WEEKLY STRATEGY
Perspectives

BMO Private Wealth

WEEK ENDED October 24, 2025

Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Consumer Conundrum

"Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer."
– Adam Smith

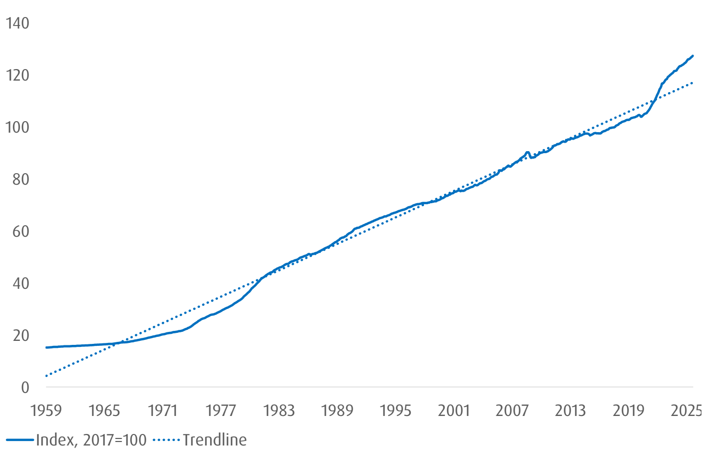
The Through Line: Powering nearly 70% of U.S. economic activity, consumers are literally A. VERY. BIG. DEAL. While it is tempting to view them as a monolith, significant disparities exist across demographic and earnings cohorts. Understanding these differences offers a vital perspective on factors that could shape the trajectory of growth, industry fortunes – and perhaps even a policy decision or two – in coming quarters.

Consumers = the bee's knees

The critical role that consumers play in the financial system cannot be overstated, even though the contributions of AI and data center buildouts tend to take top billing these days. Personal consumption accounts for nearly 70% of Gross Domestic Product (GDP) in the U.S. and over 55% in Canada. It is the foundation that grounds the bulk of economic activity.[I]

Headlines often suggest that a serious pullback in spending is overdue, despite demonstrable consumer resilience through most economic cycles (chart). True, it could be argued that in the U.S. at least, a reversion to pre-pandemic rates of growth is probably overdue. But a dramatic or sustained downturn would be unusual.

Personal Consumption Expenditures, Chain Type Price Index

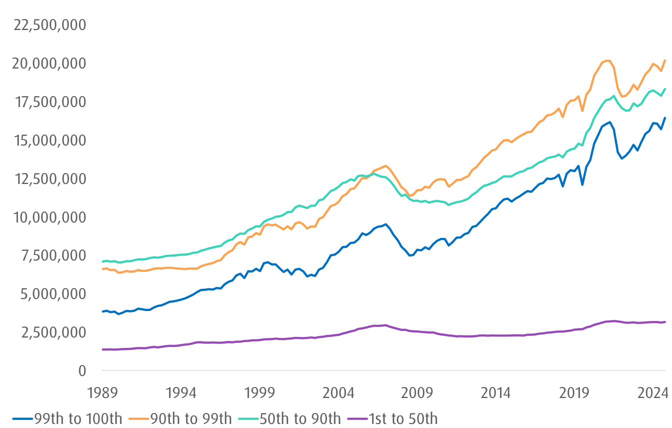


Source: Bloomberg L.P. (2025), as of August 31, 2025

The K-shaped economy

Perhaps part of the cynicism re the durability of consumer expenditures comes from the increasingly concentrated nature of wealth. In the U.S., the top 10% of households account for half the spending, meaning they support fully one-third of GDP.[II] Looked at another way, according to Federal Reserve Bank of St. Louis (FRED) data, the total financial assets owned by the top 9% exceed those of the bottom 50% of households (chart).[III] This top tier owns an estimated 45% of housing stock and nearly 90% of public market assets. To put an exclamation point on the situation: the most recent *Forbes* list of the 400 wealthiest U.S. citizens *left off 500 billionaires too "poor," as the magazine puts it, to make the cut*. When *Forbes* first published the list in 1982, it took just $100 million (a.k.a. over $300 million in today's dollars) to join this exclusive bunch.[IV]

Real Asset Value Distrubtion by Wealth Percentile ($MM)



Source: Bloomberg L.P. (2025), as of Q2 2025

The wealth concentration sword swings both ways. While top earners often prove relatively impervious to broader economic swings (helping prop up the overall economy no matter what), that much wealth in so few hands brings its own challenges. Their incremental spend can be more influenced by rates of change in key assets (e.g., stocks, bonds, housing stock) than by changes in underlying economic factors. This so-called wealth effect can potentially amplify what would otherwise be subtle changes in the underlying economy if they shift too suddenly or rapidly toward one (spend/not spend) extreme or the other.

The down-sloping side of the K (where the other 90% live) is much more attuned to changes in personal earnings, employment status, inflation and shifts in fiscal and monetary policy. For example, a strong argument can be made that the substantial stimulus distributed during the COVID-19 pandemic contributed to the accelerated rate of spending seen in the above chart. When the stimulus wound down and prices spiked due to reopening and supply chain disruptions, consumers in all but the uppermost income strata had a hard time adjusting. This, in turn, led to mounting frustration, illustrated by the growing disparity between the economic numbers (which continued to grow thanks to the top 10%) and the sentiment data (which sank, heavily influenced by the other 90%).

Labor market – true strain or overhyped rhetoric?

Much media ink gets spilled in assessing the progress of the bottom and middle tiers even though their contribution to overall economic activity is small. What they lack in economic clout they make up for in sheer numbers, meaning their voices – and votes – can swing election outcomes and influence policy. Currently, concerns are mounting about their economic health, starting with worries over a softening jobs market.

In Canada, unemployment remains north of 7%, pressured by trade and tariff threats, especially in the auto, steel, aluminum and lumber industries. U.S. unemployment (which has been parked at multi-decade lows, below 4%, for several years) had edged up to 4.2% when Bureau of Labor Statistics numbers were last formally reported a month ago. Data from alternative sources released in the interim hint at further slowing as a no-hire/no-fire stasis gains traction. Earnings season has brought notices of spreading (though still surgical) layoffs – particularly among white collar staff and higher paying technology categories. Many U.S. Federal Reserve officials, including Chair Jerome Powell, have tilted their public commentary to favor the employment side of the Fed's dual mandate. The Dallas Fed, in fact, recently published a paper suggesting an "equilibrium" rate of job growth closer to 20,000 per month versus the 200,000 level pundits had grown accustomed to over the past several years.

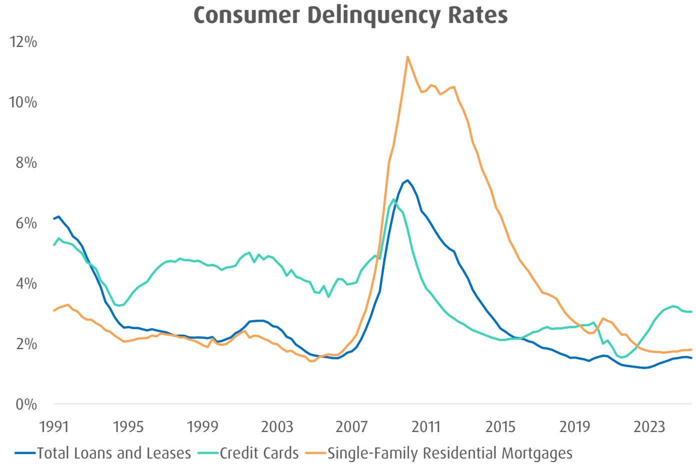
Our take: *We think it's a bit premature to agonize over the absolute unemployment rate in either country. A lower level of job creation in the U.S. makes sense, particularly in light of reduced supply (immigration controls, boomer retirements) and reduced demand (precision margin control, implementation of enhanced technology, including AI and robotics).* ***It's also worth remembering that for decades up until the pandemic, full employment (the level where anyone who wants a job has one) meant numbers closer to 5%*** *than the sub-4% the economy has experienced for the last five years. In Canada, Prime Minister Mark Carney's upcoming "Build, Baby, Build" budget, focus on improving interprovincial trade, and another BoC cut or two should help put a floor under economic activity in general and employment in specific.*

Spend now pay later?

Consumers' *willingness* to consume is underpinned primarily by employment status. Their *ability* to consume is influenced at least as much by their balance sheet flexibility. Some headlines have suggested concern over mounting levels of debt and increasing delinquencies – though it depends entirely upon the time frame used to denominate the comparison (chart). While credit card delinquencies are the highest they've been in a decade, those levels were depressed coming out of the GFC – and current rates are well below those experienced during the 20 plus years before that debt clearing period. Delinquencies across other series (housing, all debt combined) remain low. The emergence of installment payment tools like buy now, pay later (BNPL) programs, which allow purchasers to break payments into bite-sized pieces, complicates the calculation to some degree since these debts do not show up in credit reports or traditional aggregate consumer debt statistics. Recent estimates put the total size of the segment at around half a trillion dollars as of 2024.[v]

Our take: *Consumer strain (especially psychological) is evident in flagging sentiment numbers. The early read from frontline retailers and goods purveyors paints a consistent picture of careful, value conscious buyers. They are willing to pay up for experience and perceived value – but are also ready to swap for private label and/ or substitute goods/experiences. Balance sheets and employment status are in historically solid shape – remaining supportive of continued discerning, if grudging, consumption.*

Consumer Delinquency Rates



Source: Bloomberg L.P. (2025), as of Q2 2025

Additional considerations

Most discussions about consumers revolve around the income strata detailed above. However, another important way to slice and dice economic fortunes relates to demographic cohorts.

Boomers (born 1946 – 1964) dominate the top 10%, owning the bulk of individual housing stock and financial assets (featuring significant embedded capital gains and low carrying costs). Propensity and ability to spend remain high, largely regardless of traditional economic factors.

Gen X (born 1965 – 1980) an often-overlooked demographic sometimes called the sandwich generation because many are currently straddling caring for aging parents and their own children. They are also a smaller generational cohort caught between the larger boomer and millennial groups. This group has been at the forefront of navigating the transition in retirement savings – from defined benefit plans (pensions) to the self-directed plans of today. It is now the highest-earning group in the U.S.[VI] A recent study of Gen X business owners found them the most pessimistic of any generational cohort re the economic outlook.[VII]

Millennials (born 1981 – 1996) are a bigger cohort than the entire boomer generation; 1990 was the largest single birth year. Turning 35 this year, they are dealing with the memory of 9/11 (they were in 4th grade), the GFC (graduating high school) and COVID (turned 30). They also have the largest aggregate college debt load, face median home prices in the $400,000 range and median new car prices above $50,000 – all at a time when they are entering prime household-formation years. For those looking to start a family, childcare costs can rival mortgage payments. While their willingness to consume is higher (thanks perhaps to boomer parents) their ability to do so is typically severely constrained by the cost of entry. Given their sheer numbers, they will be important drivers of marginal spending (or lack thereof).

Gen Z (born 1997 – 2012) enjoys the benefit of being both true digital natives and observers of older siblings/parents. They also have the advantage of laws, including 2022's SECURE Act (which mandates employers auto enroll new employees in retirement accounts and requires them to offer escalation features that increase contributions by a set percentage every year). On average, Gen Zs have higher savings rates and bigger balances than earlier generational cohorts did at their age – teeing them up for solid futures thanks to the miracle of compounding. Their ability to consume is high, but their willingness is shaded by a propensity to favor savings. A significant proportion of them actively participate in asset markets through retirement accounts – and through digital-only banking, investment and prediction markets.

Final Thought: *Rumors of the consumer's demise are premature in our opinion. The two most frequently quoted trouble spots – softening labor markets and over leverage – are not problematic for the core that does the bulk of the spending. From an age cohort standpoint, the large millennial contingent face challenges on many fronts and high earning Gen X is concern. Yet members of the Gen Z group behind them promise to be sound savers and wise consumers that will help power the future.*

In focus in North America

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

This week

Global geopolitics – President Donald Trump is off to Asia for a week of bilateral meetings. The White House has yet to release the President's official schedule, but media speculation suggests Mr. Trump may stop in Malaysia and Japan before attending the Asia Pacific Economic Cooperation (APEC) summit in South Korea next month. Malaysia is an important semiconductor hub and home to the world's largest rare earth elements (REE) processing facility outside of China. Malaysia also straddles the South China Sea and the Strait of Malacca – two vital shipping lanes of strategic importance to the U.S. military. This week, Japan's parliament elected Sanae Takaichi to be the country's first female prime minister. Prime Minister Takaichi is a national security hawk who supports strengthening the U.S.–Japan defense alliance, taking a tougher China stance, delivering pro-industrial growth policies and utilizing friend-shoring to improve supply-chain reliability. Each of these themes aligns directionally with Trump's agenda and may well be key talking points for the President at the APEC summit, whose main event is slated to be a bilateral meeting between President Trump and Chinese President Xi Jinping. The world is collectively hoping trade tensions can come off the boil. The President's trip provides an opportunity to solidify or at least further build out the framework for trade agreements with several countries. Success would reduce uncertainty for investors and companies and thus be supportive of economic growth heading into 2026.

Early read on U.S. earnings season – banks faced mounting investor concern entering the third quarter earnings season. September saw bankruptcy filings from sub-prime auto lender Tricolor and auto parts supplier First Brands, exposing certain financial institutions to more than $1.5 billion in combined losses. These were followed by large write-offs at Zions Bancorp and Western Alliance, with both citing exposure to fraudulent mortgage activity from two California non-depository financial institutions (NDFIs). Guidance from bank management teams on earnings calls has indicated these credit-related incidents are likely idiosyncratic rather than systemic. According to last Friday's FactSet *Earnings Insight report*, positive earnings surprises from the Financials sector were the largest contributor to overall earnings growth for the S&P 500 Index. With 92% of financials having already reported, results have posted above-consensus revenue and earnings. With over 4,200 regional banks, the sector remains ripe for consolidation, something regulators have become more supportive of as the FDIC and OCC streamline merger reviews and Fed officials note that M&A should remain a viable option. The administration is also exploring ways to reduce the capital requirements that were raised in the wake of the GFC. This would leave more capital available for lending and growth investment. Cracks in credit quality in the sub-prime space and labor market stability are certainly watch points, but for now, the canary in the coal mine is still singing.

Canada's September housing market remained balanced – The toughest housing-market conditions were largely contained in southern Ontario and parts of B.C. At the national level, sales are back to pre-COVID norms, although new listings remain elevated. Existing home sales fell 1.7% in seasonally adjusted terms in September but were up 5.2% from year-ago levels. With balanced conditions, the national benchmark price was down just 0.1% in September on a seasonally adjusted basis, which left prices 3.4% below year-ago levels. The national benchmark still sits more than 17% below peak early-2022 levels and the sideways movement continues.

Canadian business sentiment still muted – The Bank of Canada's Business Outlook Survey (BOS) was conducted from early August to early September, mostly before the government announced it would remove almost all counter tariffs on the United States. The BOS indicator (-2.28) increased for the first time in three quarters but extended a streak of almost three years in negative territory. Trade uncertainty remains an ongoing concern for businesses; the share of respondents planning for a recession ticked up to 33% in Q3. BoC Governor Tiff Macklem has prioritized risk management amid the ongoing uncertainty surrounding the economic outlook. The Q3 business and consumer sentiment surveys highlight that the net risks continue to tilt negative, especially for the labour market.

Canadian consumer inflation rises a bit more than expected – Consumer prices rose 0.1% month over month in September (or a chunky 0.4% in seasonally adjusted terms), firm enough to lift headline inflation five full ticks to 2.4%. Pump prices accounted for much of the ugly headline result – although some of that will reverse next month – but cores were a bit above expectations across the board and revealed some annoying stickiness. Both of the BoC's core measures printed above 3%; the median is holding at 3.2% and trim at 3.1%. The higher-than-expected inflation number makes the BoC's rate decision for next week a toss-up. BMO Economics has been calling for the Central Bank to eventually cut the overnight rate to 2.0% (and possibly lower if trade gets uglier) but is not convinced that October would see another cut.

Next week

As of this writing, the U.S. government remains closed with both sides firmly dug in. This will continue to delay the release of many key sets of data – though we've (wistfully) listed them here in italics. Both central banks announce rate decisions on Wednesday and will conduct press conferences to discuss. Canadian GDP is slated to be announced Friday. **The Toronto Blue Jays will launch their World Series run against the reigning L.A. Dodgers tonight, Friday, October 24, in Toronto.**

Monday 10/27 – U.S. *Durable goods orders* | Canada New housing price index

Tuesday 10/28 – U.S. *Consumer confidence*

Wednesday 10/29 – U.S. FOMC rate decision and presser, *Trade balance and retail inventories* | Canada BoC rate decision and presser, Wholesale prices

Thursday 10/30 – U.S. *Weekly initial jobless claims, GDP*

Friday 10/31 – U.S. *PCE*, Chicago Business Barometer | Canada GDP

Data scorecard as of October 22, 2025

Equity Market Total Returns						
	10/22/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,699	0.5%	15.1%	25.0%	26.3%	-18.1%
NASDAQ	22,740	0.3%	18.4%	29.6%	44.7%	-32.5%
DOW	46,590	0.9%	11.0%	15.0%	16.2%	-6.9%
Russell 2000	2,452	0.0%	11.1%	11.5%	16.9%	-20.5%
S&P/TSX	29,983	-0.4%	23.9%	21.7%	11.8%	-5.8%
MSCI EAFE	10,248	0.9%	26.8%	3.8%	18.2%	-14.5%
MSCI EM	751	1.4%	30.8%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.3%	7.6%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.3%	6.8%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.3%	8.2%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.2%	7.2%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	4.6%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.2%	3.5%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.2%	2.8%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.1%	4.7%	6.9%	8.2%	-9.5%
Government Bond Yields						
	10/22/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	3.95%	4.15%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.06%	3.18%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.42%	4.70%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.56%	2.71%	2.71%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.64%	1.64%	1.64%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	10/22/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.90	0.5%	-8.8%	7.1%	-2.1%	8.2%
CAD:USD	$0.71	0.2%	2.8%	-7.9%	2.3%	-6.7%
Bitcoin	$107,689.61	0.6%	14.9%	120.5%	157.0%	-64.3%
Gold	$4,098.42	-3.6%	56.2%	27.2%	13.1%	-0.3%
Oil (WTI)	$58.50	1.7%	-18.4%	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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i Household consumption, percent of GDP in G7 | TheGlobalEconomy.com

ii Top 10% of Earners Drive a Growing Share of US Consumer Spending - Bloomberg

iii Comparing household assets across the wealth distribution | FRED Blog

iv A Record 500 American Billionaires Are Too Poor To Make The Forbes 400

v Buy Now Pay Later Global Business Report 2025: BNPL Payments to Grow by 13.7% to Surpass $560 Billion this Year, Driven by Klarna, Afterpay, PayPal, and Affirm - Forecast to 2030

vi Median Income by Generation: How Do You Compare? | Kiplinger

vii The new face of Gen X anxiety: Middle-aged Main Street business owners