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Earnings Deluge – What Can It Tell Us About the Path Ahead?

“The market is often stupid, but you can’t focus on that. Focus on the underlying value of dividends and earnings.”

– John C. Bogle

The Through Line: Investors had an avalanche of economic data and earnings reports to parse this week, searching for breadcrumbs to help find the path ahead. Near-term signals are conflicted thanks to the clouds that still surround shifting trade, tax and geopolitical policies. Yet important themes are emerging as company managements outline steps to navigate the choppy environment.

Earnings season gathers steam

On the surface, earnings report season is off to a solid start with a year-over-year blended average profit increase of over 10% for the roughly one-third of S&P 500 companies that have released results. That’s according to FactSet’s latest *Earnings Insight* report dated April 25, 2025.ⁱ The report goes on to note that the group’s net profit margin was 12.4%. Presuming it stays above 12% when all companies have reported, it would represent the fourth consecutive quarter above that level – solidly ahead of the five-year average of 11.7%.ⁱⁱ

When considering the sturdy early run rate, a key caveat is that it’s *backward looking*. The systemic shock introduced by President Donald Trump’s reciprocal tariff announcements of April 2 has yet to show up broadly in results, though evidence of earlier levies (e.g., steel, aluminum, fentanyl-related 20% tariffs on China) are already stacking up. **Nonetheless, having the aggregate economy, consumers and business on solid footing creates a sturdy base to help weather the disruption introduced by the dramatic shift in policies – at least for a little while.**

Early observations about the macro environment

Companies are pulling or modifying revenue and earnings guidance in response to the wide variability in tariff rates and rapidly shifting trade policies. Some are choosing to offer multiple scenarios – status quo from the before-times or the potential impact if a recession commences. The latter is predicated on an assumption that deteriorating consumer confidence will lead to noticeable demand destruction if tariff policy isn’t modified soon. (We remind readers that sentiment survey data often does not translate into economic activity – we are more focused on what people do than what they say.) Some companies are suspending guidance – similar to what they did in the early days of COVID-19. After pulling outlooks early in the Pandemic, a wide swath of businesses went on to handily beat expectations in subsequent quarters as the economic situation

righted itself rather quickly. Seemingly recalling that earlier sequence of events, investors have digested the modified outlooks with grace.

A handful of high-profile consumer goods companies were able to quantify the impact of the tariffs that already exist on their cost of goods sold, with the dollar amounts running into the hundreds of millions.^{iii, iv} On many earnings calls, managements have discussed a variety of ways they plan to address potentially increased expenses, including working with suppliers to cost share; rearranging distribution channels; changing packaging sizes; raising prices; altering formulations; cutting back on advertising; streamlining operations; instituting (or extending) hiring freezes; and accelerating technology deployment.

Industry-specific observations

The macro “hard” data does not yet reflect a broad fraying in economic activity despite recent sharp deterioration in consumer, business and investor sentiment. That said, hints at changing behavior can be teased out from a variety of industries:

- **Consumer goods manufacturers** are noticing customers buying private label over name brands, as well as reduced U.S. volumes of items like snack foods (potentially exacerbated/driven by the broadening use of GLP-1 drugs for weight loss). For many, international volumes are holding up well.
- **Airlines** are revising down (by large chunks) the rosy estimates for robust sales they forecast just 12 weeks ago as empty seats pop up on more and more flights while **hotels and restaurants** are noting fewer overall visits and lower per-meal tickets.
- **Big banks** were among the first to report. Those with active trading desk benefitted from robust volumes even BEFORE the significant surge in early April. On the flip side, those who had staffed up expecting vigorous M&A and IPO activity found their volumes disappointing. Most noted that consumer balance sheets were still in good shape and their own capital positions were high quality and robust.

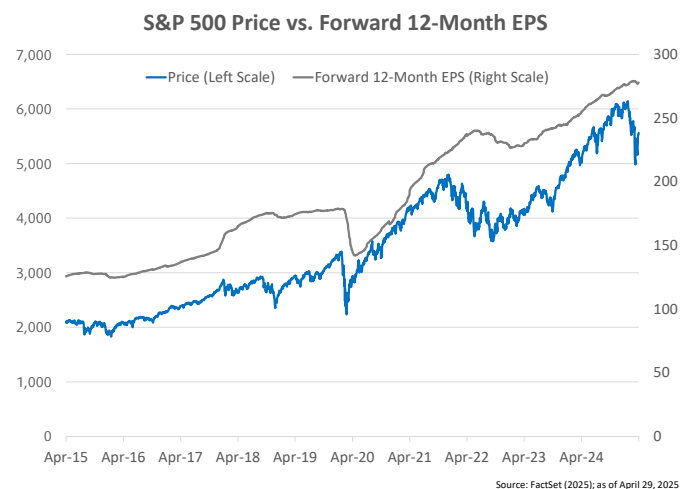
- **Tech** investors are closely monitoring the ad-based portions of the most advertising-dependent tech companies for signs businesses are cutting discretionary spending. They are also watching AI and data center spend (à la Microsoft's) – and seeking clearer signals relative to broadening deployment of AI, robotics, cyber security and automation.

Complicating investors' discernment task this earnings season is the fact that the sweeping generalizations noted above hold true for some, though not all, in any given industry. There have been notable exceptions within sectors, such as the appliance manufacturer with a bulk of operations already in the U.S. that benefits from increased tariffs; the services company thought to be a safe haven that instead suffered a major miss; or the cruise operator enjoying increased bookings.

Weaving it all together

President Trump's first 100 days have introduced a plethora of additional factors for investors to consider. To help put a framework around some of the opportunities and challenges that may lie ahead for the market and the economy, we offer the following observations:

- **Capital markets can adjust a lot faster to changes in news flow than companies can.** Supply chains take years to build and will likely take years to rearrange once policy is nailed down. The on-again, off-again nature of their implementation over the past several months could conceivably delay decision making even after a seemingly "final deal" is cut. On the other hand, the Trump administration is working hard to shift the narrative to the more pro-growth aspects of its agenda, including deregulation, faster permitting and tax breaks for domestic plant, equipment and construction activities. This vibe shift could help investor sentiment refocus on the long-term potential versus the near-term flip-flopping that's currently making headlines.
- **Managements are spending an inordinate amount of time on tariff/trade policy versus focusing on growth.** They are evaluating all aspects of business activity and looking for places to extract savings. Luckily, with margins at record highs, broad deployment of technology in recent years and reductions of cloud and AI access costs, there should at least be a little wiggle room. While this diverts attention in the short run, corporations that are operationally efficient can leap off the starting blocks quickly once some clarity emerges.
- **Companies with size and scale can lean into the current situation.** They can look for places to grow market share by emphasizing low prices, domestic manufacturing and/or ability to provide an alternative option. Smaller and mid-sized companies may not have the same scale to allow them to similarly adapt.
- **Time is of the essence; clarity needs to come SOON.** Retail and other frontline sellers typically plan and order for back-to-school and the winter holiday season in April and May. Many of these goods come from SE Asia – the area hit with some of the highest tariffs. Individual companies will need to make decisions in the near term that could impact their long-term viability. This is obviously a more critical issue for small and mid-sized businesses (which, in aggregate, tend to be the largest employers). If businesses are unable to plan accurately, we could end up with bare shelves, overstuffed warehouses and/or rising unemployment.
- **The consumer is the crucial lynchpin for the entire U.S. economy.** Consumers' ability and propensity to spend are driven first by their employment status and next by how secure they feel in their ability to retain that job. So far, companies have appeared leery about implementing widespread layoffs (given how hard they had to work to hire in recent years). For consumers in the top brackets, propensity to spend is also supported by how wealthy they feel (driven by gains in stock portfolios and owned real estate). Here, too, the sooner clarity comes, the sooner frayed nerves can be soothed.
- **Aggregate analyst earnings estimates may well be too high.** Many companies have indicated they can't accurately project for their own businesses. Analysts tend to anchor to recent earnings, meaning their estimates often lag when results trend markedly higher or lower than in the recent past (see chart). This is especially notable at inflection points – which is likely where we stand today.



But markets have already moved to incorporate some damage. The Dow and S&P have both declined by roughly 10% from February 19 (the date of this year's all-time highs) to late April. These declines erased the post-U.S. election advance, resetting markets to levels slightly below the Q42024 so-called Trump bump. That market advance was predicated on the pro-growth positives expected from the new administration (tax relief, deregulation). What markets didn't expect – or price adequately – were the size and scale of the tariff agenda.

Where do we stand now? The worst of the tariff shock may be behind us. From the roughly 20% peak-to-trough decline of early April in indexes like the tech-heavy NASDAQ, markets have reacted favorably to the interim pause in most reciprocal tariffs, exemptions granted for key items and hints from senior U.S. officials that potential deals are about to be struck.

What comes next? Markets are forward looking, eager to move on to the next issue. If the new narrative is tilted toward corporate tax relief, constructive deregulation and further détente on trade, the catalysts could be in place for markets to continue to rally.

In focus in North America

Jon Borchardt, Sr. Analyst

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This week

Canada elections – Prime Minister Mark Carney and the Liberals secured a strong minority government mandate. The Liberals captured 169 seats, just shy of the 172 needed for a majority in the House of Commons. The Conservatives also performed well, winning 144 seats, up sharply from 119 in 2021. Gains in these two parties came at the expense of both the Bloc Québécois (22 seats) and the NDP (seven seats). The latter, which propped up the last government, saw its standing collapse from 25 seats in 2021, but could still play an outsized role in a minority Parliament. **The Liberals will need support to survive confidence votes and pass legislation – starting with the Throne Speech and then, eventually, a budget.** Parliament is tentatively set to resume May 26th. BMO Economics expects the government to survive in the short term as 1) it has a strong minority (just three seats shy of majority), 2) neither the NDP nor the Bloc Québécois will have any appetite to force a near-term election and 3) there is enough overlap between the Liberal platform and each of the three other main parties that compromise can be found. Based on the policy measures and dollar amounts outlined in the Liberal platform, **the Canadian economy is in for a significant wave of fiscal stimulus; the deficit is set to widen sharply for FY25/26 and subsequent years.** BMO Economics has already been assuming a healthy dose of government stimulus since the trade war broke out, so this does not yet necessitate any revision to our economic outlook, at least until we see a full budget (and its passage).

GDP = Consumer Spending (C) + Investment (I) + Government Spending (G) + (Exports (X) – Imports (M)) – A culmination of factors led to U.S. GDP contracting by 0.3% (SAAR) in Q1, marking the first quarterly decline since Q1 2022. The result came in below the Bloomberg consensus forecast of -0.2% and the prior quarter's +2.4% reading. **C** rose 1.8%, outperforming expectations but still a sharp slowdown from the +4.0% figure in Q4. **I** (business spending) surged 9.8%, though this was largely attributed to businesses frontloading purchases ahead of tariffs. **G** fell 5.1%, led by deep cuts initiated by the Department of Government Efficiency (DOGE) and a temporary freeze on financial assistance and federal grants. Meanwhile, imports soared 41.3%, driving a record \$162 billion goods trade deficit in March as businesses and consumers accelerated purchases ahead of anticipated tariffs. This large jump in imports is netted out against exports and accounted for much of the Q1 GDP decline. **Excluding trade and inventory effects, real final sales to domestic purchasers rose 2.3%**, a more encouraging figure but still a slowdown from 3.0% in Q4.

Canadian monthly GDP turned down – The Canadian economy struggled to grow in late winter, with real GDP falling 0.2% in February and the preliminary flash estimate pointing to a partial 0.1% rebound in March. Combined with a nice start to the year in January, this combo points to a modest gain for all of Q1 of +0.4%, or 1.5% annualized. The 0.2% drop in February GDP can mostly be attributed to weather and not uncertainty. The 0.1% comeback in March GDP was powered by mining and oil & gas, transportation and retail, all rebounding from a soft February. The real drama now begins, with the tariffs much more of an issue in Q2, and the U.S. economy also now facing much heavier weather of its own. **BMO Economics would be surprised if Canadian GDP manages to grow in Q2.**

Canadian retail sales soften – Retail sales fell 0.4% in February as seven of 10 provinces reported declines, with the largest relative weakness in Nova Scotia (-2.6%) and Quebec (-0.9%). Statistics Canada estimates that March retail sales were up 0.7%, reflecting an anticipated increase in auto sales ahead of those tariffs; sales ex-autos are likely to be significantly weaker. A decline in February retail sales is a look in the rearview mirror at this point, as tariff announcements really ramped up starting in March. BMO Economics looks for consumer spending to soften materially and remain weak as long as the trade war continues.

U.S. President Trump marks first 100 days with celebratory rally in motor-city – Over President Trump's first 100 days in office, trade policy has dominated the headlines. Potential downside risks associated with tariffs have driven increased market volatility. This has led many investors to lose sight of the real brass ring – the President's promised pro-growth agenda. This week, Commerce Secretary Howard Lutnick told CNBC viewers that the administration's first trade deal is "done, done, done, done." Treasury Secretary Scott Bessent added that good progress is being made on trade agreements and a "very positive tax deal" is advancing through Congress.

U.S. manufacturing sentiment turned negative in April – the Dallas Federal Reserve's April Texas Manufacturing Outlook Survey revealed a significant drop in confidence among business leaders in the state as business fundamentals deteriorate. The Production Index held steady at 5.1, indicating continued growth, but the New Orders Index fell to -20 from zero in March, setting the stage for lower output in the months ahead. The General Business Activity Index fell to a five-year low of -35. The Raw Materials Price Index jumped 11 points to +48.4, highlighting the sector's intensifying inflationary pressures.

U.S. consumer sentiment deteriorated in April for the fifth consecutive month – The Conference Board's Consumer Confidence Index dropped to 86, marking the lowest reading since May 2020 and the longest consecutive decline since 2008. Key survey metrics – including perceptions of business conditions, employment prospects and future income – all saw further contraction as pessimism about the future continues to deepen. The Expectations Index fell 12.5 points to 54.4, representing the weakest reading in over 13 years. Meanwhile, the most recent survey from the University of Michigan showed consumer inflation expectations rising to the highest level since 1981, alongside a deterioration in economic outlook "across vast swaths of the population – spanning age, education, income, and political affiliation." Soft economic indicators remain weak, with markets and policymakers awaiting confirmation in the hard data.

Next Week

A quieter data week offering a side of Fed-speak with Wednesday's FOMC press release and press conference.

- **Monday 5/5** – U.S. Services PMI and ISM | Canada Composite and Services PMIs
- **Tuesday 5/6** – U.S. Trade deficit | Canada Balance of Trade
- **Wednesday 5/7** – U.S. FOMC meeting concludes; Chairman Powell's press conference
- **Thursday 5/8** – U.S. initial jobless claims, productivity, Wholesale inventories
- **Friday 5/9** – Canada employment statistics

Data scorecard as of April 30, 2025

Equity Market Total Returns						
	4/30/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	5,569	0.8%	-4.9%	25.0%	26.3%	-18.1%
NASDAQ	17,446	0.4%	-9.5%	29.6%	44.7%	-32.5%
DOW	40,669	1.4%	-3.9%	15.0%	16.2%	-6.9%
Russell 2000	1,964	0.3%	-11.6%	11.5%	16.9%	-20.5%
S&P/TSX	24,842	0.6%	1.4%	21.7%	11.8%	-5.8%
MSCI EAFE	9,032	1.7%	11.8%	3.8%	18.2%	-14.5%
MSCI EM	598	1.5%	4.3%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.5%	3.2%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.6%	3.6%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.3%	2.3%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		-0.1%	1.0%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.4%	0.1%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.7%	1.2%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.7%	1.5%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.6%	1.4%	6.9%	8.2%	-9.5%
Government Bond Yields						
	4/30/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.16%	4.21%	4.21%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.09%	2.97%	2.97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.44%	4.67%	4.67%	4.56%	3.53%	3.66%
German 10-Year Bund	2.44%	2.74%	2.74%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.31%	1.49%	1.49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	4/30/2025 Level	WTD	YTD	2024	2023	2022
USD Index	99.47	0.0%	-8.3%	7.1%	-2.1%	8.2%
CAD:USD	\$0.72	0.5%	4.2%	-7.9%	2.3%	-6.7%
Bitcoin	\$94,581.18	-0.4%	0.9%	120.5%	157.0%	-64.3%
Gold	\$3,288.71	-0.9%	25.3%	27.2%	13.1%	-0.3%
Oil (WTI)	\$58.21	-7.6%	-18.8%	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 [S&P 500 Earnings Season Update: April 25, 2025](#)

ⁱⁱ [ibid](#)

ⁱⁱⁱ <https://investor.colgatepalmolive.com/notice-q1-2025-earnings-webcast>

^{iv} [P&G Earnings Call](#)