

WEEK ENDED JUNE 13, 2025

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Climbing the Wall of Worry

"Why, sometimes I've believed as many as six impossible things before breakfast."

– the White Queen, from *Through the Looking-Glass* by Lewis Carroll

The Through Line: Ironically, it seems the more fraught the short-term headlines become, the higher markets want to tiptoe. For the average investor, the sheer quantity of shifting variables can understandably prompt "freeze or flight" reactions and worry about events that might never occur. Yet focusing on the negative can obscure underlying positives and encourage behaviors that inhibit long-term financial progress.

Desperately seeking sanity

Similar to the irresistible urge to rubber neck an accident, it has been tough for investors to avoid getting caught up in headline ping-pong this year. Since U.S. President Donald Trump's Inauguration Day January 20, he has signed nearly 160 executive orders, initiating substantial change in virtually every corner of the average American's life. Administration officials and pronouncements have brought policy pivots to the global stage as well, roiling historic leadership/allyship roles within international cooperative organizations such as the IMF and World Bank and with a variety of country leaders. Further, during that time frame, the White House has made more than 50 tariff announcements, rescissions and/or revisions. The net result: **an average of at least one potentially market-moving headline per day**. No wonder my social media feed is filling up with messages like *"my desire to stay well informed is currently at odds with my desire to remain sane."*

For example, just this week and barely within a few hours of each other, we learned that trade talks with China were back on track (good news) while the potential for overturning all reciprocal tariffs – that a trade court ruled illegal a few weeks ago – would be put on hold until later this summer (bad news for those hoping for quick resolution). How is an investor to keep up, let alone nimbly adapt portfolio strategy?

Economic data is bent, not broken

In recent weeks, we've written about irrepressible consumers ([Consumers – The \(not so\) Little Engine that Could](#)), resilient businesses ([Running the Gauntlet](#)) and how American exceptionalism is dented, not down for the count ([American Exceptionalism – Down Not Out](#)). Collectively, they add up to a significant theme: resiliency. Pundits keep projecting doom, gloom and despair, yet the economy keeps chugging along sturdily – bending not breaking. For now, the "hard data" has

absorbed the shocks relatively well, thanks in no small part to the strong footing it started on. Employment has remained steadier than many had expected. Tariff impacts have yet to noticeably bleed through into inflation data, including tamer-than-expected consumer and producer price reports announced earlier this week. The sentiment ("soft") reports have shown more sensitivity to shifting headlines, although even they have begun to rebound with the most recent readings (chart).

National Federation of Independent Business
Small Business Optimism Index



Up the mountainside

After an initial period of heightened volatility, capital markets also seem to be doing their best to ignore much of the intraday drama. In fact, most U.S. stock averages are an eyelash away from all-time-high territory after resetting noticeably in the wake of the reciprocal tariffs announced on April 2. Many global bourses, including the S&P/TSX, are already there. **While pundits fret, markets climb, in a textbook example of scaling the "wall of worry." The \$64,000 question: can this continue?**

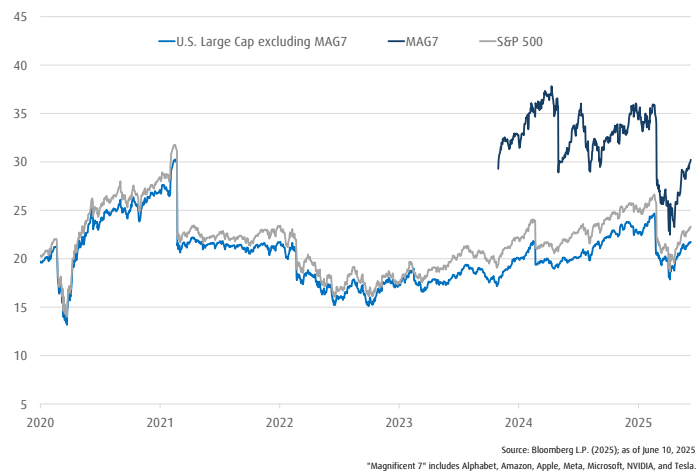
At the risk of being accused of looking at the world through very rose-colored glasses, here's a reminder of some of the factors being overlooked or discounted that maybe, just maybe, could support constructive markets in the back half of the year:

- **Aggregate economic numbers continue to come in well.** While there is undoubtedly mounting pressure on certain individual companies and within specific industries most impacted by tariffs already in place, others will benefit when customers substitute products/services, transitioned supply chains are maximized, or tariffs make domestically manufactured lines/items price competitive again.
- **Q1 results offered solid insights into the broad outlines of tariff impacts and responses.** Additionally, guidance was brought down in some cases, potentially teeing up back-half upside surprises if actuality proves less severe than forecast. Consumer-facing companies are well aware of end customers' weariness around price hikes and will, we suspect, do everything possible to avoid passing on the full brunt of the levies. Corporate balance sheets remain in solid shape with low leverage. Aggregate margins are high – theoretically providing flexibility to absorb at least some portion of any tariff hits an individual company faces.
- **AI, tech, infrastructure and grid spend continues.** Some non-tech projects have been put on hold. However, a primary thrust of both the tariff exercise and the Big Beautiful Bill Act (passed by the House and currently being discussed in the Senate) is supporting capital expenditures and boosting construction activity. Just this week, for example, GM announced plans to invest \$4 billion in upgrades and line changeovers in the U.S. as it redeploys manufacturing capacity from Mexico to existing U.S. plants.
- **This rethink is happening globally, too.** Canada, the EU and others are announcing upgraded plans for defense and infrastructure spend, plus enhancements to energy, food and pharma supply chains and partnerships. Many new trading blocs and defense relationships are being explored. Bottom line: **a global transition is underway. It should lead to a better-balanced and sustainable future featuring multiple key players that will replace reliance on a single consumer, defense or finance bloc.**
- **The worst of the tariff news has likely passed.** Many legal pundits believe there's a better than 50/50 chance that the trade court's unanimous ruling that these tariffs are illegal could be upheld. Subsequent court motions have left them in effect while the appeals work their way through the system. But, at a minimum, the stasis gives companies a chance to redirect supply chains in a more orderly fashion. Outlines of deals are starting to fall into place, including this week's constructive talks with China – and Canada. We're also hearing rumors of an impending deal with Mexico on steel.
- **Capital markets are functioning well.** Even during the days of highest volatility starting in early April (when tens of trillions of dollars in securities changed hands), bond yields have been orderly, stocks are back near or at all-time highs and market participation is actually broadening out from the MAG 7-dominated performance that drove the past few years (chart).

U.S. Large Cap excluding Magnificent 7 (MAG7)
vs. MAG7



Forward P/E Ratio



- **Valuations reset – if only briefly.** The MAG 7 continue to push aggregate index valuations higher, although their above-average margins, revenue and earnings growth arguably support such a stance. The S&P balance sheet has moved from being substantially more capital intensive back in the 1980s and early 1990s to being intellectual property and goodwill intensive today. Theoretically, balance sheets with lower capital intensity typically allow for higher margins and slightly higher valuation levels.
- **Animal spirits rousing.** Last week, a key initial public offering was released, ending its first day of trading more than 100% above launch price. Wall Street is watching closely, hopeful of resurrecting a number of other high-profile potential launches that were temporarily shelved during April's volatility. IPOs and M&A, as well as aspects of the BBB that are friendly to corporate growth, could create a virtuous cycle that supports continued broader market progress.

Implications for Investors

If we learned anything from the market gyrations of the last few months, it was to avoid acting in haste. Yes, the news flow was perplexing and worrisome at times. On the other hand, those who sold from emotion potentially missed the upmove that followed and/or bore trading and tax costs to get out and then back in.

The biggest challenge in trying to time markets is the necessity of making two right decisions: when to sell and when to get back in. *Getting back in is often the hardest part.* The wisest long-term investment decisions are often uncomfortable – sometimes acutely so – in the short-run. Markets seem to play by the 80/20 rule, where the bulk of up (or down) moves come in short spurts. Missing even a few of the best days can be detrimental to long-term performance.

While market timing (all the way out/in) seldom works, using volatility to rebalance (a.k.a. thoughtfully trimming winners and rounding up fundamentally sound investments that have underperformed in the interim) can help smooth the ride. This has been especially helpful over the past few years in particular given widely varying pullbacks in different sectors.

It is worth remembering that the financial media do not exist to make us feel comfortable with our portfolios; their goal is to generate clicks and attention. Bad news sells. Our innate survival mechanisms – so finely tuned to fight, freeze, or flee when confronted with angst-producing news – will urge us to react emotionally. A pause, a deep breath and a renewed focus on what could go right have the potential to provide footholds for scaling the worrisome wall.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. inflation CPI data is surprisingly tame – Wall Street pundits warning of inflation doom continue to resemble the boy who cried wolf. Both headline and core inflation rose less than expected in May, fueling an equity market rally on Wednesday. President Trump posted on Truth Social that the CPI print was “great” and once again urged the Fed to cut rates by a full percentage point. While worst-case scenarios have not materialized, the specter of tariff-driven inflation still looms. Commentary from Q1 earnings calls and the U.S. Federal Reserve’s May Beige Book suggest companies are tackling higher tariff costs through multi-pronged strategies: cost cutting; supplier pushback; margin compression; and, ultimately, price pass-through. Thus consumers are unlikely to feel the full impact of tariff increases. Even Walmart acknowledged its inability to fully absorb those costs due to already narrow retail margins. Many retailers built up inventories ahead of tariff implementation, which may be helping to limit the impact on CPI to date.

U.S. small business optimism ticks up – According to the NFIB survey, small business optimism rose in May to 98.8, up three points from April levels and ahead of the Bloomberg consensus forecast at 96. Business owners were more optimistic on the outlook for future business conditions and sales volumes. Although inflation, labor costs and labor availability remain among the major concerns for business owners, taxes climbed into pole position among concerns for the first time since December 2020. Despite the more positive composite reading, the Uncertainty Index ticked higher once again. Of the results, NFIB Chief Economist Bill Dunkelberg said, “While the economy will continue to stumble along until the major sources of uncertainty are resolved, owners reported more positive expectations on business conditions and sales growth.”

Progress in trade talks with China – U.S. and Chinese trade officials forged a new trade framework agreement after three days of intense negotiations in London. The deal effectively takes both sides back to square one, reverting to the 90-day arrangement made in Geneva last month – but with few new details. Hence investor enthusiasm was initially muted. The good news: a further downward spiral in bilateral relations has been averted. China pledged to lift export controls on rare earth metals and permanent magnets – measures that have been disrupting several U.S. industrial supply chains. This had been the top priority for U.S. trade officials. Commerce Secretary Howard Lutnick said the U.S. would ease some retaliatory trade restrictions on items such as aircraft components, while the average tariff on Chinese imports will remain at 55%. Structural issues surrounding trade balances and tariffs persist. At a minimum, this new agreement provides a foundation on which to rebuild negotiations.

Canadian employment firms – Head count at employers rose 8,800 in May, a bit firmer than consensus expected but not firm enough to keep the unemployment rate from rising a tick to 7.0%. First, the headline job gain was held back by a 32,200 drop in public administration when temporary election workers fell out. Second, the private sector overall saw a solid 60,600 advance in the month. The Canadian manufacturing sector is under intense strain amid the

deep trade uncertainty, and the overall job market continues to soften – highlighted by the grinding rise in the unemployment rate. While May’s employment report doesn’t give a clear-cut signal to the Bank of Canada, BMO Economics believes that the bigger trend of a rising jobless rate will keep the central bank very much in easing mode through the second half of the year.

Canada already feeling the impact of the U.S. Big Beautiful Bill – While the BBB is not yet a law, if it passes as proposed (specifically section 899), it may have some significant impact on Canadian businesses and investors. The bill provides remedies or tools against countries that have adopted a digital services tax (“DST”) or other taxes also defined as either unfair, discriminatory or extraterritorial. The bill does NOT target Canada specifically: nearly 20 other countries have DST (e.g., Germany, France, Australia). The bill allows the U.S. government to impose additional withholding taxes on dividends, capital gains and double taxation to Canadian investors who earn dividends, directly or indirectly, from their U.S. holdings. The *Globe and Mail* reported that Canadian wealth managers are starting preparations for potential U.S. tax hikes on foreign investors amid growing fears that the country’s Senate will approve U.S. President Donald Trump’s proposed tax bill.

Tough choices for the Bank of Canada – The BoC held policy rates steady last week, which was generally anticipated. 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. The bank is also looking at some very disturbing trade data: exports plunged 10.8%, the third biggest drop on record (behind only the GFC and pandemic). The three-month trend in exports is also deeply negative at -17.7%. Declines in April were broad based by sector, though unsurprisingly the geographic breakdown has losses focused on the U.S. Some certainty on the trade front would be a huge relief for Canadian businesses and has the potential to keep the bank on hold for even longer since it would need to assess the impact.

U.S. employment market steady but strained – Bloomberg Economics reported that the number of prime-age workers (25–55) leaving the labor force after being laid off has risen to the third-highest level in the past 50 years. The report notes that more than half of laid-off workers are exiting the labor force, citing limited confidence in the job market. Last Friday’s Non Farm Payrolls report showed that the unemployment rate held steady month-over-month in May at 4.2%, but labor force participation declined by 625,000. In like vein, the May Challenger report showed job cuts rose 47% year-over-year. In the first five months of 2025, employers cut 696,309 jobs—the highest level since 2020 and an 80% increase from the prior year. Andrew Challenger stated, “Tariffs, funding cuts, consumer spending and overall economic pessimism are putting intense pressure on companies’ workforces. Companies are spending less, slowing hiring, and sending layoff notices.”

Next Week

Global attention will be turned to the G7 meetings Canada is hosting June 15 to 17. President Trump and members of his administration are planning to be there. It's a data-heavy week that will see key business sentiment surveys in both Canada and the U.S. plus hard data reads from business and consumer constituencies.

- **Monday 6/16** – U.S. Empire State manufacturing survey | Canada housing starts
- **Tuesday 6/17** – U.S. Retail sales, Industrial production, Capacity utilization, Business inventories
- **Wednesday 6/18** – U.S. FOMC rates decision and Press Conference, Initial jobless claims
- **Thursday 6/19** – Canada CFIB Business barometer
- **Friday 6/20** – U.S. Philly Fed manufacturing survey | Canada Housing prices, Retail sales, PPI

Data scorecard as of June 11, 2025

Equity Market Total Returns						
	6/11/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,022	0.4%	3.0%	25.0%	26.3%	-18.1%
NASDAQ	19,616	0.5%	1.9%	29.6%	44.7%	-32.5%
DOW	42,866	0.3%	1.6%	15.0%	16.2%	-6.9%
Russell 2000	2,148	0.8%	-3.1%	11.5%	16.9%	-20.5%
S&P/TSX	26,524	0.4%	8.6%	21.7%	11.8%	-5.8%
MSCI EAFE	9,566	0.5%	18.4%	3.8%	18.2%	-14.5%
MSCI EM	653	2.3%	13.8%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.7%	2.7%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.5%	2.5%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.7%	2.7%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.2%	3.3%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	1.1%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.1%	0.4%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.0%	0.2%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.0%	1.6%	6.9%	8.2%	-9.5%
Government Bond Yields						
	6/11/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.42%	4.40%	4.21%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.35%	3.20%	2.97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.55%	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	1.46%	1.49%	1.49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	6/11/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.63	-0.6%	-9.1%	7.1%	-2.1%	8.2%
CAD:USD	\$0.73	0.2%	5.2%	-7.9%	2.3%	-6.7%
Bitcoin	\$108,933.11	4.2%	16.2%	120.5%	157.0%	-64.3%
Gold	\$3,355.12	1.4%	27.8%	27.2%	13.1%	-0.3%
Oil (WTI)	\$68.15	5.5%	-5.0%	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.



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