WEEKLY STRATEGY

Perspectives

BMO | Private Wealth

WEEK ENDED FEBRUARY 27, 2026

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What Could Go Right? Reunderwriting the Bull Case

"The stock market is a device to transfer money from the impatient to the patient."
– Warren Buffet

The Through Line: Markets started the week on a shaky note with tariffs and a potential AI/jobs apocalypse dominating the story line. When the worry closet door opens, timelines shorten and investors find it hard to focus on long term strengths. Volatility in and of itself is not risk. In fact, dramatic fluctuations can present important opportunities to reposition, align and rebalance, as long as underlying fundamentals remain intact.

The ~~Sunday~~ Monday scaries

What is it about Mondays? Equity markets clearly got up on the wrong side of things this week (again), deciding to unceremoniously freak out about a combo platter of concerns. It didn't help that traders' nerves were already on edge thanks to recent record highs, lofty valuations and rolling corrections in key market subsectors that occurred over the last few weeks.

Monday's 'round-the-world pullback – only to be followed by a snap back over the next few days – suggests it's a good time to dust off some classic reminders about patience and perspective. While recent market action is eye catching (given large absolute DJIA numbers) – the macro index changes are actually relatively mild in the U.S. as the broadening we've been expecting sorts itself out. More significantly, a number of global bourses including the S&P/TSX continue to push to new highs.

Tariff-ied anew

The latest round of agita arguably started last Friday when the U.S. Supreme Court ruled that President Donald Trump could not use the International Emergency Economic Powers Act of 1977 to unilaterally impose so-called reciprocal tariffs globally. Invoking the IEEPA last April, he ordered levies on entire countries. This is in contrast to the "sectoral" tariffs that the Trump administration placed on individual goods like steel, lumber and aluminum.

The legality of reciprocal tariffs has always been in question as the IEEPA statute had never before been used to assess them. Tariffs are a tax on imports and the U.S. Constitution specifically vested Congress (not the executive branch) with the authority to tax. Over time, Congress had ceded some of that power to the executive branch, for example through a detailed methodical process dictated under section 232 of the Trade Expansion Act of 1962 which requires investigations, justification and various notice periods before specific taxes on products or product categories can be applied. Section 232 tariffs have a long and legally tested history – implying more durability.

President Trump moved quickly at the start of his second term to deploy reciprocal tariffs on a large number of trading partners. It was an important negotiating tactic in his quest to reshape global commerce and shift manufacturing of key goods back to the U.S. (core campaign promises). The machinations between the announcement of – and subsequent rollback, delay or shift in tariff rates/start dates – made it difficult for corporations to plan and execute. *As such, the Supreme Court's overturning of IEEPA tariffs should theoretically have prompted celebration. Longer term, that may well still be the case, but in the short-run, new/different uncertainties are introduced:*

- **Another new tariff** – upon hearing the news, President Trump announced a global tax on all imports of 10% using yet another section of the tariff legislation. The levy was put in place via executive order at 12:01AM on Tuesday, though social media posts have hinted the rate will go to 15% soon. Certain goods – such as those subject to the USMCA/CUSMA agreement and previously exempted categories will be excluded.
- **But it's temporary** – the specific clause these tariffs were applied under dictates that they can last no longer than 150 days unless extended by congress. Congress has shown an increasingly limited appetite for tariffs recently, particularly moving further into the mid-term election cycle. Ironically, the 150 day expiration date also coincides with Congress's summer recess.
- **Whither the refunds?** – The supreme court decision did not specifically address the issue of refunds. Legal experts have pointed out that the tariff system already has methods in

place to report/refund overpayments. Estimates put aggregate tariff collections to date at over $175 billion.[i] Nonetheless, commentary from various administration officials has hinted that they may well slow walk or stall efforts to refund.

- **Is it even legal?** – technically, the section used to deploy the new global 150 days tariffs has not been used for that purpose previously either and could be subject to litigation.

Bottom line: *tariffs are here to stay in some format, but the end result is likely to be sectoral, focused, known and knowable.* The process to initiate and apply sectoral tariffs takes time, giving companies wiggle room to scenario plan in order to determine optimal locations and supply chain structures. Increasing automation also potentially neutralizes at least some of the labor cost saving metrics of one country over another, shifting the calculus further.

Detailed records on who paid the import duties are readily available and the administration's own arguments noted that if they were overruled they would have to refund. **A nice shot of growth-supportive stimulus could result if even a portion of those funds is returned to businesses (especially small and medium-sized entities that have lacked the wherewithal to negotiate exceptions and have thus been most impacted).** We also would not be surprised to see companies look for opportunities to lower prices selectively on key consumer goods in an effort to gain market share and enhance customer loyalty. Retailers know well how price-level-weary consumers are.

It's also worth noting that despite peak uncertainty last year, global trade didn't collapse (particularly around Liberation Day when rates were at their highest). In actuality, it expanded over 4% according to Morningstar statistics, as new partnerships, trade routes and supply chains were developed.[ii]

AI Sturm und drang – "it was a dark and stormy night"

Traders have been fretting for months about all things AI. Companies were either spending too much on data center build outs – or too little. Too much leverage was creeping in – or balance sheets were underlevered, potentially straining cash flow. Data center demand was taxing on the electricity grid and/or water resources. There were no viable use cases – or too many specific use cases that could theoretically upend a variety of reliable secular growth stories. Then, last weekend, a widely circulated report from a thematic research group, Citrini, went viral. It was a dystopian theorization about the devastation that AI could cause to white collar jobs, employment levels and a variety of other societal ills – all within the next several years. Additional, the piece called out specific companies and segments of the market that would theoretically be most impacted. Coming as it did on the heels of recent index highs, full valuations and mounting AI concerns, the report contributed to the early week meltdown.

Fears of disruption from new technologies are standard issue as they force change to comfortable processes. **Change is scary to pattern-craving humans, but the dynamism of our entire system is predicated on forward momentum and creative destruction.** Businesses migrated from manual to automated, pieced to production lines incorporating just-in-time inventory and Japanese production methods. From manual to mainframe, to mid-range and dumb terminal, to PC, to mobile and then cloud. Companies that adapt/adopt/absorb become leaders – but all are exposed to the same new tech with the same opportunities. How did a book seller (Amazon) end up dominating the distribution of everything as well as overlording the cloud storage/processing business via Amazon Web Services? Sears technically could've been there – they owned the products, the distribution and the client lists to every corner in the country. Yet the old-line retailer struggled to get past how they self-identified (as a physical retailer) and how they adapted to new tech.

As we examined in detail last week (WSP - Still Nauseously Optimistic), we are in the camp that AI is coming *to* not *for* your job. It's about adoption and adaptation – not extinction.

Bottom line: the re-evaluation of various business models is an indicator of functioning markets and reassessment with emerging tech. We don't yet know who the ultimate winners will be, but many are moving quickly. ***Reminder that tech in general and subsets of it like semi's are cyclical – not secular growers.*** This means they are meant to have ebbs and flows. The economy has been on an extended growth cycle – one that will inevitably ebb and flow, particularly as bottlenecks (component pricing, access to electricity, financing) appear. But in the end, growth, transition and change are signs of a healthy system.

Implications for Investors

There has been much ado lately about many of the same old things. Traders are nervous – perpetually wired for some mythical shoe to drop. Yet experience teaches us:

- pullbacks are the norm (chart 1)
- patience and focusing on the long term pays off (chart 2)
- the most common path is "up and to the right" (chart 3).

As we started 2026, market participants were highly attentive to signs of a market bubble. Such fears have been pushed to the back burner, thanks to recent volatility – even though many global bourses are at or close to all time highs. Though the broader indexes are up for the year, there has been substantial divergence under the hood as previous leaders (Mag 7 and other mega-cap tech) hand leadership to a broader constituency. This is indicative of healthy market function and helps set the stage for continued durable (albeit with continued volatility) action.

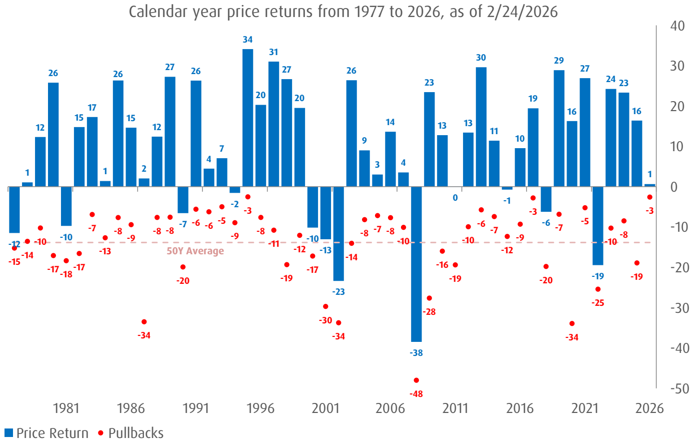
The growth phase in the global economy is not over. In fact many pieces are in place that argue for even sturdier growth. Newly elected legislators in many key geographies have a mandate to increase fiscal stimulus, military/infrastructure spend and/or cut taxes. Global trade is rebalancing as new supply chains and trading agreements and regional consumer blocs are hammered out. The TINA (there is no alternative) and FOMO (fear of missing out) mantras that directed investment activity primarily into U.S. assets is broadening, leading to more diversified global flows and a growing pie for more to partake of. **Traditionally, the unwind of growth phases tends to come when leverage is applied and incentives go awry. We're not there yet.** With stocks near all time highs, consider rebalancing into other locales, sectors and/or market cap ranges as volatility allows.

Bottom line: volatility-induced reboots are not fun – but they are healthy indicators of well-functioning markets, provided fundamentals remain intact. They also can grant patient investors the opportunity to benefit from the impetuousness of less patient investors.

Chart 1A

S&P 500 Returns & Intra-Year Pullbacks (%)

Calendar year price returns from 1977 to 2026, as of 2/24/2026

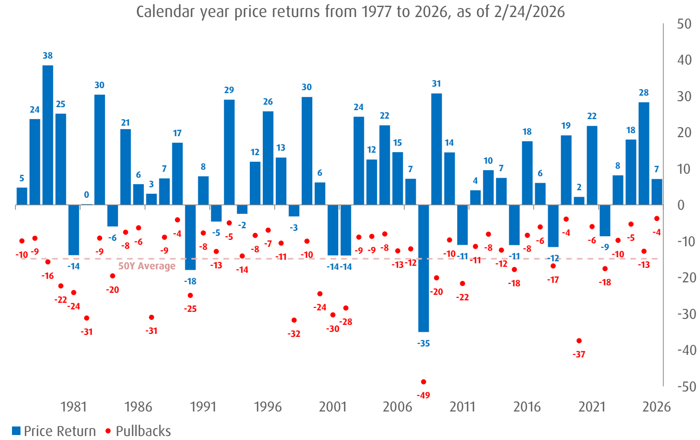


Source: Bloomberg L.P. (2026)
Annual returns are based on calendar years including price only, not including dividends. Intra-year pullback refers to the largest peak to trough market decline within a calendar year.

Chart 1B

S&P/TSX Composite Returns & Intra-Year Pullbacks (%)

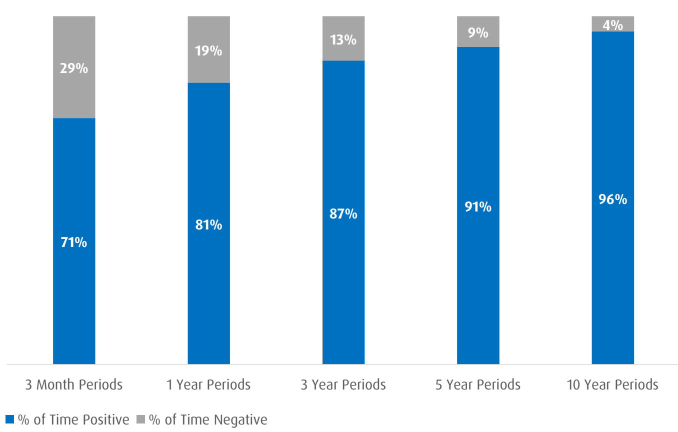
Calendar year price returns from 1977 to 2026, as of 2/24/2026



Source: Bloomberg L.P. (2026)
Annual returns are based on calendar years including price only, not including dividends. Intra-year pullback refers to the largest peak to trough market decline within a calendar year.

Chart 2A

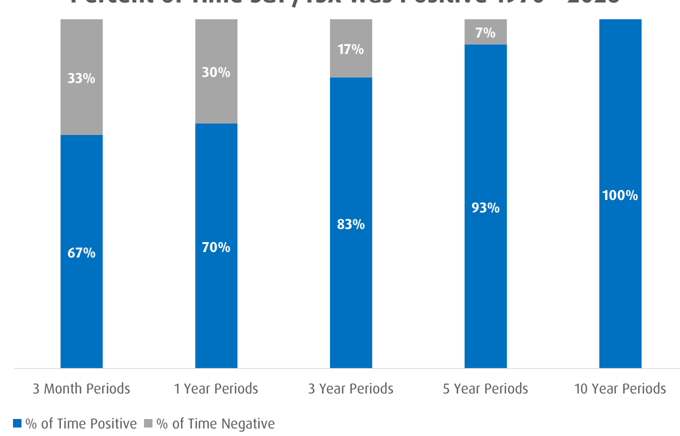
Percent of Time S&P 500 Was Positive 1970 - 2026*



*Represents total returns of the S&P 500 Index over rolling monthly periods from 1/30/1970 - 1/31/2026
Source: Bloomberg L.P. (2026)

Chart 2B

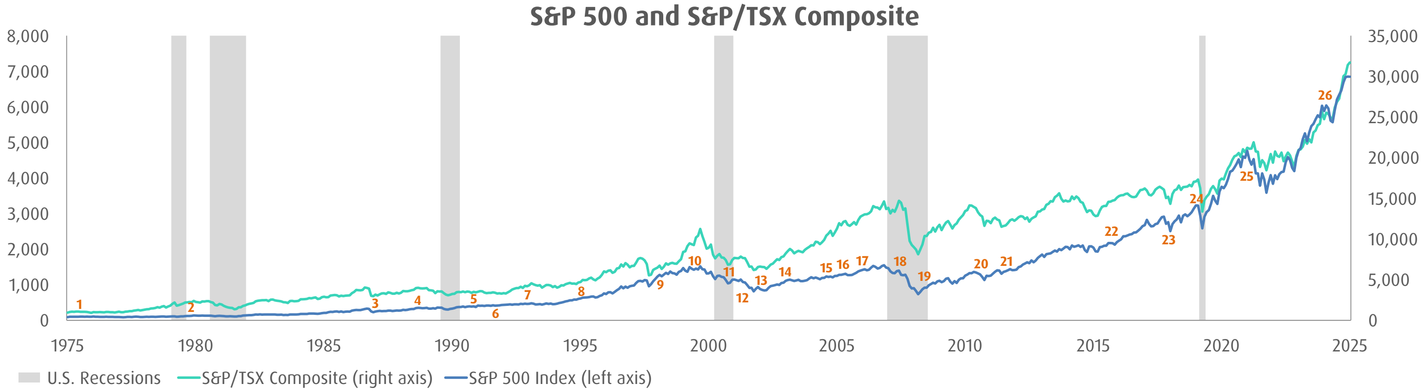
Percent of Time S&P/TSX Was Positive 1970 - 2026*



*Represents total returns of the S&P/TSX Index over rolling monthly periods from 1/30/1970 - 1/31/2026
Source: Bloomberg L.P. (2026)

Chart 3

S&P 500 and S&P/TSX Composite



01. **1976** Vanguard introduces 1st retail index fund
02. **1980** Ronald Reagan wins U.S. Presidential Elections
03. **1987** Black Monday S&P 500 falls 20.5%
04. **1989** The Berlin Wall opens
05. **1991** Gulf War/Cold War ends
06. **1992** Bill Clinton elected U.S. President
07. **1994** NAFTA goes into effect
08. **1995** Budget crisis forces U.S. government shutdown
09. **1998** S&P 500 closes above 1,000 for the first time
10. **2000** Tech bubble collapse
11. **2001** Terrorist attack of the World Trade Center
12. **2002** U.S. withdraws from Anti-Ballistic Missile Treaty
13. **2003** Space Shuttle Columbia disintegrates
14. **2004** Facebook is launched
15. **2005** Hurricane Katrina hits Louisiana & Texas
16. **2006** Housing decline
17. **2007** Nancy Pelosi becomes the 1st female speaker
18. **2008** Lehman Brother files for bankruptcy
19. **2009** Financial crisis
20. **2011** Debt ceiling crisis/S&P 500 falls over 21%
21. **2012** Apple becomes market capital leader in the S&P 500
22. **2016** Donald Trump elected U.S. President/Brexit
23. **2018** S&P 500 falls over 500 pts in Q4/U.S.-China Trade War
24. **2020** Coronavirus Pandemic
25. **2022** Russia-Ukraine War
26. **2025** Liberation Day tariffs announced

Source: Bloomberg L.P. (2026), as of 12/31/2025

In focus in North America

Jon Borchardt, Sr. Analyst
George Trapkov, CFA, VP and Portfolio Manager

This week

AI Whac-A-Mole – continues to hammer companies perceived to have narrowing moats and an uncertain future due to technology disruption. The selloff started in software but has spread to sectors ranging from transportation to financials. The Citrini report didn't helpt the mood, suggesting massive white collar job cuts and a collapse of real wages: a jobless growth cycle on steroids. Federal Reserve Governor Lisa Cook, who has studied machine learning for over two decades, echoed this thesis. Dr. Cook sees a risk that job displacement precedes any AI-related job creation, leading to economic hardship for households even as productivity and economic growth remain. The continued rollout of new tools and capabilities from the likes of Anthropic and OpenAI only further fuels this narrative. In the meantime, there has been a flow of funds to the AI picks and shovels such as semiconductors and power equipment, utilities that will help power the electrification of the economy, commodities needed to enable the transition and gold for those just looking to duck and cover.

U.S. tariff policy 101 – Last Friday, the Supreme Court struck down tariffs levied under the authority of the International Emergency Economic Powers Act. The majority took the view that the legislation did not explicitly convey taxing authority to the executive branch. President Trump's initial response was to replace IEEPA-based tariffs with a Section 122 tariff set at 10% on all imported goods. Under Section 122 of the Trade Act of 1974, the President is granted explicit authority to initiate tariffs of up to 15% for a period of 150 days based on concerns about macroeconomic imbalances. While the broad-based implementation of Section 122 may be somewhat legally tenuous, it gives the administration time to advance the investigations necessary to move next to Section 301 tariffs, which address unfair foreign trade practices. Section 301 should prove more defensible and durable for the administration, which has shown little sign of backing away from tariff-led trade policy. Meanwhile, trade uncertainty will remain an overhang for a company's strategic decision-making and foreign relations. Without further adjustment elsewhere, the net impact of evolving tariff policy on effective duty rates is expected to be limited.

But what of the refunds? – in its IEEPA ruling, the Supreme Court did not specify what should happen to the billions of tariffs already collected. This leaves the issue to lower courts and administrative processes, where in past briefs Justice Department lawyers have acknowledged that, should the Administration's case be lost, refunds with interest would likely be warranted. Major corporations such as Walmart (WMT), Costco (COST), and Toyota (TM) have already launched legal actions to pursue refunds. The timing and mechanics of any refund process are likely to prove complex and may be drawn out. For smaller companies, achieving financial recovery may prove more challenging given legal costs and administrative hurdles. Senate Democrats have offered a bill which would compel the Federal Government to issue IEEPA tariff refunds with a specific focus on making small businesses whole, but due to partisan dynamics this legislation is unlikely to pass. At a minimum, large companies are likely to see their legal challenges prevail.

Canada housing update – Existing home sales fell 5.8% in seasonally-adjusted terms in January and were down 16.2% from year-ago levels. Major snowstorms clearly had an impact, with sharp declines registered across Southern Ontario, although the rest of the country wasn't exactly humming. The national benchmark price slipped again to end the year, and was down 5.0% y/y in January. From the February 2022 high, that now leaves prices down 19% nationally. Southern Ontario is still the weak spot, especially in the new condo space. Price gains continue across most of Atlantic Canada, where markets lean in favor of sellers.

Canada retail sales – slipped 0.4% in December. The declines were limited to three (of nine) sectors, with weakness in building materials (-4.0%) and furniture and electronics (-1.7%) amid a soft housing market. Auto sales fell 1.6%, leaving spending ex-autos up 0.1%. The latter was supported by a 2.8% increase at gas stations, so sales ex-autos and gas were down 0.3%. On the positive side, the flash estimate for January sales is for a solid 1.5% rebound, which would mark the strongest pace since 2024. Ultimately, consumer spending is holding in despite ongoing economic uncertainty.

Next week

Key manufacturing and services industry insights in both Canada and the U.S. are on the docket. It's also employment week in the US with ADP reports mid-week and the much watched non-farm payrolls measure on Friday.

Monday 3/2 – U.S. S&P manufacturing PMI, ISM manufacturing | Canada S&P Global manufacturing PMI

Tuesday 3/3 – None scheduled

Wednesday 3/4 – U.S. ADP employment, S&P services PMI, ISM services, Fed's Beige Book | Canada Labor productivity, S&P Global composite and services PMIs

Thursday 3/5 – U.S. Initial jobless claims, productivity, import prices

Friday 3/6 – U.S. February non-farm payrolls | Canada Ivey PMIs

Data scorecard as of February 25, 2026

Equity Market Total Returns						
	2/25/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	6,946	0.5%	1.6%	17.9%	25.0%	14.4%
NASDAQ	23,152	1.2%	-0.3%	21.2%	29.6%	13.4%
DOW	49,482	-0.3%	3.2%	14.9%	15.0%	11.6%
Russell 2500	4,655	-0.3%	8.2%	11.9%	12.0%	7.3%
S&P/TSX	34,127	0.9%	7.9%	31.7%	21.7%	16.1%
MSCI EAFE	11,584	0.5%	9.2%	31.2%	3.8%	8.9%
MSCI EM	882	3.0%	15.1%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.2%	1.4%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.2%	1.2%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.0%	1.3%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		-0.1%	0.9%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.1%	1.8%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.1%	1.8%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.1%	1.7%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.0%	1.6%	4.4%	6.9%	1.5%
Government Bond Yields						
	2/25/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.05%	4.24%	4.17%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.20%	3.42%	3.43%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.32%	4.52%	4.48%	4.48%	4.56%	3.16%
German 10-Year Bund	2.71%	2.84%	2.85%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.13%	2.24%	2.06%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	2/25/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	97.70	-0.1%	-0.6%	-9.4%	7.1%	1.8%
CAD:USD	$0.73	0.0%	0.4%	4.8%	-7.9%	-1.5%
Bitcoin	$68,945.28	1.7%	-21.3%	-6.5%	120.5%	24.8%
Gold	$5,164.78	1.1%	19.6%	64.6%	27.2%	17.9%
Oil (WTI)	$65.42	-1.5%	13.9%	-19.9%	0.1%	3.4%

**Annualized*
5-Year data as of December 31, 2025. 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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Disclosure

[i] Exclusive: Supreme Court tariff ruling makes over $175 billion in US revenue subject to refunds, Penn-Wharton estimates | Reuters

[ii] World Trade Surged In 2025, Despite Higher Tariffs — Update | Morningstar