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## Capital Market (R)Evolution

*“The most important single central fact about a free market is that no exchange takes place unless both parties benefit.”*

– Milton Friedman

**The Through Line:** Organized capital markets play a vital role in facilitating the transfer of funds from those with excess resources to those in need of backing. Rapidly advancing technology, an easing regulatory environment plus growing ranks of educated, bold and engaged participants are enabling such activity to broaden. We highlight key developments and why they matter for the economy and for markets.

### Market mechanics

Econ101 teaches us that a key function of free markets is to facilitate the optimal allocation of capital. Free markets are the arena where those with excess funds are introduced to others in need of funding for their operations or growing an innovative product or service.

For centuries, the most basic units that facilitated these exchanges were stocks (a.k.a. partial equity ownership in future earnings and dividends) or bonds (a loan featuring future repayment of principal along with interim interest payments). There are notable sums of both in circulation: according to SIFMA, a leading industry trade organization, global public equities totaled nearly \$127 trillion by year end 2024, with global fixed income clocking in at over \$145 trillion<sup>1</sup>.

Participation in and knowledge of markets has grown in recent decades, prompting the creation of multiple and varied new ways to join the action. Each puts some unique twist on things, allowing buyer and seller to express a particular view or perhaps participate in a discretely defined slice of return or risk stack. Examples include an asset-backed security (backing a loan with a physical asset, which can be reclaimed should a default occur); securitization (packaging and selling a set of similar loans such as collateralized loan obligations or mortgage-backed securities); or buying an industry-specific exchange traded fund or ETF (a fund containing shares in a basket of stocks merged into a unified share price).

Advances in technology (e.g., digitization, tokenization, non-bank lending, cryptocurrencies) have further enhanced the industry’s innovation – opening up even more ways for participants of all types to engage, express their views and/or seek a higher return on their funds as a reward for accepting increased risk of some sort.

### Dealmaker in Chief

In just the first eight months in office, the Trump administration has helped push the evolution of capital markets in new directions by introducing more than a handful of novel ideas:

- Nippon Steel, in garnering presidential approval to purchase U.S. Steel, agreed to give the U.S. a “golden share” position in the merged company.
- As part of tariff negotiations, Japan committed to investing \$550 billion in U.S. projects of President Donald Trump’s choosing. Similarly, South Korea promised \$350 billion.
- AMD and Nvidia agreed to remit 15% of any profits made from selling select high-end semiconductor chips to China.
- The U.S. agreed to a 10% direct investment in Intel Corp, citing national security.
- The U.S. Department of Energy is buying \$400 million worth of preferred stock in MP Materials, and more recently announced a deal with Canadian-based Lithium Americas that gives the U.S. warrants for a 5% stake in the company and a 5% stake in the company’s joint venture with GM.
- The U.S. will be paid a de facto finder’s fee for brokering the TikTok arrangement.
- The Swiss government has offered to step up foreign direct investment to place various gold refining activities in the U.S.

## Loosening the regulatory corset

We often take for granted the supervisory framework that threads around and through the financial services industry, dictating common practice on everything from trading hours to methods for settling disputes and maintaining client confidentiality. Such oversight is vital, however, in conveying a measure of consistency that gives traders the confidence to participate – in much the same way that a football game is bounded by league rules and referees to (hopefully) avert a brawling free-for-all.

Market rules, regulations and regulators evolve over time, with some of the most prescriptive coming in the wake of notable market dislocations. The 1934 act that created the Securities and Exchange Commission and the 1940 act that set the guardrails for mutual fund structure, for example, were rooted in the 1929 stock market crash. The challenge with regulation is finding the right balance between too much and too little.

The Trump administration campaigned on promises to reduce regulation. In particular, Treasury Secretary Scott Bessent has noted on numerous occasions the desire to “loosen the corset” that had been so strictly applied to the financial services industry in the wake of the 2008/9 GFC. Strict bank capital requirements are currently up for review.

We’ve also seen additional moves to reshape the capital markets:

- The SEC issued a ruling to speed permitting of ETFs.
- The SEC is gathering input on broadening the definition of accredited investor to allow more individuals to participate in complex vehicles like hedge funds and private capital. It is also preparing to gather input on the frequency of public company reporting.
- President Trump signed an executive order asking the Department of Labor to develop rules that would allow the inclusion of alternative assets in 401(k)s and other retirement accounts.
- The GENIUS Act was passed, creating a framework to facilitate stable coin.

Any or all of these actions could reshape the rules of the game – or even who’s invited to the field – in fundamental ways.

## The evolution gains momentum

In recent decades, the lay of the land for capital markets was markedly altered when business was “disintermediated” out of traditional banks by strict regulation. According to SIFMA, nearly 80% of non-financial loans in the U.S. are underwritten outside the traditional banking system – an inverse ratio relative to the rest of world.<sup>2</sup> Then, too, new technologies and distribution channels are appealing to different demographic cohorts such as digital natives engage who engage primarily with digital-only apps rather than in-person service models.

A recent article in Barron’s notes that CitSec (Citadel Securities, the trading arm of the huge hedge fund) trades 25% of all U.S. equities, 45 billion options quotes per day and is a top three trader of U.S. Treasuries and swaps.<sup>3</sup> Fully digital shops like Robinhood offer an increasingly broad range of services, including 24/7 global access, digital currency trading and option overlay programs.

In a new twist, they have also been awarded allocations of some of this year’s top initial public offerings (IPOs) at the IPO price to distribute to retail investors. This is a privilege normally reserved for institutional and other super-large investors. All of this without the need to support any physical branches and related capital-intensive infrastructure.

On the other side of the equation, purchasers have shifted in size, scope and background. Giant sovereign wealth funds such as the Canada Pension Plan (CPP) and the CDPQ (Caisse de dépôt et placement du Québec), plus sovereign wealth funds (SWFs) from Norway, China and Abu Dhabi underwrite substantial equity and credit investments directly or in syndicate with other institutional players instead of using middlemen. The rise of single-family (SFO) and multi-family (MFO) wealth management offices is also putting tens of billions of dollars in direct investment in play. Additionally, a variety of strategic participations in specific deals creates a host of unusual partnerships (e.g., Morgan Stanley conducted a competitive contest to underwrite the debt for a \$29 billion Meta data center project, awarding it to a pair of finalists: Blue Owl and Pimco). Old-line, money-center banks are finding it difficult from a regulatory standpoint to underwrite certain business, so they are bringing the referrals to non-bank venture capital or private-capital clients for finders’ fees. Many have also increased their outright lending facilities to some of those same firms.

## Goals and implications

As the players and products evolve, several pronounced themes are recurring. There is a quest to **reduce friction** (cost, time, excessive regulation), increase access such as alternatives in 401(k)s and IPO shares direct to digital brokerage firms, and/or **create new mediums of exchange and vehicles** such as crypto, actively managed ETFs and structured product.

A number of the new areas (e.g., crypto and bitcoin, private credit) have not been tested in a wide, lasting economic downturn because we haven’t had one in nearly 15 years.

## Implications for investors

The capital markets overall have been heroic in adjusting to the onslaught of unpredictable headlines this year. Equity investors have closely followed company and economic fundamentals, which have remained solid. Bond traders have been vigilant for signs of profligate government spending plans and/or lower-than-expected tax receipts but have remained largely steady – even in longer-dated securities. While markets continue to evolve, a hiccup in some portion can’t be ruled out since sufficient regulation and oversight often take time and experience to emerge. On the other hand, the multi-faceted spread of activity, players and desired outcomes could spread risk, preventing it from hyper concentration in a specific locale.

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**U.S. government shuts down** – On October 1, the federal government entered a partial shutdown after the fiscal year 2025 budget expired and Congress failed to enact a continuing resolution (CR) to extend funding. Since 1977, there have been 20 full-day funding gaps; the longest lasting 35 days; the average is around eight days. Congressional leaders and the White House entered this downturn making little effort to compromise and both sides have dug in. Republicans put forward a clean CR that would maintain spending at current levels through November 21. Democrats are championing healthcare: Affordable Care Act (ACA) premium tax credits are set to expire for millions of Americans and Medicaid cuts are looming. Policy changes are rare in short-term budget talks, but Democrats are feeling pressure from their base to stand and fight. Additionally, the Trump administration's moves to claw back funding agreed to in the last CR have eroded trust among lawmakers. The administration is threatening to use this shutdown to permanently cull select government workers and programs unless Democrats acquiesce. The shutdown's duration will likely hinge on polls about who voters blame and lawmakers' tolerance for political pain. *Past shutdowns have had limited macro impact since most federal spending was deferred rather than lost, and investors tended to look through them.*

**U.S. drug pricing and tariffs in the news** – Events of the past few weeks in the pharma sector send a clear signal that the industry is no longer just about science and innovation — it's now deeply rooted in trade policy, manufacturing strategy and global economics. President Trump's announcement of a 100% tariff on branded and patented pharmaceutical imports (set to begin October 1) was initially expected to be highly disruptive. However, the final policy includes key exemptions for generic drugs and companies actively committed to or already building U.S. manufacturing facilities. Trade agreements for partners including the UK, EU and Japan are in place and cap international pharma tariffs at 15%.

Investor reaction to the tariff news has been muted, possibly due to early clarifications and existing trade protections such as the EU-U.S. agreement that caps pharmaceutical tariffs at 15%. Smaller biopharma firms – especially those sourcing ingredients from India and China – may face increased challenges, though generic drugs are exempt from the tariff. *Some analysts have suggested that smaller drugmakers could face forced exits from the U.S. market, or they may pursue M&A activity to survive.*

Strategically, the tariff is already pushing companies to rethink where and how they make their medicines. Some global firms are fast-tracking plans to build in the U.S. to avoid penalties, while investors are reallocating toward companies that have already established domestic supply chains. According to a recent JLL study, the 15 largest pharma companies have committed over \$270 billion in planned U.S. infrastructure spending over the next five to 10 years. This trend spans both the current and previous administrations and reflects a broader reshoring movement since the COVID-19 pandemic.

Building new advanced manufacturing facilities takes time and in the short term we could potentially see higher drug prices and tighter supply for certain branded drugs. However, the overall impact may be limited since generics make up about 90% of U.S. prescriptions, but branded drugs used for asthma, cancer, and weight loss (e.g., Keytruda from Merck, Ozempic from Novo Nordisk, and Symbicort from AstraZeneca) could be affected if their production is not tied to U.S.-based facilities. Many large firms have some domestic operations, but the tariff adds urgency to clarify sourcing and manufacturing status.

Beyond finished drugs, there's also growing concern about active pharmaceutical ingredients (APIs), many of which are sourced from China. A recent executive order established the Strategic Active Pharmaceutical Ingredient Reserve (SAPIR) to stockpile critical ingredients and reduce dependence on foreign suppliers. The ASHP (American Society of Health-System Pharmacists) has praised this move and noted that it could help stabilize supply chains during future disruptions.

**U.S. labor market remains soft** – This week's Job Openings and Labor Turnover Summary (JOLTS) from the Bureau of Labor Statistics (BLS) is likely the last official jobs data point from the U.S. government until the current budget impasse is resolved. The release reinforces a low-hiring, low-firing narrative: companies continue to hold on to existing workers while job openings remain flat and new hires trend lower. In the August JOLTS report, the job openings-to-unemployed ratio fell to 0.99, the first sub-1 reading since May 2021; the September 30 release showed a further decline. The quits rate fell, reflecting workers' lack of confidence in finding new jobs. This view was echoed by the Conference Board's September Consumer Confidence Survey. It showed weaker confidence from respondents, who grew more pessimistic about future job availability and business conditions. Wednesday's ADP National Employment Report adds to the labor market wall of worry. Private employers cut 32,000 jobs in September and August was revised lower. Small and medium-sized businesses saw the largest job cuts; they tend to face greater tariff headwinds and receive less relative benefit from tax policy than large-company peers, which have continued to hire. The glass-half-full view for investors is that, despite signs of slowing, the labor market remains solid. Any weakness would support continued rate cuts from the Federal Reserve.

**Canada's GDP a bit stronger than expected** – July GDP rose 0.2%, beating expectations by one-tenth of a percent and breaking a string of three consecutive 0.1% contractions. Goods sectors led the gains in July, driven by mining/oil/gas and manufacturing. Services eked out a modest 0.1% rise overall, powered by wholesale trade, transportation/warehousing and finance. The flash estimate for August GDP clocked in at flat. The Canadian economy continues to hang in there, suggesting no increased urgency for the BoC to cut rates. Still, underlying softness in the economy will likely drive further easing. BMO Economics is forecasting a pause in October followed by rate cuts of 25 basis points at the December and March meetings.

**Canadian stocks continue their run** – The S&P/TSX Composite Index is up more than 20% year to date and remains in all-time-high territory. While strength has been broad based across sectors, the rally to all-time highs has been led by standout performances in materials (particularly gold) and financials (notably banks). Looking ahead, BMO Capital Markets anticipates a strong finish to the year, projecting mid-single-digit gains in Q4. This momentum sets the stage for the TSX to deliver low double-digit earnings growth by the end of 2025, supporting a higher earnings multiple that is expected to remain above its long-term historical average.

### Next week

Unless the U.S. government reopens, normal data feeds (CPI, PPI) will be delayed. A data-light week in Canada, too. Trade stats on Tuesday and key employment reads on Friday, the primary releases.

- **Tuesday 10/7** – U.S. Trade deficit and Consumer credit | Canada Balance of Trade
- **Wednesday 10/8** – U.S. Minutes from the September FOMC meeting
- **Thursday 10/9** – U.S. Weekly initial jobless claims, Wholesale inventories
- **Friday 10/10** – U.S. Consumer sentiment | Canada unemployment reports

### Data scorecard as of October 1, 2025

Equity Market Total Returns						
	10/1/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,711	1.0%	15.2%	25.0%	26.3%	-18.1%
NASDAQ	22,755	1.2%	18.5%	29.6%	44.7%	-32.5%
DOW	46,441	0.4%	10.6%	15.0%	16.2%	-6.9%
Russell 2000	2,442	0.4%	10.6%	11.5%	16.9%	-20.5%
S&P/TSX	30,108	1.3%	24.3%	21.7%	11.8%	-5.8%
MSCI EAFE	10,172	1.7%	25.9%	3.8%	18.2%	-14.5%
MSCI EM	736	2.1%	28.2%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.5%	6.4%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.5%	5.6%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.5%	7.2%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.2%	7.3%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	4.2%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.2%	2.5%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.2%	2.0%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.2%	4.0%	6.9%	8.2%	-9.5%
Government Bond Yields						
	10/1/2025 Level	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.10%	4.15%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.18%	3.18%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.69%	4.70%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.71%	2.71%	2.71%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.65%	1.64%	1.64%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	10/1/2025 Level	WTD	YTD	2024	2023	2022
USD Index	97.71	-0.5%	-9.9%	7.1%	-2.1%	8.2%
CAD:USD	\$0.72	0.0%	3.2%	-7.9%	2.3%	-6.7%
Bitcoin	\$117,592.31	7.5%	25.5%	120.5%	157.0%	-64.3%
Gold	\$3,865.74	2.8%	47.3%	27.2%	13.1%	-0.3%
Oil (WTI)	\$61.78	-6.0%	-13.9%	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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#### Endnotes

1 [Capital Markets Fact Book - SIFMA - Capital Markets Fact Book - SIFMA](#)

2 [ibid](#)

3 [Citadel’s Ken Griffin on Markets, the Fed, and Building His Firm for the Next Century - Barron’s](#)