

# WEEKLY STRATEGY Perspectives

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## Spooky Season

*"Double, double, toil and trouble; Fire burn and cauldron bubble."*

– William Shakespeare, *Macbeth*

**The Through Line:** Love it or hate it, pumpkin spice season is back. Along with it comes seasonal tales of statistically weak (September) and psychologically intimidating (October) potential market movement. While volatility is likely to reappear, sturdy fundamentals should support a continued grind higher. We outline the important ingredients to monitor to ensure the brew is steeping as expected.

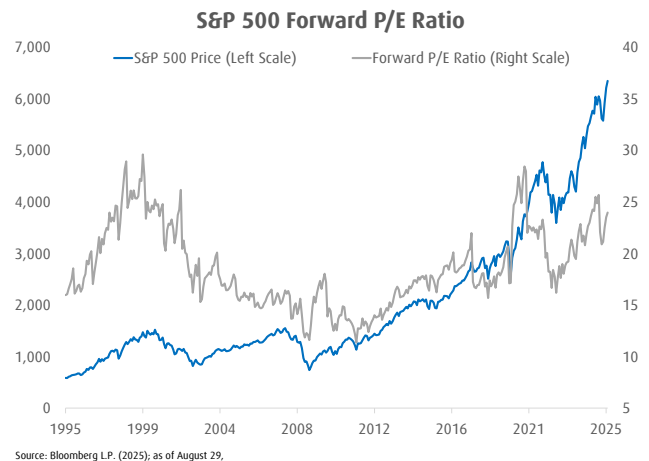
## Stepping off in fine style

Traders returned after the final long weekend of summer in a decidedly sour mood that pushed stock and bond prices down sharply on the first post-Labor Day trading session. Gold, crypto currencies and other diversifying assets rallied.

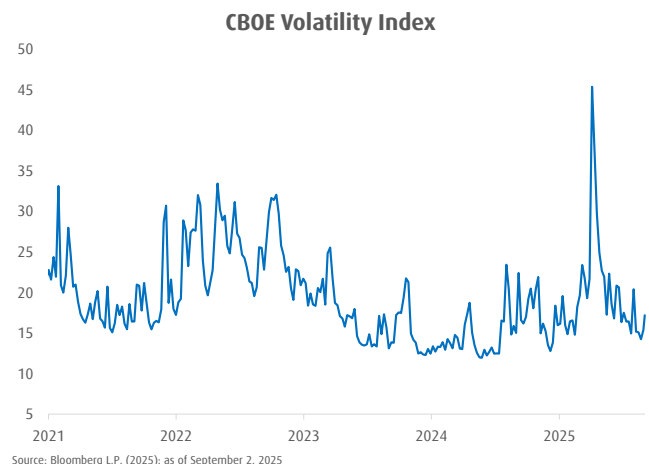
Some give back was perhaps not surprising in light of the strong performance generated in August. Most indexes ended the month near all-time highs; the S&P 500 and NASDAQ advanced 1.9% and 1.6%, respectively. In a key indication of broadening participation, the Russell 2000 small cap index was up 7.0%, though the index continues to lag on a year-to-date basis. The S&P/TSX also ended at record highs, up 4.8% on the month.

As we noted last week ([WSP - Seeking Sanity in a World Gone Delulu](#)), a much stronger than originally anticipated earnings season helped ground the market's performance. FactSet's updated earnings scorecard (8/29/25) showed that with 98% of S&P 500 companies reporting, aggregate earnings growth was 11.9% – **the third consecutive quarter of double-digit increases**.<sup>1</sup> Even after excluding Mag 7 results, aggregate earnings growth was close to 6% versus the approximately 0% expected at the beginning of the period.<sup>2</sup> Top-performing sectors included technology, communication services and financials – hinting at an overarching growth thematic.

Market valuations, despite the better-than-expected quarter, moved to multi-decade highs (aside from the anachronistic, pandemic-induced temporary spike). Based on Bloomberg estimates, the forward P/E was in the mid-20s by August end.



As stocks advanced, volatility fell. Wall Street's so called "fear index," the VIX, traded at its lowest value in nearly a year. Tame fear readings are especially noteworthy coming off the sharp April spike and the continued flow of concerning headlines that flowed all month.



## Seasonal challenges

As August drew to a close, the combination of markets at all-time highs, full valuations and low volatility left investors nervous. Psyches were primed for a potentially stressful start to September given its almost mythical reputation as a period that generates poor returns. The so-called September effect has been much dissected in the media during the last few weeks. Observers noted negative returns over half the time, depending upon the time period selected. However, *Investopedia* points out that the statistics are a bit overwrought. Although the average return has been slight negative since 1928, the median return has actually been positive.<sup>iii</sup>

Fall has a somewhat frightful connotation in general. Many of the most notorious market declines came in October (1929, 1987, 1997, 2002, 2008). An additional sharp decline, precipitated by a devaluation of the Russian ruble and the demise of the high-profile hedge fund Long Term Capital Management, occurred in August/September 1998, lending even more fodder to the spooky season lore.

Behavioral scientists teach us that human beings are hardwired to seek order and infer patterns. Hence the fascination for analyzing prior market periods, searching for clues about what lies ahead. Such activities often ignore the historical contexts that differ drastically from the current situation. For example, there's a lot of chatter that only one of the past five Septembers saw positive returns. Raise your hand if you think the current backdrop bears even the slightest resemblance to what was going on in any of the last five Septembers – starting with pandemic 2020. **Instead of focusing on past patterns, it might be wiser to home in on which factors support or undermine the fundamental footings.**

## What markets will be watching

Media attention will likely remain preoccupied by a multitude of recent themes – everything from who's on the list and turnover at the CDC to whether Congress can work its way through a shutdown showdown. Geopolitics and trade tensions will also continue to generate clicks.

Investors, on the other hand, tend to look beyond much of the interim noise and focus on a decidedly narrower inventory of issues. **Equity investors care about growth**, emphasizing factors that will support or boost economic progress, particularly if that growth is generated in non-inflationary ways. **Fixed income investors care mostly about return of their capital at some future date** – and the likelihood that the entity that borrowed the funds will be able to repay. They also hope what they get back delivers purchasing power at least equal to its value when they lent it. Even at low levels, inflation can substantially erode the base amount lent, particularly over long holding periods. TIPs (Treasury Inflation Protected) securities in the U.S. and RRBs (Real Return Bonds) in Canada are examples of vehicles that have been created to help address this impact.

In the next few weeks we'll see some core touchstones:

- **Employment data** – Release of key data is on the horizon, including Friday's Non-farm Payrolls report. We noted last week that during his recent Jackson Hole speech U.S. Federal Reserve Chairman Jerome Powell called out the "curious state"

of the labor market. His comments seemed to prep listeners for the idea that downward pressure on both the supply of and demand for labor were working to keep the overall jobs market in a delicate balance. Thus reports like the NFP, plus readings from ADP, weekly jobless claims and the Job Openings and Labor Turnover surveys (JOLTs), will help create a picture of worker health. *It matters because employed people tend to consume and consumption accounts for more than two-thirds of economic growth.*

- **Inflation** – Next week the CPI and PPI reports will be released. Investors will be carefully watching for hints that tariffs are bleeding into end user costs (CPI) or are likely to impact margins during Q3 reporting season (via increases in PPI components). Another reading of the Fed's preferred inflation measure, the Personal Consumption Expenditures index, is also on the docket. *Softer-than-expected readings would likely cheer markets because they would allow the Fed's Open Market Committee more wiggle room to resume cutting rates when it meets the week after next.*
- **Central bank rates decisions** – On September 17, both the U.S. FOMC and the Bank of Canada will announce their next rate decisions. At Jackson Hole, Chair Powell opened the door to a cut of 25 basis points. BMO Economics expects the BoC to cut 75 basis points over the next few quarters, but it most likely won't start chopping until the October meeting. Canada's central bank has already initiated 225 basis points of cuts over the past two years.
- **Core economic data** – The oft-repeated adage that the markets are not the economy is true in one sense: market indexes are dominated by industries that are different than those represented by GDP (e.g., gold miners in the TSX). On the other hand, economic progress often has a noticeable influence on market action – especially since markets focus on growth and creditworthiness. This week key data on manufacturing and services (purchasing manager indexes and Institute of Supply Management surveys) offered insight into inventory management, tariff/trade policy impacts, hiring, wages and capital expenditure plans. *The early read is more reinforcement for the delicate labor balance and a nauseously optimistic stance that business has maintained all year.*
- **Yields on long-bonds** – Yields on short-term U.S. government debt have moved down more than 10 basis points since Chair Powell's Jackson Hole speech, anticipating the restart of the Fed's rate-cutting campaign. Yields on 30-year Treasuries have moved up in recent days, however. Traders are carefully weighing the government's fiscal policies, debt/deficit progress, ongoing threats to Fed independence and the country's growth trajectory. Equity markets have historically struggled when long rates leap the psychologically impactful 5% level. Rising long yields are not unique to the U.S. – they have also migrated upward over debt and spending plans in the U.K., Japan and elsewhere.
- **Improving health of IPO market** – Signs are mounting that deal markets may be emerging from hibernation. Klarna (a Swedish buy-now-pay-later company) recently refiled an IPO that was temporarily shelved during April's market volatility. There are indications that others such as Canva and StubHub are making plans to join public ranks, based on solid post-IPO performance of recent launches. The Renaissance Capital IPO index of companies raising more than \$50 million is up 12%

year to date versus the S&P 500s 10% increase over the same time frame.<sup>iv</sup> The next few months could well see a pickup in such activity as underwriters push to get deals done before year end after markets rebounded so strongly coming into the period. In other deal news, Anthropic completed a \$13 billion funding round that triples the company's valuation to more than \$180 billion.<sup>v</sup> *The variety of deals announced keeps investors engaged in trying to figure out who/what is next and how it will be structured – nice diversions to distract from fretting about potential seasonal softness.*

## Implications for investors

Equity markets entered September close to all-time highs with full (though we would argue not necessarily extravagant) valuations. This, plus legendary tales of frightful spirits running amok in September/October markets, has participants on edge. Staying focused on the data and the fact-based stories these numbers are telling should help steady fraying nerves and ward off the worst dread of the spooky season.

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**Canadian banks** – Fiscal Q3 saw Canadian banks deliver strong results. Total earnings of CAD\$17 billion increased 17% year over year. The better-than-expected results were primarily revenue driven. Year over year revenue increases ranged from around 9% at TD to around 15% at RY; NA was +19% including the CWB acquisition. Revenues were helped by both (1) higher Net Interest Margins (NIM) - double-digit year over year NIM expansion supporting Net interest income despite still muted loan growth; and (2) fee-based revenues driven by the strength of markets businesses with better investment and corporate banking and wealth management revenues, in addition to higher-than-average trading revenue. While comments on credit remain cautious, BMO Capital Markets expects credit provisions to be lower next year.

#### Canadian GDP drops more sharply than expected –

The Canadian economy contracted 1.6% annualized in Q2, just a tick below the Bank of Canada's -1.5% projection. The trade war took a huge toll in the quarter. Net exports slashed 8.1 percentage points from growth, the second most on record (only the pandemic was worse). That was driven by a 26.8% annualized dive in exports, while imports slipped a lesser 5.1%. The uncertain backdrop also weighed heavily on business investment; machinery and equipment spending dropped 32.6% annualized the fourth-largest decline on record. Household spending rebounded, up 4.5% annualized while government spending and investment also added notably to growth. Residential investment was firm at +6.3%. The domestic strength is somewhat comforting, although the sustainability of that momentum is an open question. Arguably, the economy is evolving largely as the BoC MPR forecast in July. Policymakers opted to stay on hold then, so this report likely doesn't push them any closer to cutting in September, given the LFS and CPI are still to come.

#### U.S. labor market illustrates signs of its "curious balance" –

The U.S. Bureau of Labor Statistics released its monthly Job Openings and Labor Turnover Survey (JOLTS) report, showing 7.18 million job openings in July, down from a revised 7.56 million in June and below the Bloomberg consensus forecast of 7.38 million. This placed job openings at a 10-month low; the openings-to-unemployed ratio slipped below one for the first time since April 2021. This is backed up by survey data indicating it has become increasingly difficult to find a new job, and the quits rate has trended lower (meaning more workers are staying put). Layoffs have held at relatively stable levels over the last 12 months as businesses retain the workers they have after the COVID-19 hiring squeeze. During Q2 earnings calls, management teams talked of controlling headcount through a combination of hiring freezes and attrition rather than layoffs. Healthcare and government, long stalwarts of job growth, both saw year-over-year and month-over-month decreases in July.

**U.S. tariffs still in the news** – Late last Friday, the Court of Appeals for the Federal Circuit ruled that President Donald Trump's tariff powers were limited. The appeal involves five executive orders issued by Mr. Trump, including tariffs on Canada, Mexico and China. The majority opinion found that the International Economic Emergency Powers Act (IEEPA) does not give the President authority to impose wide-ranging tariffs of unlimited duration on nearly every country in the world. The ruling emphasized that while Congress has passed numerous statutes granting the President explicit tariff authority, IEEPA contains no such language. **Bloomberg noted that if the decision stands, the current average U.S. tariff rate of 16.3% would be cut in half and the federal government would likely have to refund tens of billions of dollars in tariffs already collected.** President Trump has asked the Supreme Court to review the case on an expedited basis.

#### U.S. Congress and the President tussle over already approved budget items –

Technically the Constitution gives Congress the power of the purse. Congress sets the budget, but the president decides whether to write the check. Under the Impoundment Control Act of 1974, the president can ask Congress to cancel specific funding and then lawmakers have 45 days to vote yes or no, with passage by a simple majority. In practice, if one party controls both chambers, it can block spending the other party fought to include – which is precisely what happened earlier this year. In March, Congress passed a bipartisan resolution to fund the government through the end of fiscal 2025. But in June President Trump and Republicans in Congress rolled back \$9.4 billion for foreign aid and public broadcasting. Aid groups sued, arguing the cuts were unconstitutional. A lower court agreed, but an appeals court later found the groups lacked standing to sue. After markets closed on August 29, the administration unveiled another \$4.9 billion rescission package. Since the fiscal year ends September 30, Congress is unlikely to have time to act, which means the cuts will take effect automatically. Heading into new budget negotiations, this leaves Democrats in a no-win situation: either strike deals that Republicans can later undo, or risk being blamed for a shutdown ahead of the 2026 midterms. The most likely outcome is another extended stopgap resolution to keep the government running.

### Next week

Key inflation statistics for the U.S. including the Consumer Price Index (CPI) and the Producer Price Index, which will be much parsed for clues that support or negate Fed cut expectations.

**Monday 9/8** – U.S. Consumer credit

**Tuesday 9/9** – U.S. NFIB business optimism index

**Wednesday 9/10** – U.S. PPI, Wholesale inventories

**Thursday 9/11** – U.S. Weekly jobless claims, CPI

**Friday 9/12** – U.S. Consumer sentiment | Canada Building permits and Capacity utilization

## Data scorecard as of September 5, 2025

Equity Market Total Returns						
	9/3/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,448	-0.2%	10.6%	25.0%	26.3%	-18.1%
NASDAQ	21,498	0.2%	11.8%	29.6%	44.7%	-32.5%
DOW	45,271	-0.6%	7.7%	15.0%	16.2%	-6.9%
Russell 2000	2,350	-0.7%	6.3%	11.5%	16.9%	-20.5%
S&P/TSX	28,751	0.7%	18.4%	21.7%	11.8%	-5.8%
MSCI EAFE	9,798	-1.3%	21.2%	3.8%	18.2%	-14.5%
MSCI EM	688	0.7%	19.8%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.1%	5.1%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.1%	4.6%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.1%	5.4%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		-0.1%	6.2%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	3.1%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.0%	0.8%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.1%	0.5%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		-0.1%	2.4%	6.9%	8.2%	-9.5%
Government Bond Yields						
	9/3/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.22%	4.23%	4.23%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.38%	3.37%	3.27%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.75%	4.72%	4.49%	4.56%	3.53%	3.66%
German 10-Year Bund	2.74%	2.72%	2.61%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.63%	1.60%	1.43%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	9/3/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.14	0.4%	-9.5%	7.1%	-2.1%	8.2%
CAD:USD	\$0.73	-0.4%	4.3%	-7.9%	2.3%	-6.7%
Bitcoin	\$112,263.72	4.1%	19.8%	120.5%	157.0%	-64.3%
Gold	\$3,559.42	3.2%	35.6%	27.2%	13.1%	-0.3%
Oil (WTI)	\$63.97	-0.1%	-10.8%	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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<sup>i</sup> FactSet Earnings Insight Aug 29 2025

<sup>ii</sup> Are “Magnificent 7” Companies Still Top Contributors to Earnings Growth for the S&P 500 for Q2?

<sup>iii</sup> September Effect: Definition, Stock Market History, Theories

<sup>iv</sup> Key IPO Market Insights: IPO Research Tools & Screeners | Renaissance Capital

<sup>v</sup> Anthropic raises \$13B Series F at \$183B post-money valuation \ Anthropic