

WEEKLY STRATEGY Perspectives



Private Wealth

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Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Tug of War

"The greater the tension, the greater is the potential."

– Carl Jung

The Through Line: Investors grappled with an unusually large helping of headlines in the first six months of 2025, prompting stepped-up volatility in most corners of the capital markets. Despite the gyrations, U.S. equities are *up* modestly on the year, while many international bourses have increased double digits; fixed income yields and currencies have been orderly and market sentiment continues to lean optimistic. In essence, it all boiled down to a classic tug-of-war between factors that promote or hinder growth and those that increase or reduce inflation. We expect the coming months to at least partially clarify matters, thus justifying markets' first-half resilience and setting the table for continued progress as the year rolls on.

Information deluge = planning nightmare

Investors got a bit more than they bargained for during the past six months, especially considering the optimistic tone that prevailed at the start of the year. We've noted many times that the U.S. had much to celebrate on January 1, 2025: GDP had advanced nearly 3% in the prior few years; unemployment was hovering in the low 4% vicinity; productivity growth was above trend; inflation was tapering; and markets were primed for a pro-business/pro-markets new administration heading to Washington. In Canada, things were also looking up: consumer spending had improved; housing activity was firming; and the Bank of Canada was leading the world in the number of stimulative interest-rate reductions.

Then came an unexpected series of punches that shifted the story line of just about *everything*. Headlines hit with firehose-like volume and an intensity that made it difficult to keep up. Yet capital markets were remarkably nimble at adapting. Approaching the half-way point of the year, let's review the key events of the last six months, underscoring the lessons learned – and examine themes so we can tease out hints about how the remainder of the year could unfold.

The top stories ran the gamut from technology to politics. We saw breakthroughs on AI (DeepSeek's substantially faster/cheaper app development) and EVs (BYD's rapid-charging battery) that rapidly shifted prevailing investment themes. Then there were the scores of executive orders; mass deportations; lawsuits against colleges, law firms and the media; hints of manifest destiny intentions; and notice to a variety of international bodies (such as the IMF, World Bank and NATO) that the U.S. plans to show up differently on the world stage. Next came unilateral tariff announcements that launched trade wars against allies and competitors alike – followed

by dozens of subsequent decisions to rescind, suspend, modify or renegotiate aspects of each. More recently, we've experienced a stressful few weeks of tensions between Israel and Iran.

Complicating the deluge was the fact that there was no black/white answer. Virtually every issue offered an array of potential outcomes – many of them balanced in opposing directions – making forecasting with any level of confidence almost impossible. Much like the early days of the COVID-19 pandemic, companies suspended, reduced, or modified guidance. Economists and strategists shifted from "no recession" to "high likelihood" to "less likelihood" in a matter of days.

Observation #1: "It's the economy growth and inflation stupid." In sorting through all the moving parts, the most pertinent aspects for investors to try to home in on were the potential implications for economic growth and inflation – much of the rest was just superfluous distraction. Following the *fundamental trail* (a.k.a. hard economic data) helped sharpen the focus as companies proved adept at hunkering down and navigating the new challenges. **Aggregate earnings for the S&P 500 in the first quarter advanced over 13%¹, the second consecutive quarter of double-digit growth.** Fears of surging inflation and eye-watering price hikes proved overdone (at least so far); last week's CPI and PPI reports showed both headline and core inflation were tamer than had been projected. Many headlines, particularly as the second quarter wore on, decried steep falloffs in sentiment ("soft") data. Those surveys have begun to turn positive in recent days.

Observation #2: Resiliency rather than uncertainty should be the word of the year. As suggested by the continued progress in earnings and hard data, businesses utilized many strategies to adapt to changing policies ([WSP Running the Gauntlet](#)).

Consumers, too, remained employed and continued to spend even if their spirits were less than cheerful ([WSP Consumers the \(not so\) Little Engine That Could](#)). There was much handwringing over the “extreme lack of certainty” or “need for clarity.” In actual fact, some level of cloudiness invariably accompanies most business activities – and investing.

Observation #3: Markets also proved resilient. Volatility clearly increased during the last six months, particularly relative to the last couple of years. U.S. stocks, for example, hit all-time highs on February 19 but were down close to 20% by early April. Many individual names, particularly in tech and communications industries, were down 30%, 40%, 50% or more. Fixed income assets, particularly longer-dated U.S. Treasuries, declined in tandem – briefly pushing 10-year yields toward 4.5% and 30-year yields over 5%. This confounded conventional wisdom, which would have pegged those securities as safe-haven assets. **By the end of the half, however, stocks were near all-time highs again and bond yields were comfortably back inside expected ranges.** In all, given the wide variety of headlines and the lengthy list of as-yet unknowns, capital markets can be applauded for adapting to events.

The moral of the first-half story: following the hard data to keep track of what people and companies are actually doing is a more productive use of time than focusing on the headline/social media blow-by-blow accounts.

Issues likely to dominate the second half

Many of the issues set in motion in the first half will carry into the second – though we suspect the range of potential outcomes may become narrower and a bit better defined. The hard economic data may show interim signs of wear and tear for a few months while the impact of shifting tariff and trade policy settles out. U.S. Federal Reserve Chair Jerome Powell noted in recent appearances we should have better insights into who (and in what proportion) will ultimately pay the import levies (manufacturer, supplier, distributor, importer, exporter, consumer) or how tariffs might shift behavior in the next few months. Thus *any economic softness could prove temporary since we expect a variety of factors to lend clarity and help shift the narrative as the year proceeds:*

- **Tariff/trade policy** should gain more definition. The 90-day pause for all but China’s reciprocal tariffs is up on July 9. The outlines of deals with Canada and Mexico are reportedly well in process. Agreements with a number of other countries are also in the works. Although the ultimate rate will be higher than the low single digits that prevailed at the start of the year, most pundits expect the final aggregate tariff rate to be in the low- to mid-teens. Keep in mind that the duties are applied directly on goods only; more than 70% of the U.S. economy is services based.
- **More favorable business tax breaks** are a core component of the tax and spending reconciliation bill – the “One Big Beautiful Bill” Act (OBBA) currently making its way through Congress. These included immediate and full expensing for R&D and domestic manufacturing investments retroactive to January. Coupled with an intense focus on reducing regulation, more dialed-in tariff levels and speedier permitting to get those plants up and running, business sentiment and activity could easily shift to a sunnier tone in the second half.

- The better overall tone for business could accelerate business activity when added to the private investments already in flight for AI, technology, robotics, cyber security, reshoring and supply-chain shifts. Companies could start executing plans that were temporarily mothballed during the height of Q1 trade uncertainty, given the improved visibility. **M&A, IPO, CapEx, plant retooling and expansion plans are also examples that could help start a virtuous competitive cycle that would support sturdy capital markets and employment.**
- **Second quarter earnings report season** will shift into high gear in a couple of weeks. Estimates for aggregate earnings have been reduced from low double digits to high single digits. Recall that numerous companies suspended or reduced guidance in the first quarter, though this was prior to the reduction in many tariff rates. The stage may thus be set for earnings and revenue beats if the tariff impacts are more muted than projected.
- **Capital markets may be past peak volatility** since they have become adept at rapidly adjusting to unfolding events. Last weekend’s futures/currency/oil trading around the Iran/Israel/U.S. actions are just the most recent example. Risk on and growth trades are clearly back in style; the Nasdaq 100 hit a new high on Tuesday. Despite this, we do expect bond markets to keep a close eye on the progress of debt and deficits, particularly as the price tag of the OBBA in its final form becomes clearer. Further, valuations are not cheap, particularly relative to reduced earnings estimates. This leaves little room for disappointment should unexpected events emerge.
- **The Fed will start cutting again** whether in July or September – a matter of weeks not months. A Fed in cutting mode is typically constructive for equity markets.
- **New U.S. policies will continue to catalyze substantial activity elsewhere.** In *Canada*, for example, election outcomes, a growth-focused budget, accelerated permitting, fiscal stimulus to encourage consumption, trade negotiations with the UK, EU and India, the removal of provincial trade constraints, plus planned increases to defense spending are all a direct result of new policies and headlines generated by the nation’s southern neighbor. *Germany* has removed the debt break implemented after the GFC, ramping up spending on infrastructure and defense. *EU* and *NATO* members are also working to boost military spending, renegotiate trade alliances and limit an expected flood of cheap Chinese goods diverted from U.S. markets. *ASEAN* nations, including Japan, China and South Korea, are negotiating new trade and security arrangements.

Implications for investors

The first half of the year delivered a key lesson: ignore emotional headlines and concentrate on fundamentals.

Discipline serves focused portfolios and active management well. Bond yields in aggregate – particularly in longer-dated securities – have moved down from prior highs while stocks around the globe have moved up. It makes sense to use disparities in performance of individual securities/sectors/asset classes to rebalance toward longer term strategic targets.

During the first half, markets, companies, investors and consumers decisively illustrated that in a contest of tug of war, *resilience trumps uncertainty nearly every time.*

PLEASE NOTE: The Weekly Strategy Perspectives will not be published next week due to holidays in both Canada and the U.S. We will see you on July 11. Have a lovely week!

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. Fed speak – Federal Reserve Chair Jerome Powell testified on Capitol Hill this week, largely reiterating the message delivered at the most recent Federal Open Market Committee (FOMC) meeting: the economy remains strong; the labor market is solid; uncertainty surrounding the impact of Trump administration policies has left monetary policy on hold even though meaningful progress has been made in bringing inflation back toward the Fed's 2% target. As of Wednesday morning, markets were assigning an 84% probability to a rate cut at the September FOMC meeting – though odds of a July cut increased after Federal Reserve Governors Michelle Bowman and Christopher Waller signaled openness to the idea. In a speech on Monday, Governor Bowman noted that upward pressure on goods prices from tariffs was being offset by easing inflation in core services. She noted that tariff pass-through has been limited so far and the ultimate impact may be smaller than previously expected. Governor Waller expressed a similar view in a CNBC interview last week. These comments are in contrast to the more cautious tone struck by Chair Powell, setting the stage for a split decision at next month's meeting.

Canadian retail sales – In April, retail sales rose 0.3% led by autos (+1.9%). The flash estimate for May points to a 1.1% slide in retail sales; a reversal in autos is likely factoring heavily. Sales were up in six of nine sectors although StatCan highlighted that retailers in all sectors reported their sales were negatively impacted by trade tensions. The retail sales report points to slowing consumer spending through the spring. The weak flash estimate for May, even if largely auto driven, is consistent with the BMO Economics view that the economy struggled in the second quarter.

Global oil markets – Responding to rising tensions in the Middle East, global oil markets had recently begun pricing in a higher risk premium at the front end of the futures curve. Following Saturday's U.S. bombing of Iranian nuclear facilities, spot West Texas Intermediate (WTI) crude traded as high as \$81.50 per barrel and settled at a premium of approximately \$10 relative to what would be considered fair value based on physical market supply and demand fundamentals. Equity futures on Sunday night and into Monday morning pointed to a lower open when investors grew concerned about the potential severity of an Iranian response and the potential knock on implication on inflation and global economic growth.

On Monday afternoon, Iran launched a limited retaliatory missile strike on a U.S. base in Qatar (which had been telegraphed in advance). *To energy traders the move signaled that Iran was seeking an off-ramp to de-escalate tensions and that worst-case scenarios were unlikely to materialize.* Because of this, the approximately \$10 per barrel risk premium quickly unwound with oil prices falling more than 15% between Monday and Tuesday. This reversal was also welcomed in equity markets with the S&P 500 advancing roughly 1% on both days. **The current ceasefire, plus progress on nuclear negotiations with Iran and diplomatic efforts between Israel and Gaza, is directionally positive for market sentiment and continues to ease geopolitical risk in the Middle East.**

Canada inflation – Consumer prices rose 0.6% month over month in May (or a much milder +0.2% in seasonally adjusted terms), keeping headline inflation steady at 1.7%. The major measures of core were only slightly cooler than the too-hot-for-comfort readings in the prior month, shaving both the trim and median measures by 0.1% to 3.0%. The quick take on this overall result: not bad, but needs to be better to persuade the Bank of Canada to cut rates further. There is one more CPI result in July before the next BoC rate decision on July 30. The central bank will likely need to see much more improvement before it's convinced that underlying inflation is headed back to 2%. **The data over the next five weeks will ultimately drive the rate decision, but the odds of a July cut are lower now in light of this CPI print.**

Disconnects in the U.S. housing market remain – The U.S. single-family home market continues to struggle. On Monday, the National Association of Realtors released existing home sales data showing May sales at their lowest level since 2009. On Wednesday, the Census Bureau reported that new home sales fell 13.7% month over month in May, while inventory levels rose to 9.8 months – the highest level since October 2007. KB Home (KBH) cut its full-year guidance, citing weak consumer confidence driven by high interest rates, macroeconomic uncertainty and geopolitical tensions, all of which have contributed to subdued demand. A consistent refrain in the construction sector has been that high levels of pent-up demand bode well for future residential sales but affordability remains a persistent headwind.

Canada's population growth slows – Canada's population grew 1.2% year over year in Q2 (as of April 1, 2025), down sharply from highs above 3% seen as recently as Q3 of 2024. On an annualized and seasonally adjusted basis, growth was just 0.8%, the slowest non-pandemic print since 2015. The explosion in population growth – to nearly 1.3 million people in a year at one point – was playing a major role in many economic challenges policymakers have been struggling to address such as housing affordability; surging rent; productivity and infrastructure stress; services inflation; and youth unemployment rates. Lower non-permanent immigration will bring Canada to about 1% population growth. Canada needs permanent immigration at around 330,000 yearly to keep that level since Canadian birth rates are still low.

Next week

Quiet, holiday-filled week in both Canada and the U.S.

- **Tuesday 7/1** – U.S. Manufacturing PMI and ISM | Canadian markets closed for the Canada Day holiday
- **Wednesday 7/2** – U.S. ADP Employment | Canada Manufacturing PMI
- **Thursday 7/3** – U.S. Initial jobless claims, Employment reports, Services PMI and ISM | Canada Balance of Trade
- **Friday 7/4** – U.S. markets closed for Independence Day holiday | Canada Global composite and services PMIs

Data scorecard as of June 25, 2025

Equity Market Total Returns						
	6/25/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,092	2.1%	4,2%	25.0%	26.3%	-18.1%
NASDAQ	19,974	2.7%	3,8%	29.6%	44.7%	-32.5%
DOW	42,982	1.8%	1,9%	15.0%	16.2%	-6.9%
Russell 2000	2,136	1.3%	-3,6%	11.5%	16.9%	-20.5%
S&P/TSX	26,566	0.3%	8,9%	21.7%	11.8%	-5.8%
MSCI EAFE	9,456	1.0%	17,0%	3.8%	18.2%	-14.5%
MSCI EM	660	2.6%	15,0%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.6%	3,6%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.6%	3,4%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.6%	3,6%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.6%	4,1%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	1,6%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.1%	0,6%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.1%	0,4%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.0%	1,8%	6.9%	8.2%	-9.5%
Government Bond Yields						
	6/25/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.29%	4.40%	4,21%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.32%	3.20%	2,97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.48%	4.65%	4,67%	4.56%	3.53%	3.66%
German 10-Year Bund	2.56%	2.50%	2,74%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.39%	1.49%	1,49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	6/25/2025 Level	WTD	YTD	2024	2023	2022
USD Index	97.68	-1.0%	-10,0%	7.1%	-2.1%	8.2%
CAD:USD	\$0.73	0.1%	4,8%	-7.9%	2.3%	-6.7%
Bitcoin	\$107,848.31	4.0%	15,1%	120.5%	157.0%	-64.3%
Gold	\$3,332.33	-1.1%	27,0%	27.2%	13.1%	-0.3%
Oil (WTI)	\$64.92	-13.4%	-9,5%	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 A Better-than-Expected Q1 Earnings Season Wraps up with the Retailers