

WEEKLY STRATEGY Perspectives



Private Wealth

WEEK ENDED MAY 30, 2025

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Consumers – The (not so) Little Engine that Could

"I think I can. I think I can. I think I can. I know I can."

– *The Little Engine That Could*, by Watty Piper

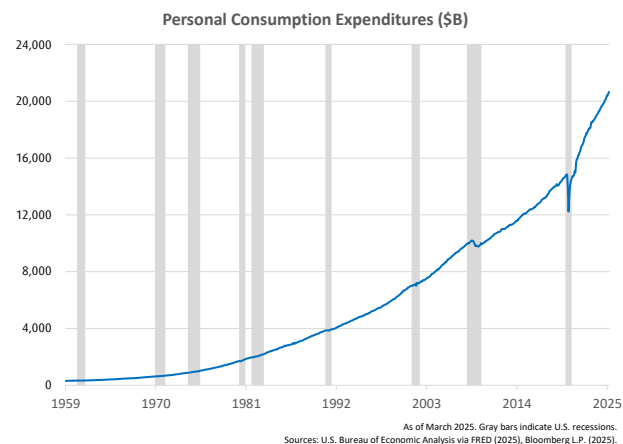
The Through Line: For months, the disconnect between sturdy economic data and steadily weakening sentiment readings has perplexed those trying to decode the market's long-term path. Which set of information would give way first – and in what direction would the resolution send capital markets? We suspect we got a sneak peak this week when one measure of U.S. consumer sentiment came in well above expectations. While attitudes and behavior can diverge at times, it is vital to understand and monitor consumer behavior given its outsized impact on the North American economy.

Grumpy consumers are not uncommon

Economists are quick to note that there's often a disconnect between how consumers feel about the economy and the way they actually behave. They will tell pollsters that they're unhappy about the level of prices or their job prospects, for example, and then go buy a couch or a new pair of jeans.

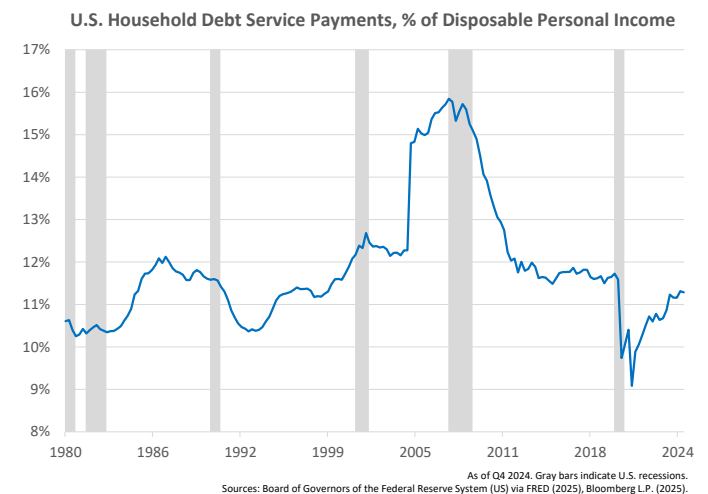
It's tricky because consumers often do not consume as economic models say they should: by carefully evaluating risk/return or cost/benefit tradeoffs. Sometimes they splurge in order to assuage their angst about life in general (post-pandemic revenge travel, anyone?). Sometimes they rationalize spending as "fulfilling their civic duty" in order to support an ailing economy (confessing for a friend). Sometimes they trade down or make substitutions (private label versus name brand, oatmeal instead of a three-egg omelet). These varying and conflicting motivations can make it difficult to assess their influence on economic outcomes.

Yet household expenditures have consistently made up well over half of GDP in both Canada (55%)ⁱ and the U.S., where the last quarter they registered an all-time high of 68.8%.ⁱⁱ So understanding consumer behavior past and potential matters A LOT. The chart shows that consumers are reliable spenders through thick and thin, seldom pulling back perceptibly – and even then, not for very long.



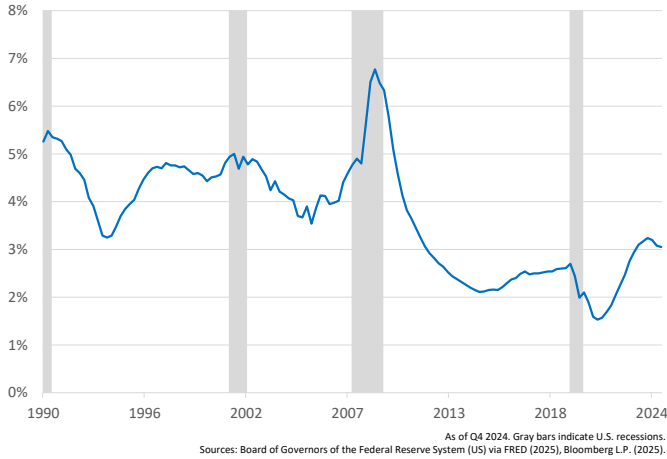
Assessing the fundamentals underlying a "typical" consumer

Before we tackle how consumers are feeling, let's level set with some basic fundamental underpinnings. Despite recent headlines decrying the uptick in debt service levels, for example, the chart below shows the reality: in aggregate they remain far below levels of the past nearly 25 years when viewed as a percentage of disposable personal income (DPI). Substantial fiscal stimulus, including suspension of student debt service, artificially depressed this ratio during and after the pandemic. It is only now returning to readings near those seen from 2010 to 2020.



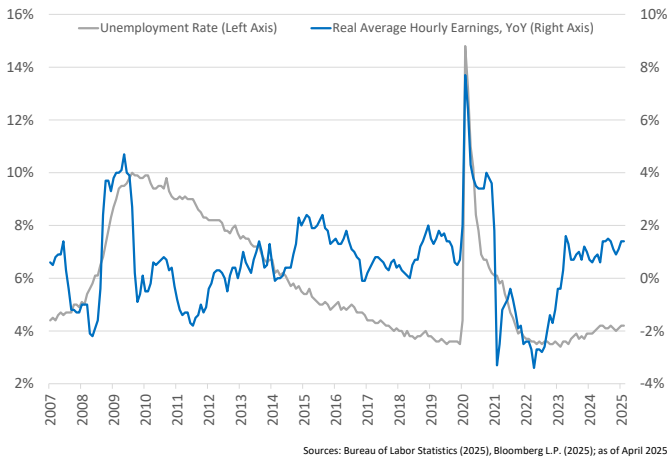
In absolute terms, credit card delinquency rates do show a spike relative to the 2008 great financial crisis (GFC) lows (delinquencies dropped in technical terms then as bankruptcies were expunged and reset obligations). Yet, they are still lower than they were in the decades preceding the reboot. **During the reporting season just ended, large money center banks and credit card companies noted they were not adding materially to loan loss reserves since consumers in aggregate maintained healthy incomes and balance sheets.**

U.S. Delinquency Rate on Credit Card Loans, All Commercial Banks



Dynamics in the labor market also remain healthy; unemployment has hovered in the low single digits for the last four years. Wages have been growing above the rate of inflation for the last few years as well. Given the tight labor market that lingered for much of the past decade (at times there were up to two job openings for every job seeker), companies have been reluctant to pursue widespread staff reductions even amid the acute uncertainty this year.

U.S. Unemployment versus Real Wage Growth



Underlying consumer fundamentals in Canada show growing strain caused by higher prices, lower GDP growth and higher unemployment.ⁱⁱⁱ On the other hand, the Bank of Canada’s aggressive rate-cutting campaign means average borrowing rates on credit cards and homes are markedly lower than those U.S. consumers face.

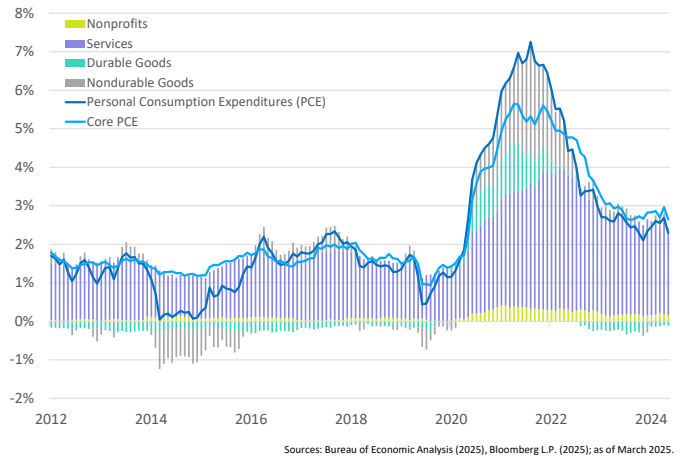
Not all consumers are created equal

While aggregate stats seem reasonable, consumers are not a monolith. In fact, top earners in the U.S. exert an increasingly large share of economic influence. Therefore, monitoring their financial health and intentions is vital in understanding the potential for aggregate economic progress. A recent article in *Forbes* (quoting data from Moody’s and the Bureau of Economic Advisors per the *Wall Street Journal*), notes that **the top 10% of U.S. households – those making over \$250,000 per year – account for nearly half of all consumer spending.**^{iv} Conversely, according to a study by the Bureau of Labor Statistics, the bottom 20% generate less than 10% of GDP.^v Although consumers in this bottom quintile may not have an outsized impact on GDP, they certainly wield influence in polls and at voting booths.

Consumers were just not feelin’ it

While the facts may look reasonable on paper, they don’t accurately express how people have been feeling. The transition to the new normal feels “off” thanks to the collective trauma of the pandemic coupled with a natural tendency to anchor to pre-pandemic prices (and forget about the extra fiscal stimulus from government cash payouts). Then, too, the way that price increases happened – hitting all aspects of prices (goods, energy services) after decades of services and energy deflation – seemed an affront to all the senses.

Contributions to U.S. Personal Consumption Expenditure Price Index (YoY)



This year’s market gyrations, tariff flip flops, DOGE cuts, flurry of executive orders/new policy initiatives and barrage of ever-shifting headlines have added to the mix. The result is sentiment readings mired at multi-decade lows.

Conference Board Consumer Confidence Index



A little break in the clouds?

While the decline in sentiment data was sharp, spread across several series and has persisted for several consecutive months – the first crack in the trend may have surfaced via this week’s Conference Board consumer sentiment report. A jump of more than 12 points in the year-over-year confidence level surprised even the most optimistic of prognosticators. The survey came after the thaw in the trade war with China was announced and markets bounced. Perhaps a stabilization in moods – and follow through in actual activity – can continue to support economic progress. When news came late Wednesday evening that a three-judge panel ruled President Trump’s Liberation Day “reciprocal” tariffs illegal (not all of them, just the ones enacted

under the auspices of a national emergency using the International Emergency Economic Powers Act), a risk-on market rally started in the futures market and rolled on around the globe.

Of course, one month does not a trend make. Then too, it remains to be seen what consumers will actually do if/when prices go up if companies choose to pass along some or all of the tariff-induced costs. During the most recent round of retail and consumer products earnings updates, managements outlined a variety of intentions related to absorbing, sharing or passing along price increases.

It is not new news that end users are exhausted from price increases levied during the last three to four years. This means that businesses' ability or willingness to pass along elevated costs will require careful navigation. Economists and central bankers alike will be attentively checking the pulse of top-tier earners' resilience.

Implications for investors

Markets and central bankers will be paying particular attention to what consumers say and do as the summer progresses, given their outsized contribution to GDP. An upturn in optimism instigated by continued strength in the employment market, the equity market rebound off its April lows, stabilization in the bond market and increasing clarity around trade and policy issues could translate into steady spending and contribution in the back half of the year.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Tariff and trade wars remain a front-burner issue –

Last Friday morning, President Donald Trump announced via Truth Social that beginning June 1 he intended to slap a 50% tariff on imports from the U.K. and 25% on any iPhones sold but not manufactured in the U.S. Markets declined amid light pre-holiday trading. Over the long weekend, however, a productive call with European Commission President Ursula von der Leyen prompted President Trump to restore a July 9 deadline to forge a deal; markets rallied strongly when they reopened on Tuesday. July 9 is also the day that the 90-day pause on most of the other reciprocal tariffs ends (China's reprieve ends later). While the size and shape of tariff policy on July 9 remains unknown, Treasury Secretary Scott Bessent noted in media interviews last week that he expects at least several deals to be announced shortly. Market participants are searching for a way to move beyond the ping-ponging, although that seems like wishful thinking until these next few dates have passed.

And for more late-breaking tariff news – on Wednesday evening, the U.S. Court of International Trade ruled that President Trump's use of the International Emergency Economic Powers Act to initiate his reciprocal tariff plan was illegal. Despite the administration's immediate filing of an appeal, futures and international markets rallied sharply, while gold fell. It's worth remembering that sectoral tariffs on steel, aluminum and auto parts are still in effect – with more on the way. Tariffs are unlikely to go quietly into that good night, no matter how badly the consensus wishes to move on. We expect the Trump administration will find other ways to deploy the tool as it proceeds with plans to remake global trading relationships.

Canada's new King, new government, new hopes – His Majesty King Charles III attended the State Opening of the 45th Parliament of Canada, delivering the Speech from the Throne and outlining the government's agenda. The speech, which is written by the party in power, is used to articulate the government's priorities. Ideally, a budget would have been presented, but Prime Minister Mark Carney has indicated we must wait until the fall for that. His Majesty reiterated that the government is aiming to build the strongest economy in the G7. It intends to dismantle all remaining internal trade barriers, speed up projects of national significance, help Canada become the world's leading energy superpower and deliver affordable housing. Additionally, the government plans to cap government spending growth to 2% annually by cutting waste, ending duplication and deploying technology to improve productivity.

Canadian retail sales beat modest expectations – retail sales rose 0.8% in March, slightly better than initial estimates. Sales ex-autos fell 0.7%, weighed down by gas stations (-6.5%, partially on lower prices). Spending ex-autos and gas (+0.2%) were thus higher for the second straight month. The flash estimate points to some firmness in April (0.5% increase), but the longer the trade war goes on, the more it will weigh on sentiment and spending.

Canadian consumer default rates increasing – Canadians are missing more payments according to an article from the Globe and Mail. Growing numbers of borrowers are struggling to make their monthly debt payments. Signs of strain are particularly acute among young people and Ontario residents; missed payments are rising even as many consumers cut back on spending, the data suggest. Excluding mortgages, the severe delinquency rate – the proportion of the total debt balance on which consumers have missed payments for 90 days or more – has reached 1.6%. That is its highest level since 2010, when Canada was reeling from the effects of the global financial crisis. Delinquencies are rising despite dialed back credit card usage. Average monthly spending per card holder in the first three months of 2025 was the lowest it has been since March 2022, according to Equifax Canada.

Canada bank results – Canadian banks started reporting their Q2 results. TD reported better-than-expected results, driven by U.S. retail banking, wealth and capital markets while Canadian operations missed on higher credit reserve built. The bank announced a sizeable cost savings program, which it expects will help future earnings. Results from Scotiabank were slightly below expectations on lower-than-expected Canadian earnings. The bank added to credit reserves and increased the dividend by 4%. Bank of Montreal and National Bank reported better-than-expected results and increased dividends.

Next Week

There will be plenty of data to parse from PMIs and ISM surveys in both countries. Wednesday has key central bank input via the Fed's Beige Book and a Bank of Canada rates decision. U.S. and Canada employment statistics on Friday round out the week.

- **Monday 6/2** – U.S. Manufacturing PMI and ISM | Canada Manufacturing PMI
- **Wednesday 6/4** – U.S. Services PMI and ISM, Fed's Beige Book | Canada BoC rates decision and press conference, Composite & Services PMIs
- **Thursday 6/5** – U.S. jobless claims, trade deficit, productivity | Canada Balance of Trade
- **Friday 6/6** – U.S. unemployment report | Canada employment reports

Data scorecard as of May 28, 2025

Equity Market Total Returns						
	5/28/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	5,889	1.5%	0.7%	25.0%	26.3%	-18.1%
NASDAQ	19,101	1.9%	-0.8%	29.6%	44.7%	-32.5%
DOW	42,099	1.2%	-0.4%	15.0%	16.2%	-6.9%
Russell 2000	2,068	1.4%	-6.8%	11.5%	16.9%	-20.5%
S&P/TSX	26,283	1.6%	7.5%	21.7%	11.8%	-5.8%
MSCI EAFE	9,378	0.2%	16.0%	3.8%	18.2%	-14.5%
MSCI EM	627	-0.6%	9.3%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.3%	1.9%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.2%	2.0%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.5%	1.7%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.6%	2.5%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.3%	0.8%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.8%	0.8%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.7%	0.7%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.6%	1.7%	6.9%	8.2%	-9.5%
Government Bond Yields						
	5/28/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.48%	4.16%	4.21%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.24%	3.09%	2.97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.73%	4.44%	4.67%	4.56%	3.53%	3.66%
German 10-Year Bund	2.55%	2.44%	2.74%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.51%	1.31%	1.49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	5/28/2025 Level	WTD	YTD	2024	2023	2022
USD Index	99.88	0.8%	-7.9%	7.1%	-2.1%	8.2%
CAD:USD	\$0.72	-0.8%	4.0%	-7.9%	2.3%	-6.7%
Bitcoin	\$107,335.72	-0.9%	14.5%	120.5%	157.0%	-64.3%
Gold	\$3,287.48	-2.1%	25.3%	27.2%	13.1%	-0.3%
Oil (WTI)	\$61.84	0.5%	-13.8%	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 [Canada Private Consumption: % of GDP | Economic Indicators | CEIC](#)

ⁱⁱ [US Private Consumption: % of GDP | Economic Indicators | CEIC](#)

ⁱⁱⁱ [Canadians missing more payments, as one default rate reaches crisis-era level - The Globe and Mail](#)

^{iv} [The Government Needs Wealthy Consumer Spending To Keep GDP Growing](#)

^v [BLS Distributional Study](#)