

# WEEKLY STRATEGY Perspectives



Private Wealth

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## Running the Gauntlet - How Businesses are Navigating Uncertainty

*"Everyone has a plan 'till they get punched in the mouth."*

- Mike Tyson

**The Through Line:** Business leaders entered the year with high hopes for a constructive economic backdrop. The events of the past few months have left many reeling, however, as trade wars, a volatile market and rapidly deteriorating consumer sentiment upended the status quo. Fortunately, most have become skilled at dodging and weaving thanks to a broad array of challenges they faced down over the past decade. The tools and tactics they are enlisting to deal with the current tests should leave them solidly positioned to thrive as clarity emerges.

### It all began so innocently

In the wake of last fall's U.S. elections that left Republicans in charge of both the legislative and executive branches, confidence ran high that American exceptionalism would continue to thrive. The economy had been growing at a faster clip than that of other developed countries, unemployment was low, productivity high, and inflation was headed (albeit bumpily) toward the U.S. Federal Reserve's 2% target. Equity markets were coming off a second year of 20% plus increases, with AI and cloud-services spend driving outsized results. Most watchers put the odds of a recession in the foreseeable future at essentially nil.

The icing on the optimism cake: the election outcome itself and expectations that President Donald Trump's second term would be a carbon copy of Trump 1.0, which began with business tax cuts and notable efforts to loosen regulation across a variety of industries. Wall Street firms staffed up for the M&A and IPO boom that was deemed imminent and companies from consumer goods and services to energy and mining prepped for an expected increase in demand. *Animal spirits were purring loudly.*

However, instead of a *carbon copy* (a.k.a. an exact replica), what quickly emerged was a mirror image. A spate of executive orders, the launch of DOGE and initiation of unilateral trade wars with the country's three largest trading partners dominated headlines in the first post-inaugural week. Add to the mix a competitive shock from a company called DeepSeek, and for businesses - no matter how tightly plans had been crafted coming into the year - we suspect more than a few felt "punched in the mouth" by the quick turn of events.

### Starting from the front foot

On the bright side, at least businesses in aggregate were starting from the front foot, with margins persistently above the levels of most of the previous 30 years (chart 1) and projected solid earnings increases (chart 2).

Indeed, according to FactSet's latest Earnings Insight report (5/30/25), the 98% of S&P 500 companies that have so far reported Q1 results can boast of an aggregate EPS increase of 13.3%.<sup>1</sup>

It is also worth remembering that **this is not the first round of significant challenges businesses have faced**. Tariffs have been part of the mix since President Trump's first term, though ordered differently (coming after tax cuts and regulatory relief) and admittedly in a less sweeping form. Companies have also been forced to work around supply chain disruptions caused by many factors including terrorist attacks in the Red Sea, port strikes on both the East and West coasts and weather-related disruptions (hurricanes on the East coast and freezes and fires in the Southwest). Then we saw the pandemic completely up-end consumption patterns (chart 3).

Chart 1  
S&P 500 Profit Margin

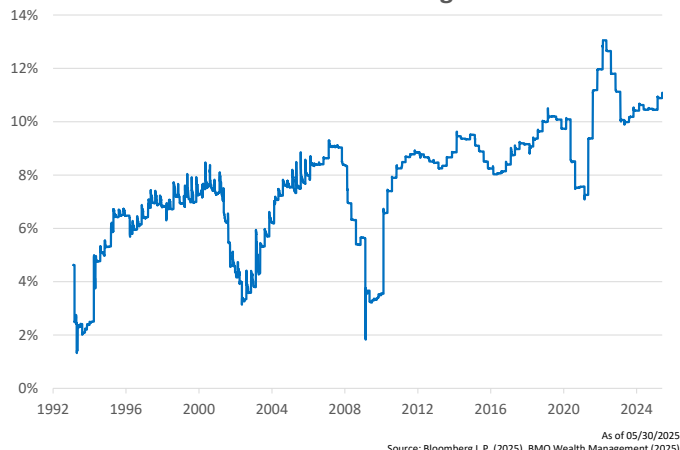
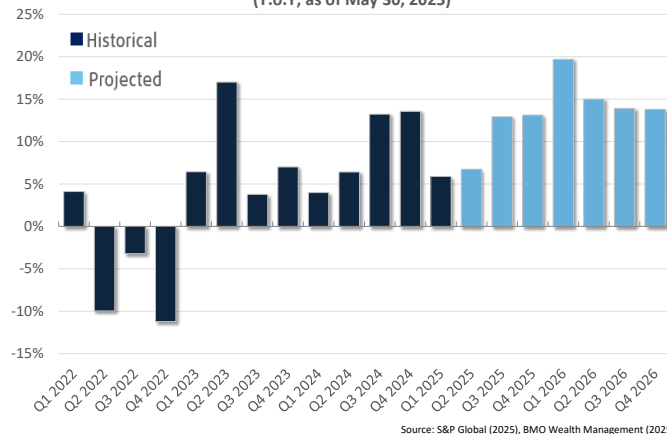


Chart 2

S&P 500 Projected Earnings Growth  
(Y.o.Y.; as of May 30, 2025)

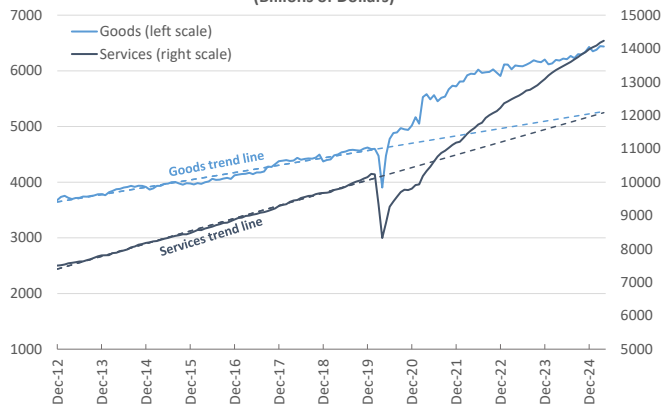


Source: S&P Global (2025), BMO Wealth Management (2025)

Chart 3

## U.S. Consumption: Goods vs. Services

(Billions of Dollars)



Source: Federal Reserve Bank of St. Louis (2025), BMO Wealth Management (2025)

## Business can't stand still

Uncertainty introduced by the synchronous assault of sensationalist headlines, DOGE cuts, tariff flip-flops, rapidly evaporating consumer confidence and evolving-on-the-fly policy has heads spinning. **Companies understandably can't adapt to each zig or zag as fast as capital markets can. Yet they can't really stand still, either,** because they must answer to shareholders, creditors, employees and owners.

Over the last month or so, investors have been able to peek into how companies were coping based on earnings calls, qualitative commentary from recent economic surveys and the Fed's Beige Book. These sources revealed a number of core coping activities:

- shifting supply chains or parts of supply chains to lower-tariff locales
- negotiating with vendors to cost-share
- reformulating or reengineering the composition or packaging (e.g., using plastic versus steel/aluminum)
- changing sizes or bundling units
- sidelining major growth projects/expansions BUT
- accelerating the adoption of cost-saving technology such as robots, cloud and AI
- slow-walking hires; executing surgical layoffs in overstaffed areas; allowing attrition to accelerate
- pausing or downsizing real estate expansions
- shelving IPO or M&A plans
- for publicly held entities – suspending or revising guidance relative to future earnings/revenues

In the short run, such activities help companies survive, though they can distract from more durable, long-term growth plans. **On the flip side, the intense attention to maintaining profitability with even more laser precision could prepare companies to be quick off the blocks as clarity emerges – which we suspect it will in coming weeks and months.**

The range of potential outcomes has already narrowed from “Liberation Day” levels – and may narrow further depending upon outcomes of legal challenges.

For those in the public arena, the expectations bar has been lowered – teeing up the potential for surprises if the economy stays steadier or additional margin-preserving measures are found.

## The economic numbers may be deceiving

While qualitative hints at impacts have been helpful, investors are yearning for more quantitative guidance, which is unfortunately tough to come by. The economic numbers have been distorted on both the consumer and business fronts as both segments either front-ran or froze activity. As such, a lot of watchers are choosing to ignore the numbers – making markets even more headline sensitive than they often are. **The hard data is likely to remain suspect, even though in many cases the data has been overwhelmingly better than many/most had projected.**

## Shifting the narrative

Even as companies continue to plan, prepare and adapt to the events that are already in flight, the administration is working to shift the collective focus toward more pro-growth topics. These include regulatory reform and pro-business tax reform such as the reinstatement of immediate expensing of R&D and expenditures for domestic plant and equipment. As we discussed here several weeks ago ([Weekly Strategy Perspectives: Riding Herd on a Budget Deal - BMO Private Wealth](#)), the House passed the Big Beautiful Budget Act, which contains such provisions and the Senate started debating it this week.

In addition to tax reform, the administration is also intensely focused on peeling back much of the regulatory creep that has beset business activity in recent years<sup>ii</sup> and accelerating permitting for new ventures. The sand in the gears of business is real – and particularly problematic for small and medium-sized businesses (which are less staffed) to muster the resources that facilitate compliance. A few statistics:

- The Center for American Entrepreneurship notes that the nation's cumulative Code of Federal Regulations has increased by 15% since 2010<sup>iii</sup>
- According to the Small Business & Entrepreneurship Council, the cost of regulatory compliance is over \$50,000/year for manufacturers with fewer than 50 employees<sup>iv</sup>
- Treasury Secretary Scott Bessent has noted that a key priority of the administration is “loosening the corset” applied to the banking industry in the wake of the 2008-09 GFC. Interestingly, in a recent survey, community bankers singled out regulatory burden as their top concern.<sup>v</sup>

The deregulation momentum isn't just a U.S. story. Canada, citing a desire to boost economic growth to counter U.S. tariffs, and recognizing the negative impacts of interprovincial trade barriers, is seeing several provinces, including the two largest, Ontario and Quebec, introduce legislation to help remove barriers across the trade of goods, services, energy and labor. At the federal level, Prime Minister Mark Carney has prioritized a fast-tracked (by Canada Day, July 1) dismantling of trade barriers between provinces and territories aimed at offsetting some of the Trump tariff pain. He also placed a deregulatory focus on the energy industry with the goal of speeding up approvals for new national-interest projects. The government wants to diversify Canada's customer base away from the heavy dependence on U.S. markets, and “make Canada into an energy superpower.”<sup>vi</sup>

## Implications for investors

While investors have found near-term headlines gut-wrenching for months, businesses have been forced to thread a careful needle through the ever-changing story in order to keep operations on track. Their adaptability and resilience have been noteworthy, and we expect to see them continue to execute.

The next quarter or two could remain sloppy as markets struggle to zero in on a lasting go-forward narrative and as policy issues sort themselves out. **Nevertheless, the back half of the year could be more supportive of risk markets, fueled by passage of the Big Beautiful Bill, settling of the thorniest tariff questions, a more accommodative Fed and continued corporate execution.**

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**U.S. employment data sends mixed signals** – Early in the week the JOLTS (Job Openings and Labor Turnover) report showed more job openings than analysts had expected, hinting that business health may be sturdier than pundits had projected. The lay off rate ticked up a little, while the quits rate ticked down – both in the ranges of recent activity. On Tuesday, the ADP labor report came in weaker than expected showing a paucity of openings. Bottom line: the data is as confused about current/near-future state as most watchers are. Expect Friday's monthly labor reports to be closely scrutinized by investors.

**U.S. "hard" data starting to show cracks** – the ISM services survey came in below expectations retrenching for the first time in nearly a year and dropping into contractionary territory (below 50). Not entirely surprising, in retrospect, given both DOGE cutbacks and trade-war induced corporate trims of more "discretionary" expenses. The fixed income markets strengthened, pushing yields downward as betting markets put the first of several anticipated rate cuts into September. The report showed prices paid increasing even as new orders declined.

**More trade war/tariff machinations** – as President Trump signed an executive order raising steel and aluminum tariffs to 50% from 25%. The revised steel tariffs include a five-week delay for the UK, to accommodate earlier negotiations. Mexico is seeking a similar delay. The steel and aluminum tariff actions are based on Section 232, placing them outside of the ongoing legal wrangling related to the broader International Emergency Economic Powers Act (IEEPA).

**Canada tariff uncertainty continues** – BMO Economics estimates that the increases in steel and aluminum tariffs raises the weighted average tariff on Canada to just under 6%, versus the roughly 4% in place previously (after various assumptions on USMCA compliance). Canadian steel and aluminum exports to the U.S. are running at CAD \$35 billion per year, or just over 1% of Canadian GDP. Quebec accounts for almost half of that (\$15 billion, or 2.5% of its GDP), so the impact is quite concentrated in that province. According to the U.S. Census Bureau, the U.S. imports about a quarter of all its steel, with major imports coming from Canada and Mexico.

**Canada generates a solid GDP print** – The Canadian economy looks to have held up reasonably well in the opening months of the trade war, and even the most recent figure for April suggests growth is weathering the trade storm. Canadian real GDP rose at a 2.2% annual rate in Q1, above expectations and one of the firmer performances in the G7 (GDP dipped in the U.S. and Japan last quarter), and even a bit above the prior quarter (revised down half a point to 2.1%). The details of the quarterly gain were much less impressive: if you exclude inventories and net exports, GDP fell a 0.1% annual rate. On the positive side, the flash for April was a surprisingly resilient +0.1%, in the very heart of the trade and election uncertainty, sending no obvious distress signals so far in 2025.

**The Bank of Canada decides** – For the second consecutive meeting, the BoC kept its key overnight lending rate unchanged at 2.75%. This steady pattern since March follows a whirlwind of cuts in the prior nine months, which saw the bank's rate tumble from 5% when the cuts first began a year ago. The decision was widely expected, although there was a small lingering chance that the Bank could move in the face of a weakening jobs picture. While the forward-looking statement suggests that the Governing Council is not eager to cut much further, BMO Economics suspects that a combination of softer activity and milder core inflation trends will prompt additional action. If inflation slows over the next couple of prints (we get two CPI releases and two jobs reports before the late-July meeting) and the economy slows as widely expected (we have much higher conviction on the latter than former), the door is still wide open for the BoC to cut rates in July.

### Next Week

A relatively light data week in both Canada and the U.S., with a business sentiment litmus test on Tuesday and consumer and business inflation reads on Wednesday and Thursday.

- **Monday 6/9** – U.S. Wholesale inventories, Consumer Inflation Expectations
- **Tuesday 6/10** – U.S. NFIB Business Optimism
- **Wednesday 6/11** – U.S. Inflation, CPI
- **Thursday 6/12** – U.S. jobless claims, PPI
- **Friday 6/13** – U.S. Preliminary June University of Michigan Consumer Sentiment | Canada Capacity Utilization, Manufacturing and Wholesale Sales

## Data scorecard as of June 4, 2025

Equity Market Total Returns						
	6/4/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	5,971	1.0%	2.1%	25.0%	26.3%	-18.1%
NASDAQ	19,460	1.8%	1.1%	29.6%	44.7%	-32.5%
DOW	42,428	0.4%	0.5%	15.0%	16.2%	-6.9%
Russell 2000	2,098	1.6%	-5.4%	11.5%	16.9%	-20.5%
S&P/TSX	26,329	0.6%	7.7%	21.7%	11.8%	-5.8%
MSCI EAFE	9,544	1.0%	18.1%	3.8%	18.2%	-14.5%
MSCI EM	632	1.4%	10.2%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.3%	2.8%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.2%	2.7%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.5%	2.8%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.3%	3.0%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	1.0%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.1%	1.1%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.2%	0.9%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.0%	2.0%	6.9%	8.2%	-9.5%
Government Bond Yields						
	6/4/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.36%	4.40%	4.21%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.23%	3.20%	2.97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.61%	4.65%	4.67%	4.56%	3.53%	3.66%
German 10-Year Bund	2.53%	2.50%	2.74%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.50%	1.49%	1.49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	6/4/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.79	-0.5%	-8.9%	7.1%	-2.1%	8.2%
CAD:USD	\$0.73	0.4%	5.2%	-7.9%	2.3%	-6.7%
Bitcoin	\$104,668.31	0.1%	11.7%	120.5%	157.0%	-64.3%
Gold	\$3,372.72	2.5%	28.5%	27.2%	13.1%	-0.3%
Oil (WTI)	\$62.85	3.4%	-12.4%	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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<sup>i</sup> FactSet Earnings Insight Report 05.30.2025

<sup>ii</sup> Federal Regulatory Reform Will Benefit All Americans

<sup>iii</sup> Regulation | Center for American Entrepreneurship

<sup>iv</sup> Small Business & Entrepreneurship Council

<sup>v</sup> Regulatory Burden Is Top Community Bank Concern in Annual Survey | CSBS

<sup>vi</sup> Mark Carney pledges to make Canada an energy superpower, proposes faster project reviews - The Globe and Mail