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## Sketching the Second Half

*“Wall Street, in the main, hates uncertainty, which manifests itself in depressed share prices of companies whose prospects lack ‘visibility.’ But where the market can err is in confusing uncertainty with risk.”*

– Whitney Tilson

**The Through Line:** After a fraught first half of 2025 spent grappling with a host of uncertainty-inducing surprises, investors are ready for a bit of clarity. Recent events have settled some issues – and kicked others farther down the path. Still, we think enough visibility is emerging in key areas to paint a constructive portrait for the second half and beyond.

### The second half’s stepping off point

U.S. capital markets managed a solid first six months despite numerous potential news hits that could’ve done lasting damage. When the final numbers were tallied, the S&P and NASDAQ were both up 6%, although it took an 11% late-stage rally in the former and an 18% advance in the latter to get there. Fixed income yields were solidly within expected ranges (4.25% to 4.75% on the 10-year U.S. Treasury) and credit spreads remained disciplined. Global markets were up even more; the MSCI EAFE advanced 20% and the MSCI Emerging Markets Index was up 15%. The S&P/TSX advanced over 9%.

Investors largely chose to ignore chaotic headlines, focusing instead on economic, corporate and consumer fundamentals, which remained solid. In the U.S., consumers were employed and spending (albeit with increasing discernment and price sensitivity). Corporate margins remained near all-time highs despite increased average tariff rates and the machinations deployed to position for even higher levies to come. In addition, inflation proved tamer than even the most optimistic pundits had expected. Even sentiment surveys (which had declined sharply earlier in the year) were up. **When all was said and done, elements were teed up for a constructive handoff to the back half of the year.**

### Skies partially clearing

Despite this week’s raft of tariff letters, social media posts and conflicting answers to various media inquiries, the second half of the year is actually starting with clearer outlines on several core issues:

**Taxes** – The signing of the One Big Beautiful Bill Act on Friday, July 4, brought U.S. businesses several immediate wins in the form of codifying tax credits for immediate expensing of research

& development (R&D); 100% bonus depreciation for qualified property put into service from January 19, 2025, onward; and the 20% deduction for qualified business income from pass-through entities. **The tax credits themselves – and the fact that they are now permanently enshrined in U.S. law – could reboot growth and expansion plans that had been put on the back burner at the start of the year.**

**Geopolitics** – In light of the many potential hot zones and issues, global politics seem suspended in a delicate stasis at the moment. The Israel/Iran conflict was quickly contained; Israel and Hamas seem to be progressing toward at least a temporary cease-fire; President Donald Trump has ordered U.S. military support of Ukraine to resume; and the U.S. is still an active participant in NATO, with other member nations agreeing to greatly increase their support of the global order. **While war is certainly tragic on a human level, relative geopolitical stability is helpful to market psyche in that it can de-escalate concerns relative to energy and supply chain disruptions.**

**Deregulation is ramping up** – A core set of Republican campaign promises revolved around reducing regulatory burdens on a variety of industries and suggesting a more amenable environment for business tie-ups. Banks in particular have been recent beneficiaries of initial steps here, with reduced capital requirements announced a few weeks ago. A number of the largest banks immediately boosted dividend payments. Global bank regulators have subsequently engaged in discussions about backing away from some of the more restrictive parts of global banking agreements (Basel III), potentially freeing up hundreds of billions in capital to support stepped-up international commitments for infrastructure, defense and supply-chain enhancement lending. **The prospect of lighter-touch regulation, more receptive views of potential merger & acquisition (M&A) activity and ready pools of capital has animal spirits purring again.**

## Key calls for the second half

**Tariff and trade policy moves toward clarity** – The 90-day pauses for all but China’s “reciprocal” tariffs were set to expire this week. President Trump issued an executive order on Monday, however, pushing the expiry out a few weeks (August 1). These levies were the ones applied in blanket fashion to an entire country using a special “emergency declaration” power that is currently being challenged in the courts. *Sectoral tariffs*, on the other hand, are those applied to specific goods. They have been initiated under different (and more legally defensible) clauses and could cause disruption and/or collateral damage in a host of places. Examples include the 50% levied on steel and aluminum – impacting derivative products like appliances – as well as the 25% on autos. Mr. Trump announced a 50% tariff on copper imports this week, which immediately prompted a spike in that commodity’s price. Investigations are currently ongoing for lumber, semiconductors, chip-making equipment, pharmaceuticals, heavy trucks, critical minerals, commercial aircraft and jet engines.<sup>1</sup>

The further out the potential full-country levies are pushed, the closer they come to potentially being overturned. Sectoral levies, on the other hand, will benefit some and challenge others. These dynamics keep decision-making complicated for companies wondering how to rearrange supply chains – and for analysts trying to project net bottom lines. **Although the ultimate rate will be higher than the low single digits that prevailed at the start of the year, most pundits expect the final aggregate tariff rate to land somewhere in the mid-teens – not far from where it currently sits.**

**Tax law changes and lighter regulation could accelerate business activity** – This is especially true when they are added to the private investments already in flight for AI, technology, robotics, cyber security, reshoring and supply-chain shifts. M&A, IPO, CapEx, plant retooling and expansion plans are also examples that could help start a virtuous competitive cycle that would support sturdy capital markets and employment. Recall also that the banking system’s loosened capital requirements are freeing more growth capital, which is currently burning a hole in big bank pockets. With Q2 earnings report season shifting into high gear next week, earnings calls should offer plenty of fundamental insights. Then, too, estimates for aggregate earnings have been reduced from low double digits to low single digits. Keep in mind that many companies suspended or reduced guidance in Q1, though this was before the reduction in many tariff rates and may therefore set the stage for earnings and revenue beats if the impacts are more muted than projected. Just this week, for example, Delta Airlines reinstituted guidance with a more constructive outlook for the second half.

**The U.S. economy could continue to surprise** – If business activity runs stronger, employment levels should remain steady (though some underlying components could prove sloppy as repositioning between the public and private sectors continues). Deportation activities could continue to pressure specific industries while businesses in other places benefit from the ongoing deployment of robotics, AI, migration to the cloud and other cost-saving strategies. Understanding specific tariff impacts is still more art than science given 1) final levies are not yet nailed down and 2) it remains to be seen who (and in what proportion) will ultimately pay the tax – manufacturer, supplier, distributor, importer, exporter, consumer. Thus, aggregate economic numbers could be a bit cloudy in the short run as things sort themselves out. The remaking of entire sectors – arguably the entire economy – is bound to be lumpy, even

if the long-term goal is laudable. Globally, increased spending on defense, infrastructure and the remaking of supply chains could form a stable underpinning for economic activity. The set-up is there, but a critical pivot point will be if the U.S. can stay out of its own way and avoid implementing inconsistent trade policy.

**Fed policy will stay steady, but political pressure will increase** – We expect the U.S. Federal reserve – like other central banks – to keep its head down and go about its business. But sturdiness in the jobs market and continually pushed-out tariff “end dates” may well keep the Fed’s rate-setting body, the FOMC, on the sidelines until late fall at the earliest. Though we expect the Fed to begin cutting at some point – and continue the process into 2026 – we anticipate the political pressure (and financial media coverage of it) will intensify the longer the Fed waits.

**Capital markets continue to function well** – Volatility spiked substantially in early April when reciprocal tariffs were initially announced. Markets recovered quickly, however, and have become adept at adjusting to unfolding events. Despite this, we do expect bond markets to keep a close eye on the progress of debt and deficits, particularly as the price tag of the OBBB in its final form becomes clearer. Key yields have drifted lower recently, perhaps cheered by recent comments from Treasury Secretary Scott Bessent that government will continue to fund its needs in the short-term bills market rather than increase issuance of long-term debt.

With equities back at/near all-time highs, valuations are not overly cheap based on current earnings. Market participants seem to be both looking through the next few lumpy quarters and starting to contemplate how 2026 might unfold. Interestingly, the U.S. dollar held up well during Monday’s tariff-induced volatility. Compare this to what happened during April’s tariff tantrum when the greenback declined. **We expect markets to remain headline driven, particularly in weeks like this one with a dearth of fundamental news or economic reports to anchor to, but we expect to see them migrate higher as the year progresses.**

**New U.S. policies will continue to catalyze substantial activity elsewhere** – President Trump’s successful visit to the NATO summit – where member countries agreed to increase spending on defense and defense infrastructure – is just one example. In *Canada*, election outcomes, a growth-focused budget, accelerated permitting, fiscal stimulus to encourage consumption, trade negotiations with the UK, EU and India, the removal of inter-provincial trade constraints, plus planned increases to defense spending are all a direct result of new policies and headlines generated by the U.S. *Germany* has removed the debt break implemented after the GFC, ramping up spending on infrastructure and defense. *EU and NATO members* are also working to renegotiate trade alliances and limit an expected flood of cheap Chinese goods diverted from U.S. markets. *ASEAN nations*, including Japan, China and South Korea, are negotiating new trade and security arrangements.

## Implications for investors

In a period chock full of stunning headlines, major policy shifts and intensified uncertainty, global markets rose to the challenge. While short-term periods were volatile, investors seemed to pivot quickly to find the fundamental breadcrumbs and suss out where the true risks may lie. As the second half unfolds, we expect continued clarity to emerge, providing a continued constructive backdrop for global capital markets.

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**U.S. labor readings remain strong** – Last week's nonfarm payrolls report showed 147,000 jobs added in June, well above the Bloomberg consensus forecast of 106,000. A deeper dive into the data suggests the result may not be as positive as the headline implies. Private sector job growth in June was only 74,000. Government hiring accounted for 73,000 new jobs, driven by state and local additions, while federal employment fell by 7,000. The unemployment rate declined to 4.1% from 4.2% in May. Again, a seemingly positive headline, but one that reflects math more than reality. **Over the last two months, employment has declined by 603,000 while labor force participation dropped by 755,000.** A smaller denominator in the unemployment rate calculation explains the decline. Looking ahead, significant uncertainty remains around labor market forecasts. Immigration policy could hollow out the labor force in sectors like construction and leisure. Youth unemployment is rising, potentially an early sign that artificial intelligence (AI) is reducing the number of entry-level jobs. The impact of federal government job cuts also looms, with a Supreme Court ruling this week clearing the way for the Trump administration to proceed with thousands of layoffs. **Taken together, the data reinforce the view that surface-level strength may be masking deeper imbalances in the labor market.**

**U.S. Fed speak** – FOMC minutes from the June meeting indicate members had become slightly more positive on the economic outlook compared to May, though most remained concerned about the upside risk to inflation from tariffs. Many anticipate a gradual softening in labor market conditions. While a few participants expect tariff-induced price increases to be a one-off, most see a risk of persistent inflation. These members believe it could take time for the effects of tariffs to move through supply chains and into final prices. **There was broad agreement that considerable uncertainty remains regarding the ultimate impact of tariff policy.** Many members noted that a quick resolution to trade negotiations would provide greater clarity and reduce risk. In the meantime, FOMC members agreed that economic growth remained solid and labor markets strong, supporting a patient approach in June. Most participants still see upside inflation risk as the dominant concern and believe the Fed can afford to wait for tariff policy to evolve and provide greater clarity.

**U.S. tariff and trade policy** – Earlier this week, President Trump announced his intent to apply a 50% tariff on copper imports and a 200% tariff on pharmaceutical product imports. The copper tariff is likely to be implemented on August 1, while the pharmaceutical sector will have a year to a year and a half to develop strategies for mitigating the impact. The market's initial reaction was negative, but these announcements may ultimately serve as a negotiating tactic rather than final policy. Around half of the copper consumed in the U.S. is sourced from imports. Even the threat of tariffs has pushed domestic copper prices to a significant premium

over international levels. The same dynamic is evident in steel and aluminum, which already face 50% tariffs. **These elevated commodity prices make U.S. manufacturers less competitive and have weighed on the construction sector.** Maintaining 50% tariffs on these three metals would likely prove difficult, creating more economic harm than benefit.

In the wake of COVID-19, both political parties have viewed the high level of pharmaceutical imports as a national security concern. The Biden administration aimed to spur pharmaceutical reshoring through incentives in the American Rescue Plan and the CHIPS and Science Act, while the Trump administration is turning to tariffs and deregulation to drive a similar outcome. Over the last several years, the pharmaceutical industry has announced \$215 billion in reshoring investment – momentum that appears poised to continue given ongoing policy support and supply chain realignment.

**Canada GDP** – Canadian real GDP dipped 0.1% in April; the early read on May is for another 0.1% pullback. April's result was fully two tenths shy of StatCan's initial reading on the month. The 0.1% drawdown in April GDP involved a wide variety of special factors at play in that month of high drama. By far the biggest drag was a steep 1.9% fall off in manufacturing, including a 5.2% drop in the auto sector as firms dealt with the initial wave of tariffs plus some further pullback after earlier tariff front-running. May's expected drop was due in part to the reversal of the election bump in public administration spending but was also due to softness in the resource sector and retail trade. Overall, BMO Economics suspects that GDP likely dropped at about a 0.5% annual rate for all of Q2 and may come close to that in Q3. While this is certainly not good news, it's also a less dire outcome than was expected a few months back at the height of the tariff drama.

**Canada's deficit likely higher** – Canada's fiscal picture is becoming cloudy, given that the current government did not table a post-election budget and the costed platform has been rearranged by the evolving economic outlook and shifting policy priorities. Most estimates for Canadian deficits (PMO office C\$46.8 billion, and Liberal platform C\$62.3 billion) likely underestimated the impact from a weaker economy, lower revenues and a boost in defence spending. BMO Economics estimates that the weaker economic environment and fiscal sensitivities could cause roughly C\$3 billion of downside risk this fiscal year. A personal income tax cut, scrapping the capital gains inclusion, no GST on new home purchases and removal of the digital services tax are likely to cost C\$7 billion in revenues. About C\$8 billion of incremental spending above the election platform may be pulled into fiscal year 25/26. However, potential offsets could be launched: delay some infrastructure spending; start government efficiencies early; and slowly ramp up defence spending. All told, it wouldn't be surprising to see the federal deficit jump toward C\$80 billion, or about 2.5% of GDP, versus C\$48 billion last estimated for fiscal year 24/25.

## Next week

A week chock full of meaty economic reports including several manufacturing indexes, the PPI, consumer confidence and the Federal Reserve's periodic snapshot of regional health in the U.S. Earnings season starts with big banks. Canada also has important reads on inflation and manufacturing growth.

• **Monday 7/14** – Canada Wholesale sales

- **Tuesday 7/15** – U.S. CPI, Empire State manufacturing Index, Industrial production and Capacity utilization | Canada Housing starts, CPI, Manufacturing sales
- **Wednesday 7/16** – U.S. PPI and Fed Beige Book
- **Thursday 7/17** – U.S. Initial jobless claims, Retail sales, Philly Fed, Business inventories | Canada CFIB Business Barometer
- **Friday 7/18** – U.S. Consumer sentiment | Canada

## Data scorecard as of July 9, 2025

Equity Market Total Returns						
	7/9/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,263	-0.3%	7.2%	25.0%	26.3%	-18.1%
NASDAQ	20,611	0.1%	7.1%	29.6%	44.7%	-32.5%
DOW	44,458	-0.8%	5.4%	15.0%	16.2%	-6.9%
Russell 2000	2,252	0.2%	1.7%	11.5%	16.9%	-20.5%
S&P/TSX	26,972	-0.2%	10.7%	21.7%	11.8%	-5.8%
MSCI EAFE	9,685	0.3%	19.8%	3.8%	18.2%	-14.5%
MSCI EM	665	-0.3%	15.9%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.0%	3.6%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.1%	3.3%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		-0.2%	3.8%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		-0.1%	4.7%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.2%	2.1%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.1%	0.7%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.1%	0.3%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.0%	2.0%	6.9%	8.2%	-9.5%
Government Bond Yields						
	7/9/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.33%	4.23%	4.23%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.37%	3.27%	3.27%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.61%	4.49%	4.49%	4.56%	3.53%	3.66%
German 10-Year Bund	2.67%	2.61%	2.61%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.50%	1.43%	1.43%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	7/9/2025 Level	WTD	YTD	2024	2023	2022
USD Index	97.56	0.4%	-10.1%	7.1%	-2.1%	8.2%
CAD:USD	\$0.73	-0.6%	5.1%	-7.9%	2.3%	-6.7%
Bitcoin	\$110,758.81	2.8%	18.2%	120.5%	157.0%	-64.3%
Gold	\$3,313.66	-0.7%	26.3%	27.2%	13.1%	-0.3%
Oil (WTI)	\$68.38	2.1%	-4.7%	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> Section 232 Investigations