalization is unlikely until the Canada-U.S. relationship stabilizes.

Bank of Canada sits tight on rates – For a third consecutive meeting, the BoC last week held rates steady at 2.75%, which was widely expected. This decision provoked little debate since core inflation has held well above target and the economy has been more resilient than anticipated. Also contributing to the multi-month pause were ongoing heightened uncertainty around the outlook for growth, and inflation amid rocky U.S. trade negotiations. Sticky inflation is the primary concern for policymakers. The BoC's preferred core measures are above 3%, though the bank noted that underlying inflation is around 2.5%. The latter seems like a bit of a stretch, but a few other core CPIs (CPIX, CPI ex. food/energy/taxes) are in the 2.6%-to-2.7% range. While inflation has been surprisingly stubborn, growth has also been more resilient than expected. Right now, the bar for a September cut is high, given that the BoC's -1.5% annualized rate projection for Q2 GDP is hard to disappoint. We'll see two inflation prints ahead of the next policy decision. They will need to be mighty soft to show a convincing trend toward 2%.

Next week

Relatively light data week, though reads on consumer and producer inflation, consumer sentiment and retail sales will undoubtedly be closely watched.

- **Tuesday 8/12** – U.S. NFIB optimism index, CPI | Canada Building permits
- **Thursday 8/14** – U.S. Weekly unemployment claims, PPI
- **Friday 8/15** – U.S. Retail sales, Empire State manufacturing index, Industrial production, Capacity utilization, Business inventories, Consumer sentiment | Canada Manufacturing sales

Data scorecard as of August 6, 2025

Equity Market Total Returns						
	8/6/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,345	1.7%	8.7%	25.0%	26.3%	-18.1%
NASDAQ	21,169	2.5%	10.1%	29.6%	44.7%	-32.5%
DOW	44,193	1.4%	4.9%	15.0%	16.2%	-6.9%
Russell 2000	2,221	2.5%	0.4%	11.5%	16.9%	-20.5%
S&P/TSX	27,921	3.3%	14.8%	21.7%	11.8%	-5.8%
MSCI EAFE	9,623	1.5%	19.1%	3.8%	18.2%	-14.5%
MSCI EM	675	1.5%	17.7%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.1%	4.7%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.0%	4.3%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.2%	5.1%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.4%	5.3%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.2%	2.7%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.0%	0.7%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.0%	0.3%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.0%	2.6%	6.9%	8.2%	-9.5%
Government Bond Yields						
	8/6/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.23%	4.38%	4.23%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.40%	3.46%	3.27%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.52%	4.57%	4.49%	4.56%	3.53%	3.66%
German 10-Year Bund	2.65%	2.69%	2.61%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.49%	1.55%	1.43%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	8/6/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.18	-1.0%	-9.5%	7.1%	-2.1%	8.2%
CAD:USD	\$0.73	0.3%	4.7%	-7.9%	2.3%	-6.7%
Bitcoin	\$115,088.22	1.0%	22.8%	120.5%	157.0%	-64.3%
Gold	\$3,369.33	0.2%	28.4%	27.2%	13.1%	-0.3%
Oil (WTI)	\$64.35	-4.4%	-10.3%	0.1%	-10.7%	6.7%

**Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.*

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average ("DOW") is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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¹ The AI Race Has Big Tech Spending \$344 Billion This Year - Bloomberg | Here's How Much Big Tech Companies Raised Capex This Quarter - Business Insider | Data center investments surged to \$455B last year: report | CIO Dive