

WEEKLY STRATEGY Perspectives



Private Wealth

WEEK ENDED APRIL 4, 2025

Brent Joyce, CFA

Chief Investment Strategist, BMO Private Investment Counsel, Inc.

Carol Schleif, CFA, SASB-FSA

Chief Market Strategist

Craving Clarity

"The future is never clear; you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values."

– Warren Buffett

The Through Line: The thirst for certainty has reached fevered proportions, yet the very opposite may prevail for at least a few more months even after U.S. President Donald Trump's April 2 announcement of sweeping tariffs on virtually all trading partners. In light of the ambiguity – and the dislocations in business activity it is starting to cause – pundits have tempered expectations for GDP growth while simultaneously nudging inflation estimates higher. Though disconcerting in the short run, periods of uncertainty can tee up new opportunities on the other side.

Uncertainty is not the same as risk

Uncertainty: businesses hate it... consumers hate it... investors REALLY hate it. After beginning the year with sharp increases in optimism and visions of unleashed animal spirits expected to usher in a spate of M&A, IPO and capital spending activity, global equity markets have reversed course in response to Donald Trump's tariff announcements and an escalation of the trade war. U.S. stock markets are experiencing the greatest impact, with the S&P 500 back in correction territory.

Our Technical Analyst, Russ Visch, believes major averages will likely re-test their mid-March lows and that a multi-day process rather than a single point 'moment' is to be expected during the capitulation phase. Don't be overly concerned about whether support at those mid-March lows holds. The quality of market action in terms of the stocks participating and the volume behind it is more important to watch. Ideally, we'd like to see less volume, less volatility and fewer stocks making 52-week new lows to signal the formation of what often is a low/rally/re-test/bottoming sequence that's common for declines of this magnitude.

Non-U.S. markets are down too, but faring better than U.S. markets. Bond yields, especially in the U.S., are down sharply. Fixed income is providing the ballast we expect in balanced portfolios. Diversification across equity geographies and asset classes is proving its mettle in this environment.

Clear as mud

It had been hoped that President Trump's much anticipated set of tariff announcements, released after markets closed on April 2, could help clarify things. The first part of the proclamation did: 10% across-the-board levies on virtually all imported goods set to take effect at 12:01 AM EDT on April 5. After-hours markets initially rallied

on the news – only to reverse sharply as the second portion was announced: country-by-country levies that had been calculated to equate to half of the blended rate each area assesses on U.S. imports.

The country-specific levies range from 10% on imports from the U.K., Brazil, Australia and Columbia to 34% on imports from China and 32% on those from Taiwan. The rates are in addition to existing levies, meaning the rate on China alone is over 50%. The EU level is initially marked at 20% while incoming Vietnamese goods will be charged 46%. These tariffs are scheduled to start on May 3.

Canada and Mexico were noticeably absent from the list of country-specific tariffs.

During a Bloomberg interview immediately following the signing ceremony, Treasury secretary Scott Bessent noted that the White House hoped this announcement would provide clarity in that it demarks a "ceiling" for each country. This **would seem to indicate wiggle room for negotiation in tariff rates in coming weeks** if the target country achieves certain U.S. goals including reducing or eliminating their own taxes and fees on U.S. goods imported into their countries.

There were a lot of moving parts to the announcement, and we are not sure it provides the level of clarity that businesses need to proceed with confidence. On the other hand, secretary Bessent did assert in that same interview that his **focus was now tuned to more pro-growth issues like helping congress see through a reconciliation bill that included important business tax breaks, reducing regulatory and administrative burdens and streamlining government departments and processes.**

The potential revenue raise from these tariffs is at the high end of expectations. Most economists will tell you this not an efficient or desirable way to manage government finances. Though U.S. coffers may begin to fill, it may well come largely on the backs of U.S. businesses and consumers making a tax cut necessary now (and more possible).

Is recession or stagflation in the cards?

By quarter's end, many economists and strategists had tempered their estimates of global growth and nudged up inflation expectations as the ultimate framework around final tariff/trade policy (and any retaliatory moves) remained unspecified. The combination of lower growth plus higher inflation is prompting many to ask whether recession or stagflation is the inevitable outcome. Indeed, a number of high profile wire houses have raised the probability of a potential recession in their outlooks – in stark contrast to how the year started.

Prior to the April 2 tariff reveal, BMO's House Viewⁱ presumed continued growth in U.S. GDP, though at a more moderate pace than the nearly 3% achieved in the last couple of years. Inflation is not expected to spike markedly, although prices could adjust higher depending upon how tariff policy ultimately plays out. Subsequent to the announcement the BMO Economics team noted it is reviewing its expectations – again depending upon how negotiations with individual countries play out in coming days and weeks.ⁱⁱ **It is worth remembering that the U.S. economy entered 2025 on sound footing, with low unemployment, moderating inflation, solid business activity/optimism and firm hopes for a lighter regulatory touch. It is also worth remembering that 70% of the U.S. economy is services based and the tariffs only target goods.**

The Canadian economy, too, was showing hopeful signs in employment, as well as consumer and business activity following the Bank of Canada's rate-cutting programs, and the fiscal policy stimulus created by the government's tax holiday. **BMO Economics sees the much lighter-than-expected touch on retaliatory tariffs as opening the door for a possible upgrade to their Canadian GDP growth outlook.** As it stands, apart from the 25% duties on steel and aluminum—and, effective today, a roughly 13% levy on motor vehicles (after accounting for the exemption on U.S. content)—**Canada will pay tariffs only on a relatively small share of shipments to the U.S. that cannot be made USMCA compliant. Still, Canada's economy will feel the headwinds of the tariffs' impacts on the US economy, which remains its largest trading partner.**

The math has changed for equity markets

As for equity market reaction, damage has been done and earnings forecasts will need to be revised down at the aggregate level. There will be wide variation on the impact at the sector and individual company level.

The equity market selloff resets the math for 2025 and it isn't all bad. U.S. and Canadian corporate earnings growth expectations entered 2025 calling for above average percentage earnings growth in the low teens. Earnings outlooks can take a heavy haircut in this new regime. With valuations now lower (supported by lower bond yields) there is still room for the S&P 500 to log a small positive full year 2025 return. In Canada, the valuation starting point and yield backdrop started the year much more constructive and again, there is room to chop full year forecasts and still post a positive year.

Getting back in the green for North American equity indices requires a rebound in the 15% range for the S&P 500. Not a Herculean task. Spikes in uncertainty of the magnitude we are seeing now have historically led (data back to 1985) to forward S&P 500 returns of more than 10% in 6-months and over 20% in 12-months.

For Canada and International markets, the extent of the drawdown as of midday April 3 brought **Canadian equities flat on the year and most international markets remain up by mid-single to low teens** for the year after a post-tariff reveal pullback of 1%-4%.

Implications for investors

The volatility that has bedeviled markets for much of the year is expected to continue as policy priorities evolve. Trade tensions are likely to remain fraught in the short run as negotiations or retaliatory moves are floated. On the other hand, interesting structural and political change in many corners – Canada, the E.U., China and Japan – have led to differentiated performance among asset classes, geographic locales and other components. As the White House and Congress accelerate work on tax and regulatory relief, the headline narrative could shift to a more constructive tone.

Uncertainty and flux are never comfortable for investors, businesses or citizens, but **markets (as forward-looking discounting mechanisms) tend to find their footing and direction even before the ultimate direction of broader economic activity is clearly evident.** Globally diversified portfolios that include cash and fixed income, along with regular rebalancing and patient implementation allow long-term investors to navigate through the uncertainty.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Canada's GDP shows some strength – Canadian monthly GDP rose by a solid 0.4% in January, the largest gain in nearly a year, on top of an upwardly revised 0.3% advance the prior month (initially +0.2%). The flash estimate for February is for flat GDP – BMO Economics expects something much tougher in coming months as consumer and business confidence has been hit hard by deep uncertainty thanks to shifting trade policy. The preliminary February read was boosted by manufacturing (though auto assemblies didn't really budge that month) and finance, but was weighed down by real estate, energy and retail (as the GST holiday ended mid-month). The strong underpinning for growth will **reinforce the BoC's newfound lean to the sidelines**, barring a material deterioration in the outlook following reciprocal tariff announcements.

Canada prepares for elections – As Canadians gear up to vote on April 28, political parties are unveiling their election platforms. On housing, the Liberals have pledged to double annual home construction to 500,000 over the next decade. The NDP leader aims to complete over three million energy-saving retrofits, funded by reducing support and tax breaks for energy companies while also offering low-interest mortgages to first-time homebuyers. Pierre Poilievre, leader of the Conservatives, has proposed allowing individuals and businesses to defer capital gains if they are reinvested in Canada, alongside fast-tracking infrastructure project approvals. Federal government sources have indicated that Canada will avoid imposing tariffs that could raise the cost of living. Prime Minister Carney has also emphasized non-negotiable priorities, including language and culture policies and supply management in agriculture.

U.S. Manufacturing sentiment – March saw more negative sentiment numbers in manufacturing. The Institute for Supply Management's (ISM) monthly survey indicated the sector fell back into contraction, as new orders, backlogs, employment and factory output each declined from February levels. The prices paid index rose 7% month over month, indicating continued upward inflationary pressure. The Dallas Federal Reserve's March Texas Manufacturing Survey reflected a similar tone, with sentiment among business leaders falling for both their own companies and the broader manufacturing sector. The General Business Activity Index reading for March fell eight points to -16.3. Meanwhile, the survey reading for input costs hit the highest level since July 2022. In response, companies increased layoffs and reduced work hours.

U.S. inflation remains sticky – Last week, the Bureau of Economic Analysis released its February Personal Income and Outlays report. Among the updated data points was the Federal Reserve's preferred inflation metric: the core Personal Consumption Expenditures (PCE) Price Index, which measures the average prices consumers pay for goods and services excluding food and energy. Core PCE rose 2.79% year-over-year in February, up from 2.66% in January and above the Bloomberg consensus forecast of 2.70%. Investors reacted negatively to the report, which supported the narrative of persistent inflationary pressure, while tariffs added upside risk to the inflation outlook. CNBC noted this week that the average core PCE forecast among 14 Wall Street forecasters has risen, with the estimate for Q3 moving up to 3%. Over the weekend, the Goldman Sachs economics team lifted its year-end core PCE inflation forecast by 0.5 percentage points to 3.5% year-over-year, stating that "tariffs are likely to boost consumer prices." In an interview this week, New York Federal Reserve President John Williams echoed this sentiment, saying "tariffs clearly increase prices in the U.S." and "there's definitely a risk to inflation being higher than is in the forecast." Richmond Federal Reserve President Thomas Barkin said in a speech last week that the tariffs announced to date are likely to have four times the upside impact on inflation compared to trade policy during President Trump's first term (before any further additions from the April 2 announcements). Mr. Barkin went on to say that uncertainty over the impact of U.S. trade policy has left consumers, businesses and the Fed in a dense "economic fog" that may take a while to clear. On Monday, Mr. Barkin told CNBC, "We are setting up for a cage match with suppliers emboldened to raise prices and consumers who are exhausted, frustrated and tired of paying higher prices."

Next Week

Earnings season kicks off with reports from key U.S. money center banks. Key business and consumer sentiment reads are also on the docket.

- **Monday 4/7** – Canada – Bank of Canada Business Outlook Survey
- **Tuesday 4/8** – U.S. NFIB optimism Index | Canada PMIs
- **Wednesday 4/9** – U.S. Wholesale inventories and FOMC March meeting minutes
- **Thursday 4/10** – U.S. Initial jobless claims, CPI | Canada Building Permits
- **Friday 4/11** – U.S. PPI and Consumer sentiment

Data scorecard as of April 2, 2025

Equity Market Total Returns						
	4/2/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	5,671	1.6%	-3.3%	25.0%	26.3%	-18.1%
NASDAQ	17,601	1.6%	-8.7%	29.6%	44.7%	-32.5%
DOW	42,225	1.5%	-0.3%	15.0%	16.2%	-6.9%
Russell 2000	2,045	1.2%	-8.0%	11.5%	16.9%	-20.5%
S&P/TSX	25,307	2.4%	3.1%	21.7%	11.8%	-5.8%
MSCI EAFE	8,713	-1.2%	7.8%	3.8%	18.2%	-14.5%
MSCI EM	596	-0.8%	3.9%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.4%	3.0%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.4%	3.1%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.5%	2.6%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.2%	1.3%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.4%	0.9%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.7%	2.2%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.6%	2.4%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.4%	1.9%	6.9%	8.2%	-9.5%
Government Bond Yields						
	4/2/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.13%	4.21%	4.21%	4.57%	3.88%	3.88%
Canada 10-Year Government	2.91%	2.97%	2.97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.64%	4.67%	4.67%	4.56%	3.53%	3.66%
German 10-Year Bund	2.72%	2.74%	2.74%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.47%	1.49%	1.49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	4/2/2025 Level	WTD	YTD	2024	2023	2022
USD Index	103.81	-0.2%	-4.3%	7.1%	-2.1%	8.2%
CAD:USD	\$0.70	0.5%	1.0%	-7.9%	2.3%	-6.7%
Bitcoin	\$85,653.54	2.3%	-8.6%	120.5%	157.0%	-64.3%
Gold	\$3,134.17	1.6%	19.4%	27.2%	13.1%	-0.3%
Oil (WTI)	\$71.71	3.4%	0.0%	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.



Information contained in this publication is based on sources such as issuer reports, statistical services and industry communications, which we believe are reliable but are not represented as accurate or complete. Opinions expressed in this publication are current opinions only and are subject to change. BMO Private Wealth accepts no liability whatsoever for any loss arising from any use of this commentary or its contents. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice, tax advice, a recommendation to enter into any transaction or an assurance or guarantee as to the expected results of any transaction. You should not act or rely on the information contained in this publication without seeking the advice of an appropriate professional advisor.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. BMO Nesbitt Burns Inc. is a Member – Canadian Investor Protection Fund and is a Member of Canadian Investment Regulatory Organization. BMO Trust Company and BMO Bank of Montreal are Members of CDIC.

“BMO (M-bar roundel symbol)” is a registered trademark of Bank of Montreal, used under licence.

ⁱ See Yung-Yu Ma, Ph. D., Chief Investment Officer, BMO Wealth Management – U.S. ([Stock market selloff – tariffs and then some - BMO Wealth Management](#)) | Brent Joyce, CFA, Chief Investment Strategist, BMO Private Investment Counsel ([Global Markets Commentary: The great rotation - BMO Private Wealth](#)) |

Scott Anderson, Ph. D., Chief U.S. Economist BMO Economics [March 28, 2025](#)

ⁱⁱ [BMO Economics Reciprocal Tariffs Location Matters](#)