

WEEK ENDED SEPTEMBER 26, 2025

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## Bear Hunting

*“The tour we’ve taken through the last century proves that market irrationality of an extreme kind periodically erupts – and compellingly suggests that investors wanting to do well had better learn how to deal with the next outbreak.”*

– Warren Buffett

**The Through Line:** Global stocks have been repeatedly hitting new highs, leaving investors looking over their shoulders for the bubble-bursting bogey man to appear. *The bad news:* extremes have been part of the economic cycle since before the days of hyper-priced tulip bulbs; some sort of pullback would be the norm, not the exception. *The good news:* pullbacks tend to be short lived (particularly when economic fundamentals remain largely intact) and equity markets are upwardly biased by nature. Preparation and a constructive mindset can help smooth the way if/when wobbles occur.

### Loaded for bear

A long list of stock market indexes made headlines yet again last Friday with simultaneous drives to all-time highs. The Dow Jones Industrial Average, S&P 500, NASDAQ and S&P/TSX all set records. In an important nod to breadth and depth, even the equal-weighted S&P 500 (which neutralizes the impact of size) and Russell 2000 (an important small-cap yardstick) scaled new peaks. The party seems like a broad-based rager – why aren’t investors feelin’ it?

This year, markets have done a laudable job of looking past many frightening developments and policy shifts. They have remained focused on corporate and economic fundamentals, which have been surprisingly hardy. Evidencing this, aggregate S&P 500 earnings have increased by double digits for the last three consecutive quarters. Robust spending on data centers and the energy infrastructure to power them, plus the spreading use of AI, have also enabled participants to cling to an optimistic thesis. While the market’s advance has been underpinned by better-than-expected profits, earnings multiples have also expanded, leaving valuations full. This “priced for perfection” status makes investors inherently nervous, leaving little wiggle room if things even hint at turning sour. The higher the averages climb, the louder the arguments that it surely must all come to an end.

### Different this time?

We are not immune to the growing sense of anxiety. Having lived (and invested) through multiple downturns dating back to the 1980s, we are well aware of the current environment’s similarities and differences to prior exuberant periods. Calls to revise valuation metrics to fit a new technological age, plus assertions that it should all be viewed through a shiny new lens, trigger Spidey-sense warning bells. Yet, in much the same way that every demographic cohort is shaped by their collective experiences (e.g., WWII for the greatest generation and boomers; September 11 and the GFC for millennials), a number of factors are uniquely shaping the current environment and may well influence the shape of things to come. In that spirit, we devote this week’s piece to exploring the dire assertions we hear most often and offering a few ideas to help prepare head and heart for any volatility that may come.

#### #1) “Valuations are full – how much better can it get?”

Yes, valuations are rich. But valuations alone don’t kill bull markets (nor do they revive bear markets). Stocks can remain overpriced or underpriced for longer than fundamentals dictate. On the other hand, there is plenty of structural support undergirding the current economy. We see potential for earnings to surprise to the upside since much of the tariff adaptation is already in progress, for instance, and a host of pro-growth factors are picking up steam (reduced

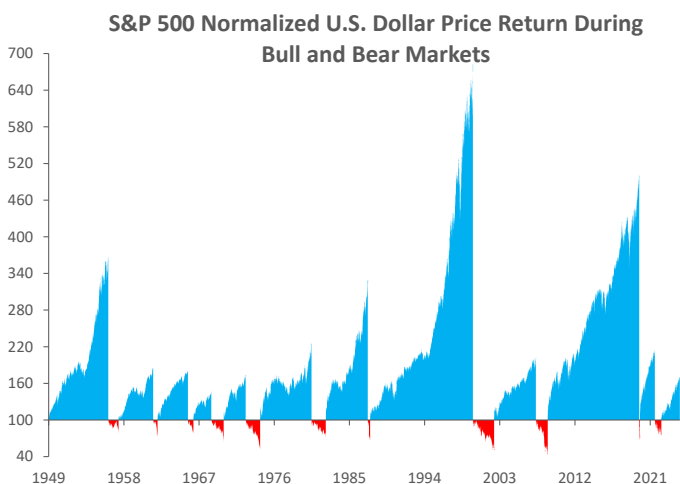
regulation, faster permitting, more lenient review of mergers and acquisitions, favorable tax treatment of research and development and construction expenditures). S&P 500 earnings are projected to continue their double-digit growth pattern moving into 2026, with a number of industries outside of tech participating. There are encouraging signs down the market cap scale, too, as 2026 earnings expectations for smaller companies (e.g., S&P 600) are turning decisively positive.

**#2) “Markets are too concentrated.”**

It’s true that the averages have become highly concentrated in the technology and communication services sectors – but so has the economy as we transition from the dominance of manufacturing that was prevalent until mid-last century. President Donald Trump’s multi-faceted actions designed to bring key manufacturing back to the U.S. may eventually shift this over time, though the change will likely be gradual. In the meantime, recent market action has revealed a healthy broadening of market participation – a key factor we will be monitoring. This bull market to date has been one of the most distrusted in recent memory because broad exuberance has been lacking, rotating recessions in various sectors have occurred (housing, consumer staples, manufacturing) and investor cash on hand has been ample.

**#3) “September/October have produced some of the most notorious pullbacks – what if it happens again?”**

True, September/October get a seasonally bad rap, though the frightening narrative is often blown out of proportion ([WSP - Spooky Season](#)). While the stories loom large in the psyches of investors, the aggregate financial toll has less impact when viewed against the more typical upward trend of markets. The average annualized return of the S&P 500 over the past 30 years, for example, is over 10%.



June 13, 1949 to December 31, 2024. Source: Bloomberg L.P. (2025).

**#4) “Spending on data centers and tech personnel is out of hand.”**

Bull markets/economic bubbles don’t end from valuation or old age. More often they fray due to a number of factors:

- *financial excess* – typically, it’s financed with debt (housing bubble, railroad buildouts in the U.S., Canada, and U.K. in the 1800s) and/or entails new instruments (portfolio insurance in 1987 crash, packaged mortgage-backed securities in the 2008/9 GFC)
- *over concentration in a single sub-sector* that has unsustainable underpinnings (e.g., dotcoms where many of the companies never achieved profitability or revenue-positive status)

It’s accurate to say that eye watering levels of investment are going into data centers and companies are poaching each other’s technical talent. But a vital differentiator is that (as of now) these expenses are being funded by a relatively narrow cast of players who are using cash flow to pay as they go. That cash flow is being generated by other highly profitable, revenue-generating segments within those companies.

Similar to other infrastructure buildouts (e.g., railroads, satellite, cable TV, internet 1.0 and undersea cable), there may eventually be interim overcapacity that will negatively impact a company or subsector. In these examples, however, that capacity was eventually put to solid use as technology advanced, prices dropped and new applications became viable. *In the current race to build out data center and cloud-computing resources, an argument could be made that should excess capacity appear, it could similarly push down costs for users and facilitate substantial upticks in usage.* This is precisely what happened in the early 2000s when we saw an overbuild in initial internet infrastructure. That over-capacity was eventually leveraged when the iPhone launched in 2007 and plummeting data-processing costs put minicomputers in our palms.

**#5) “Economic statistics are softening.”**

Recent economic numbers do bear watching, particularly relative to employment. It is constructive that the Federal Reserve is also keenly attuned to readings here – the U.S. economy relies heavily on the willingness of consumers to spend (and spend freely). Many of the data series we rely on are backward looking and complicated by business’s preoccupation in recent quarters with adapting to shifting regulations and policies. We do think the shift of focus toward settling many of the trade-related issues, plus reducing regulatory and transactional frictions, could stabilize/turn the tide constructively for many.

## #6) “Market speculation seems to be on the build.”

The Trump administration is taking steps to roll back regulation, encourage access to a broader suite of vehicles for more investors, and frame regulation around digital assets. For example, SPACs are back; crypto assets in a variety of flavors are on the rise; the IPO and M&A markets seem to be exiting hibernation; and there’s new ability to invest in very distinct outcomes (via betting markets and specialized ETFs). We plan to explore these developments in greater detail in the weeks to come. Note that broader access gives participants the opportunity to express their individual beliefs, goals and expectations. This may serve to spread broader economic and market risk versus concentrating it in a specific place.

## Implications for investors

Heeding Mr. Buffet’s admonition that “investors wanting to do well had better learn how to deal” we offer a few suggestions:

- **Remember TIME IN the market is more important than TIMING the market** – multiple academic studies and decades of experience point to the futility (and cost) of trying to get it right when deciding to either “sell it all” or “put me back in.” *The power of compounding only works if the money is at work.*
- **It’s not what you make, it’s what you keep** – regular rebalancing is the best course (trimming back assets that have done well to align with long-term targets and using proceeds to round up those that have underperformed but still have reasonable fundamentals). Regular readjustment course-corrects you toward your long-term strategic goals and can help smooth the peaks and troughs in specific investments. *Given the forward-looking bias of the markets, an asset class may start moving long before the fundamentals are widely recognized.* Another action that some find psychologically reassuring is to peel back gains (or a percentage of gains) earned over a certain period. In effect, it’s taking the house money off the table and putting it to strategic use (or saving) elsewhere.
- **Asset/liability match** – review your plans for regular (and perhaps extra) spending over the next few years and park the funds in cash/equivalents.
- **Focus on what you can control** – take a look at your taxes, turnover, and management fees instead of fretting over headlines.
- **Diversify investment exposure** – while the headlines focus on AI, data center and cloud spend, interesting things are going on in energy, utilities, drug discovery, defense, and space plus a host of other industries. Geographic diversification can also be helpful. The changing trade, immigration and geopolitical policies of the U.S. are creating interesting arrangements, deals and joint ventures elsewhere.
- **Learn to lean into volatility** – a long-term focus can turn short-term moves into fruitful opportunities to put some of that sidelined cash to work.

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**U.S. government nears a shutdown** – A game of chicken continues on Capitol Hill over a short-term federal spending bill known as a continuing resolution (CR). If no bill is enacted by 12:01 a.m., October 1, then a partial shutdown of the federal government will begin. On Wednesday afternoon, Kalshi, a CFTC-regulated event-contracts exchange, put shutdown odds around 75%. Republicans proposed a “clean” CR that maintains current spending through November 21. Senate Majority Leader John Thune notes that during President Joe Biden’s tenure Republicans worked with Democrats to pass 13 clean CRs. Democrats released a proposal featuring multiple add-ons and a permanent extension of Affordable Care Act (ACA) premium tax credits valued at roughly \$350 billion over 2026 to 2035. The package includes nearly \$10 billion in additional add-ons, including higher Women, Infants & Children (WIC) nutrition payments and various program extensions. A recent Kaiser Family Foundation poll found 80% of independent voters and 63% of Republicans support extending the ACA tax credits, so Democrats may feel emboldened as the deadline approaches. If no deal is reached then affected agencies will begin an orderly shutdown at 12:01 a.m. on October 1. Non-essential employees will be furloughed, and those deemed essential will work without pay until funding resumes. The longest shutdown on record lasted 35 days during President Trump’s first term. Historically, most shutdowns have a life of less than a week.

**U.S. Securities Exchange Commission will reconsider corporate reporting cycle frequency** – Chair Paul Atkins said last Friday that the agency will review reporting schedules for U.S.-listed equities. This announcement followed a post from President Trump calling for a shift to semi-annual reporting. Mr. Atkins argues it may be better for companies and markets to determine a proper reporting cadence for individual companies versus a government-imposed, one-size-fits-all solution. The SEC would continue to require public companies to file Form 8-K for time-sensitive information, and Mr. Atkins believes investors would demand information from individual companies at a proper cadence. Those who advocate for less frequent financial disclosure believe management time will be better utilized, and corporate costs reduced, which could encourage more initial public offerings. It is notable that a study of the U.K. shift to semi-annual reporting found no discernible change in company long-term investment patterns. Proponents of quarterly reporting fear a change could reduce transparency and news flow while risking increased misinformation, market volatility, and bias toward bellwether companies. Equity markets are ultimately made up of individual companies that have a variety of end markets and business cycles. There is no one-size-fits-all solution and both sides in this debate have valid arguments. To date, the SEC has not issued a formal proposal on the matter. However, since both Mr. Atkins and President Trump are championing the idea, we see real potential for regulatory change.

**Canada retail sales** – Consumer spending fell 0.8% in July; five of 10 provinces posted lower sales, and wildfires weighed heavily in Newfoundland and Labrador (-8.8%). In more positive news, the flash estimate points to a 1.0% rebound for August,

although volumes could come in slightly softer, reflecting an uptick in the price of goods. Despite ongoing trade uncertainty and further weakening in the labour market, the economy looks to be on track for a modest recovery to start the third quarter.

**Canadian housing fairly balanced** – Canada’s housing market remained very balanced overall in August; significant regional and segment variation persisted. At the national level, sales have steadily climbed back toward longer-term norms, inventory is elevated but is not overly saturating the market, and prices are effectively flat. Southern Ontario, Vancouver and Calgary markets remain soft. Markets in Quebec and farther east remain tight almost across the board. Meantime, a wave of mortgage renewals is coming in the next six to 12 months. Roughly 1.8 million Canadian mortgages are set to renew over the next year; most of them are coming off three to five years of low rate borrowing costs. This is definitely a significant volume, but BMO Economics continues to believe that households, the economy and the financial system are well equipped to handle it. The recent BoC rate cut certainly ought to help.

**OECD increases U.S. growth estimate** – The Organization for Economic Cooperation and Development (OECD) released its September Interim Economic Outlook, which raises the 2025 U.S. GDP forecast by 0.2 percentage points to 1.8% on stronger-than-expected first-half growth driven by inventory front-loading ahead of tariff implementation, a lag in tariff pass-through, and robust technology investment. The OECD estimates the overall effective tariff rate on U.S. imports reached about 19.5%, the highest level since 1933. It expects U.S. growth to slow into year end when tariffs are increasingly passed through the supply chain and on to consumers. Additional headwinds include signs of softer labor demand, continued policy uncertainty, federal workforce reductions, and immigration policy changes. For 2026, the OECD cuts its U.S. GDP forecast to 1.5%.

### Next week

Tuesday brings the end of the U.S. fiscal year – and a potential government shutdown since Congress has yet to agree on a package for budget and spending. Markets typically ignore the machinations, assuming legislators will quickly work out some interim compromise to keep things running for a few weeks or months. However, a shutdown could delay a key U.S. inflation report: the Personal Consumption Expenditures (PCE) Index, which is the Fed’s preferred measure of inflation.

- **Monday 9/29** – Canada Manufacturing sales
- **Tuesday 9/30** – U.S. end of fiscal year – deal or no deal to keep things running? Consumer confidence
- **Wednesday 10/1** – U.S. ADP employment, Manufacturing ISM and PMI | Canada Manufacturing PMI
- **Thursday 10/2** – U.S. Weekly initial jobless claims
- **Friday 10/3** – U.S. Non-farm payrolls, Services PMI and ISM | Canada S&P Global composite and services PMIs

## Data scorecard as of September 26, 2025

Equity Market Total Returns						
	9/24/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,638	-0.4%	13.9%	25.0%	26.3%	-18.1%
NASDAQ	22,498	-0.6%	17.1%	29.6%	44.7%	-32.5%
DOW	46,121	-0.4%	9.8%	15.0%	16.2%	-6.9%
Russell 2000	2,435	-0.6%	10.2%	11.5%	16.9%	-20.5%
S&P/TSX	29,757	0.0%	22.7%	21.7%	11.8%	-5.8%
MSCI EAFE	10,030	-0.2%	24.1%	3.8%	18.2%	-14.5%
MSCI EM	735	0.8%	28.1%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		-0.1%	6.1%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		-0.1%	5.3%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		-0.3%	6.7%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.0%	7.3%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		-0.2%	4.3%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.1%	2.4%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.0%	1.9%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.0%	3.8%	6.9%	8.2%	-9.5%
Government Bond Yields						
	9/24/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.15%	4.23%	4.23%	4.6%	3.88%	3.88%
Canada 10-Year Government	3.20%	3.37%	3.27%	3.2%	3.11%	3.30%
U.K. 10-Year Gilt	4.67%	4.72%	4.49%	4.6%	3.53%	3.66%
German 10-Year Bund	2.75%	2.72%	2.61%	2.4%	2.02%	2.57%
Japan 10-Year Government	1.64%	1.60%	1.43%	1.1%	0.61%	0.41%
Currencies & Real Assets						
	9/24/2025 Level	WTD	YTD	2024	2023	2022
USD Index	97.87	0.2%	-9.8%	7.1%	-2.1%	8.2%
CAD:USD	\$0.72	-0.8%	3.5%	-7.9%	2.3%	-6.7%
Bitcoin	\$113,571.01	-1.6%	21.2%	120.5%	157.0%	-64.3%
Gold	\$3,736.16	1.4%	42.4%	27.2%	13.1%	-0.3%
Oil (WTI)	\$64.99	3.7%	-9.4%	0.1%	-10.7%	6.7%

## 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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