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Global Policy Pivot – Part II

“Change is hard at first, messy in the middle and courageous in the end.”

– Robin Sharma, Canadian writer, author of *The Monk Who Sold His Ferrari*

The Through Line: In the first 100 days of the second Donald Trump presidency, he and his administration have carried out bold and far-reaching moves that continue to make waves in the global sea of politics, geopolitics and capital markets. When we first wrote about this topic, the trade war with Canada was newly launched and we primarily addressed the impact on the economy of this long-standing U.S. ally. This piece discusses events and impacts relative to China.

Change. Is. Hard.

In the first hours of Inauguration Day, President Donald Trump’s administration began fulfilling pledges to disrupt the status quo in nearly every aspect of U.S. life. Although pundits had expected *eventual* movement on a number of campaign promises, few expected the breadth and depth of *simultaneous* activity from the actual get-go.

Wielding more than 150 (and counting) executive orders, President Trump initiated a flurry of actions meant to hard pivot the policies and priorities of prior administrations. These shifts – in core areas like immigration, education, (over)regulation, manufacturing/business prowess, pursuit of U.S. “manifest destiny” and, of course, trade – were initiated in a largely unilateral fashion. While they may have started one-sided, they landed like a very large boulder into a very still pool, setting off global ripples among key allies and trading partners. Confusion, shock, consternation and in several very notable and high-profile cases retaliation followed. President Trump upended election outcomes in Canada, the U.K. and Australia, reflecting a sharp course change from what had been forecast mere weeks prior.

“It’s the economy headlines, stupid!”

The flurry of activity has kept investors’ attention focused on *headlines* rather than *fundamentals*. The rapid-fire announcements have sometimes come through unconventional channels at unusual hours, adding to the confusion. Like rubbernecking at an accident, it’s been hard to turn away from the news flood. Though underlying fundamentals have remained steady, markets have gyrated from all-time highs (February 19) to bear market lows (down approximately 20%) and back to bull market levels in barely four months.

Extreme volatility once again characterized a Monday’s trading this week. It happened in the wake of unexpectedly positive outcomes following weekend negotiations on trade, tariffs and security issues between the world’s two largest trading partners. Adding to the optimism were last Friday’s constructive developments between the U.S. and U.K., who hammered out a rough outline of the first formal trade deal. **Perhaps we are through the hard part and are moving into the messy middle as more trade frameworks take shape.**

China and the U.S.

Relations between the U.S. and China have been complicated at best for many years. Friction has emerged not only over the substantial goods deficit the U.S. runs with the Middle Kingdom but also over a variety of its non-tariff trade practices. These include heavily subsidizing strategic industries, disrespecting intellectual property rights, allegations of manipulating currency to give preference to its own exports, and setting strict limits around the ability of U.S. companies to sell to Chinese consumers.

This China trade war dates back to President Trump’s first term and continued under the Biden administration. The escalating tit-for-tat initiated in the early days of Trump 2.0, including China’s retaliation through levies and other actions of its own, pushed tariff rates in both countries to well over 100%. At that level, trade between the two countries was beginning to effectively grind to a halt. Leaders were dug in hard, markets wobbled and C-suites froze.

China’s staying power is arguably greater than many countries (particularly the U.S.) had previously understood. Remember, China has been operating under tariffs and a variety of trade restrictions (e.g., U.S. limiting the country’s access to advanced semiconductor technology, devices and tools) since at least 2018. Additionally:

- Beijing has worked methodically to build new export markets and innovate around advanced technology restrictions, allowing the country a gradual reduction of its sensitivity to the U.S.¹
- China has also actively reached out to strengthen ties with EU trading partners. And, for the first time in five years, Japan, China and Korea – who have lived under centuries of contentious political and trade relations – have agreed to revive talks around a regional trading bloc and to jointly push back against U.S. trade policies they deem unfair. Brazil and select African countries are also engaged in talks with China.
- On the technological front, a recent report from the Australian Strategic Policy Institute notes that “China dominates 37 of 44 key technology fields including Artificial Intelligence (AI), defense, space, and quantum technologies.”

Offramp activated

Key U.S. officials had expressed surprise that China retaliated so forcefully to the initial rounds of tariffs. Yet the points outlined above seem to put them in a solid position to stand their ground. On the other hand, both economies do extensive business with each other and a prolonged standoff was bound to ripple forcefully through both economies. Whatever behind-the-scenes brokering it took to get last weekend's discussions underway was a good step forward. Come Monday morning, markets applauded heartily, given the surprisingly constructive results. A few points to consider:

- Both countries agreed to reduce relative tariffs on each other by 115% for 90 days, bringing the U.S. rate on China to 20% and China's rate on U.S. goods to 10%. This pause – and an accompanying framework for frequent dialogue – should minimize chances of future escalation. (And perhaps offer a teeny bit of reassurance for U.S. importers?)
- Alongside the trade negotiations, top-level officials from both countries were engaged in discussions on addressing the fentanyl crisis, which keeps the door open to roll back even parts of the 20% base tariffs related to that drug at some future date.
- Treasury Secretary Scott Bessent said that “neither side wants a general decoupling,” while China's commerce ministry said the agreement begins to “lay the foundation to bridge differences and deepen co-operation.” The hope is that trade will be brought into better balance through a combination of steps, including opening Chinese consumers to more U.S. goods and services. Secretary Bessent did note that the U.S. would continue to pursue *strategic* decoupling in areas deemed critical to U.S. defense (e.g., semiconductors and pharma).

Economic Implications

It remains to be seen if there is enough clarity to allow companies to restart sidelined plans or initiate new activity. They continue to navigate tariff levels that average as much as five times the rate

on January 1 – even after the recent thaw. One possible enticement: **Congress is hard at work on a tax bill that contains some key business friendly features, including immediate expensing of R&D and equipment, retroactive to the start of the year.** Additionally, there are plans in that mark up to allow immediate write offs of plant build expenditures, also retroactive to the start of the year.

The 90-day pause, coming during the all-important window for holiday stocking, could see a rush of orders. If that transpires, the economic numbers could flash conflicting signals for months to come. We could see increased imports but at higher prices. Employment may stay steady when companies staff at levels that support the interim activity. **Faster growth, stable inflation and sturdy employment would likely keep the Fed watching patiently from the sidelines – frustrating the White House.**

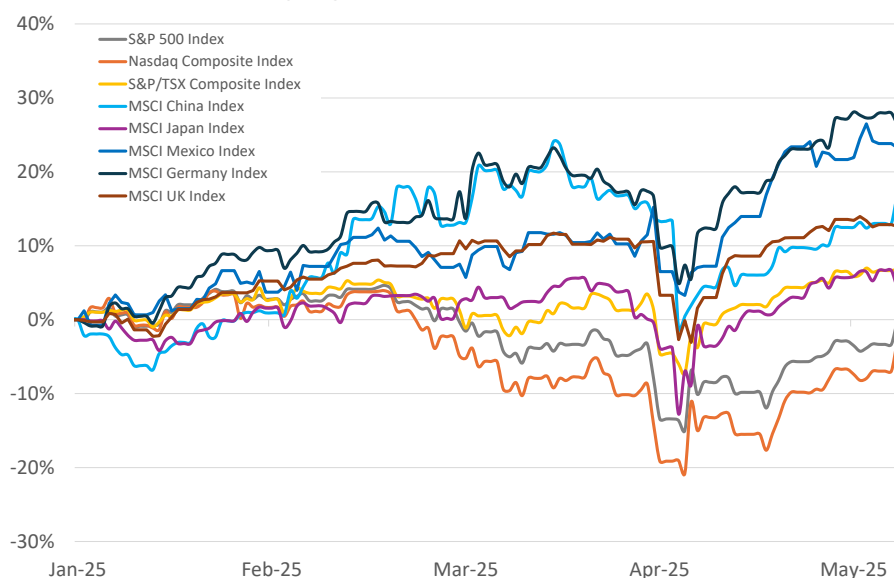
Ironically, the net-net could lead to a second negative GDP print and a “technical” recession (Recessions, formally called by the National Bureau of Economic Research, are typically defined as two consecutive quarters of negative growth). Yet the GDP number would be more reflective of companies and consumers repositioning themselves and an economy that is functioning just like the economists project it should.

Implications for investors

Markets of all flavors treated progress on the trade front as positive for growth. Equities surged, bonds fell, the dollar strengthened and gold weakened. Headlines even hinted that the American exceptionalism trade may be back. That said, global markets rallied right alongside U.S. markets – continuing the steps at the margin toward global rebalancing that we outlined last week ([Weekly Strategy Perspectives: American Exceptionalism - Down Not Out - BMO Private Wealth](#)).

Although U.S. equities are back to nearly flat on the year, other key bourses have enjoyed substantially stronger year-to-date performances. This once again suggests that globally diversified portfolios may help cushion the ride as we navigate the messy middle in search of the courageous end.

Global Equity YTD Cumulative Total Returns (in USD)



Source: Bloomberg L.P. (2025); as of May 13, 2025

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Canada's new cabinet – Canadian Prime Minister Mark Carney was officially sworn in on Tuesday for his new term. He announced a cabinet of 28 ministers and 10 secretaries of state, who will be junior ministers. François-Philippe Champagne retains the Finance portfolio while taking on the additional role of Revenue Minister. Anita Anand, MP from Oakville, takes over Foreign Affairs. Tim Hodgson, former Goldman Sachs head of Canadian operations, will become the Minister of Energy and Natural Resources.

U.S. leaders go to the Middle East – Deal-making in the desert was the theme of President Trump's first international trip of his second term. Saudi Arabia hosted both the President and a high-profile U.S.-Saudi investment forum, which featured a who's who of CEOs from leading American technology, industrial, financial, energy and infrastructure firms. Speaking at the event, President Trump announced that Saudi Arabia had agreed to invest \$600 billion – and potentially up to \$1 trillion – over the next four years. Roughly \$300 billion in prospective deals were unveiled that day. In pursuit of economic diversification and national security, Saudi Arabia committed to a \$142 billion arms deal; agreed to purchase 18,000 advanced AI chips from Nvidia; and partnered with AMD to develop a network of data centers within the Kingdom. Boeing was also a major beneficiary, signing contracts for 30 aircraft with Saudi Arabia and securing a record 130-plane order from Qatar.

Canada unemployment update – Canada saw a modest increase of 7,400 jobs in April, following a sharp decline of 32,600 the previous month. This outcome was closely aligned to expectations of minimal change. The headline job gain was clearly flattered by election-related hiring; public administration jobs jumped 37,100 (there was overlap between the survey week and advance voting). This employment update landed amid tariff disruptions and just days before the federal election, both of which influenced the results. Ontario bore the brunt of the downturn, shedding 34,600 jobs – mostly in manufacturing – which experienced a significant decline. Meanwhile, the unemployment rate climbed 0.2% to 6.9%, matching November's post-pandemic peak. Because labour-market slack is expanding and wage growth is slowing to its lowest level in three years, **the odds of a 25 bp rate cut in June clearly increase.**

Canadian consumer update – The Bank of Canada's recent rate cuts are providing relief to many mortgage holders and prospective buyers. Rising payments have been a key concern for the central bank. Before the trade war, consumer spending in Canada was gaining momentum, expanding by 3.6% over the past year – the fastest pace in two and a half years. Lower interest rates played a crucial role in cushioning the impact of mortgage resets. Although renewal payments remain higher than the original amounts, the strain is easing. This year, the average renewal payment will be 8.2% higher than in December 2023, an improvement from the 10.4% increase seen in the latter half of 2024. For loans renewing next year, the payment increase will shrink to just 5.2%.

"One Big Beautiful (U.S.) Budget Bill" – Congressional Republicans are using the budget reconciliation process to advance President Trump's "one big beautiful bill" needing only a simple majority. House committees are filling in the framework, and proposals are beginning to move from markup to floor debate. Key GOP priorities include extending the 2017 Tax Cuts and Jobs Act, implementing new tax exemptions (on Social Security benefits, tips, and overtime pay), boosting border security, raising the SALT deduction cap and increasing the debt ceiling. Spending cuts are targeting Medicaid, SNAP and provisions from the Inflation Reduction Act. Markets have welcomed the momentum, but heavy lifting still lies ahead. Republicans can afford to lose no more than three votes in either chamber, and the House and Senate must ultimately agree on a single version of the bill. Speaker Mike Johnson is aiming for full House passage by Memorial Day. The current version would reduce tax revenue by \$5 trillion, cut spending by \$1.5 trillion and add an estimated \$5.7 trillion to the national debt over 10 years.

Lower oil prices no boon for Canada – BMO Economics projects that West Texas Intermediate (WTI) crude will average around US\$63 in 2025 and US\$65 in 2026. Oil prices have declined roughly 20% from last year's average. In Canada, the inflationary effects of lower oil prices may be more pronounced than in previous instances because the Canadian dollar has remained largely unaffected by the shift. **Unlike many advanced economies, Canada's status as a heavy oil exporter means that falling crude prices tend to weigh on GDP growth.** Over the last 25 years, a sustained US\$20 drop in oil prices has been linked to Canada's GDP growth underperformance by 1% to 1.5% measured against U.S. GDP growth. Even though BMO Economics acknowledges the potential drag on Canadian GDP, the overall impact is expected to be more moderate than in past cycles. This is partly due to plateauing U.S. oil production and the waning of large oilsands investments. Typically, declining oil prices exert downward pressure on the Canadian dollar, but this effect appears to be less pronounced than in previous episodes.

Next Week

Quiet week – U.S. earnings nearly finished, no central bank meetings and light economic release schedule.

- **Monday 5/19** – U.S. Leading Economic Indicators
- **Tuesday 5/20** – U.S. Philly Fed | Canada CPI
- **Thursday 5/22** – U.S. jobless claims, Manufacturing and Services PMIs | Canada CFIB Business Barometer, Industrial Product Prices
- **Friday 5/23** – Canada Retail Sales

Data scorecard as of May 14, 2025

| Equity Market Total Returns | | | | | | |
|-----------------------------|-----------------|----------------|------------------|--------|--------|--------|
| | 5/14/2025 Level | WTD | YTD | 2024 | 2023 | 2022 |
| S&P 500 | 5,893 | 4.1% | 0.6% | 25.0% | 26.3% | -18.1% |
| NASDAQ | 19,147 | 6.8% | -0.6% | 29.6% | 44.7% | -32.5% |
| DOW | 42,051 | 2.0% | -0.6% | 15.0% | 16.2% | -6.9% |
| Russell 2000 | 2,084 | 3.0% | -6.1% | 11.5% | 16.9% | -20.5% |
| S&P/TSX | 25,692 | 1.3% | 4.9% | 21.7% | 11.8% | -5.8% |
| MSCI EAFE | 9,219 | 0.7% | 14.1% | 3.8% | 18.2% | -14.5% |
| MSCI EM | 632 | 3.1% | 10.1% | 7.5% | 9.8% | -20.1% |
| Bond Market Total Returns | | | | | | |
| | | WTD | YTD | 2024 | 2023 | 2022 |
| Bloomberg U.S. Aggregate | | -0.7% | 1.5% | 1.3% | 5.5% | -13.0% |
| Bloomberg U.S. Treasury | | -0.8% | 1.6% | 0.6% | 4.1% | -12.5% |
| Bloomberg U.S. Corporate | | -0.4% | 1.0% | 2.1% | 8.5% | -15.8% |
| Bloomberg U.S. High Yield | | 0.9% | 2.4% | 8.2% | 13.4% | -11.2% |
| Bloomberg 1-10 Year Munis | | 0.0% | 0.5% | 0.9% | 4.5% | -4.7% |
| Bloomberg Canada Aggregate | | -0.5% | 0.5% | 4.0% | 6.5% | -11.3% |
| Bloomberg Canada Treasury | | -0.6% | 0.5% | 2.9% | 5.0% | -9.9% |
| Bloomberg Canada Corporate | | -0.1% | 1.4% | 6.9% | 8.2% | -9.5% |
| Government Bond Yields | | | | | | |
| | 5/14/2025 | Last Month End | Last Quarter End | 2024 | 2023 | 2022 |
| U.S. 10-Year Treasury | 4.54% | 4.16% | 4.21% | 4.57% | 3.88% | 3.88% |
| Canada 10-Year Government | 3.26% | 3.09% | 2.97% | 3.23% | 3.11% | 3.30% |
| U.K. 10-Year Gilt | 4.71% | 4.44% | 4.67% | 4.56% | 3.53% | 3.66% |
| German 10-Year Bund | 2.70% | 2.44% | 2.74% | 2.36% | 2.02% | 2.57% |
| Japan 10-Year Government | 1.45% | 1.31% | 1.49% | 1.09% | 0.61% | 0.41% |
| Currencies & Real Assets | | | | | | |
| | 5/14/2025 Level | WTD | YTD | 2024 | 2023 | 2022 |
| USD Index | 101.04 | 0.7% | -6.9% | 7.1% | -2.1% | 8.2% |
| CAD:USD | \$0.72 | -0.3% | 2.9% | -7.9% | 2.3% | -6.7% |
| Bitcoin | \$103,573.61 | 0.4% | 10.5% | 120.5% | 157.0% | -64.3% |
| Gold | \$3,177.25 | -4.4% | 21.1% | 27.2% | 13.1% | -0.3% |
| Oil (WTI) | \$63.15 | 3.5% | -11.9% | 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 According to CaixaBank Research, the percentage of total exports headed to the U.S. was 14% in 2023 versus 19% five years prior. Judging from recent stats, the trend has continued. China’s recently reported export figures showed a 21% drop in exports to the U.S. – but double digit increases to the ASEAN trading bloc, Latin America, Africa and India [China’s exports to US sink, offset by trade with other economies, as US tariffs hit global trade](#)

ⁱⁱ [China is leading the world in critical technologies that will SHIFT GLOBAL POWER DYNAMICS in years to come](#)