

WEEK ENDED October 17, 2025

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The Worry Closet

"There are many kinds of risks... but volatility may be the least relevant of them all."

– Howard Marks

The Through Line: After months of relative calm, market volatility has spiked in recent days in response to flaring trade tensions between the U.S. and China. Now that the worry closet door is slightly ajar, will investors be able to tuck its contents neatly back inside – or will more anxieties come spilling out? We check in on some top concerns for investors – and to what extent they're justified.

It was a dark and stormy night Friday afternoon

On what should have been a peaceful drift toward a long holiday weekend, equity markets turned decidedly sour last Friday afternoon – even though they'd spent most of the morning in the green. Markets were pulled down by a social media post from U.S. President Donald Trump suggesting "massive tariffs" on China would be coming soon and noting that he saw no need to follow through on a previously planned early November meeting with Chinese President Xi Jinping. This put the trade war back on a front burner. President Trump's post was in direct response to China's notice on Thursday that it would greatly expand export controls on a variety of rare earth materials and intermediate products. Continued barbs and suggestions of tangential actions from both countries have kept market participants on edge despite more moderate rhetoric over the weekend that prompted a partial rebound earlier this week.

The trend is your friend – until it isn't

We've written before about investors' propensity to minimize potential blemishes in a solidly up-trending market; when things are going well and prices are rising, the focus is on a point far in the future. If something unexpected comes along, however, the collective gaze can quickly be yanked back into the present moment, popping open the door to a closet full of worries that have been conveniently stashed for later consideration.

Such is the state we find ourselves in this week. For months, key stock indexes had been powering past a litany of potential concerns (e.g., immigration crackdowns, new trade policies, geopolitical and political pivots, sticky inflation) to hit continued new highs. Helping drive the strong performance were constructive fundamentals – resilient global economies, declining inflation (relative to the

post-pandemic surge of 2021 and 2022), sturdier-than-expected consumer spending and central banks in rate-cutting mode. Oddly enough, things had been so constructive for so long that participants were starting to get just a bit nervous: they questioned whether excitement had morphed into euphoria (chart) and feared what would "inevitably" come next. This growing sense of unease re the rally's sustainability primed the pump for what seemed like an unduly harsh reaction to a mere social media post.

Investing and Emotions



Source: Hays Advisory (2025)
This chart is an example and does not represent the performance of any actual investment.
For illustration purposes only.

Worry closet – open or closed?

When the worry closet door swings open, many of the fears that had been discounted as single-point events tumble out in a worrisome heap that needs to be sorted. During uptrends, a long-term view is generally prevalent. But perspective tends to shift into near overwhelm when so many concerns pile up in close proximity. We believe it's far too early to fret unduly, despite the fitful trading of the last few sessions. What follows

is our perspective on a few of the highest-profile concerns, plus some of the fundamental signposts we will be watching that will help frame the path forward.

Worry #1: Is AI spending sustainable? – Though much of the excitement has been around the buildout of data centers and hyperscalers, plenty of other contributors and beneficiaries are worthy of consideration ([WSP - AI Beyond the CapEx Cycle](#)). From robots to autonomous vehicles, healthcare applications to manufacturing, it will take many technologies and substantial grid and infrastructure enhancements to power the coming 4th industrial revolution. Overbuilding of new infrastructure is actually the historical norm (railroads, undersea cable, cell phone, internet 1.0 capacity). *Such abundance rarely goes to waste for users, though it may prove problematic for those building it out since excess capacity ultimately drives prices down and usage up.* That said, there are threads to untangle and analyze in the increasingly frenetic pace of activity:

- To date, cash flow from highly profitable businesses has funded much of the AI spending. More recently, a complex series of cross investments, new investment vehicles, creative vendor financing/equity arrangements and off-balance-sheet debt underwritten by new funders has emerged. It will be challenging but necessary to follow the financing and ensure it stays reasonable.
- **Do the largest companies, given their increasingly entwined financing arrangements, become too big to fail** – particularly while the Trump administration seeks to lower regulatory hurdles, encourage rapid innovation and look favorably on large mergers?

What we will be watching – So far, balance sheets are still in pristine shape, margins are ample and provisions in the OBBBA are helpful. We (and all of Wall Street) will be watching for signs of deterioration here and, we suspect, asking plenty of questions to better gauge the level of off-balance-sheet financing, debt, contract bookings and backlogs for coming periods.

Worry #2: Can consumers continue to power the economy? –

The Atlanta Federal Reserve's GDPNow estimate of Q3 gross domestic product currently pegs it at 3.8%. This is partly predicated on consumers' willingness and ability to continue to spend – especially the top 10%, who are responsible for an estimated half of all consumption. The ability and willingness to consume is based on both employment status and how wealthy we feel. The wealth effect itself is tied to housing appreciation and market gains – both of which have obviously been ample for those blessed with one or both. While home ownership rates in the U.S. and Canada have declined in recent years, market participation has increased. A recent Gallup poll showed that nearly two-thirds of U.S. households now own stocks – an all-time high.¹

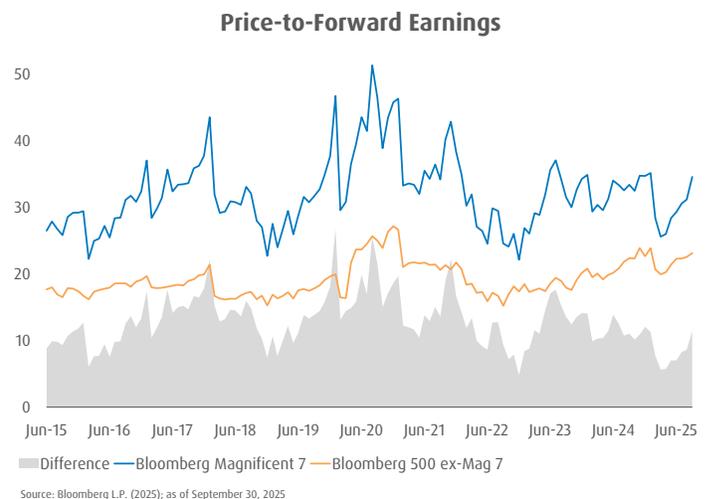
What we will be watching – Canadian consumers are proving a bit sturdier than projected at the start of the year. Spending plans outlined by Prime Minister Mark Carney's government could put a floor under Canadian GDP. In the U.S., however, there is some evidence that strains are mounting and sentiment is souring. Thanks to the government shutdown, full-bodied employment data will be spotty, so determining progress will require extra digging.

Alternative sources such as the Chicago Fed's new bi-weekly index will give hints about the trend line. In addition, commentary from banks, consumer goods and retail earnings releases should prove helpful. We will carefully monitor the absorption of furloughed/fired government workers, which could have ripple effect through services providers and related contractors.

Worry #3: Trade policy – Despite the recent high-profile China kerfuffle, negotiations between two of the U.S.'s largest trading partners – Canada and Mexico – are actually going quite well. This North American trading bloc is 500 million people strong, representing 30% of global GDP. It is an important relationship to get right: Canada bought \$350 billion in U.S. exports last year – 150% more than the COMBINED total of China and UK purchases. Outlines of trade agreements with other key areas are largely in place, helping alleviate at least a portion of the unknowns that plagued the first part of the year.¹¹

What we will be watching – We'll monitor continued progress and/or stance-softening between the U.S. and China and continued progress on renegotiation of the USMCA/CUSMA.

Worry #4: Valuations are high – Agreed, earnings multiples have moved up – but so have margins, earnings and productivity metrics. Remember: *valuations don't kill a bull market or revive a bear market*; things can stay seemingly mispriced for much longer than fundamentals (or prior history) would deem likely. It's also possible for companies to grow into their valuations via accelerating earnings – much like the MAG 7 have done in recent periods.



As we warned in prior pieces (e.g., [WSP - Bear Hunting](#)), **stretched valuations can make markets more prone to volatility should unexpected events hit. Friday was the exclamation point on this observation.** The highest growth, more tech-oriented indexes were down the most (NASDAQ down nearly 4%). Further, the most speculative investments sold off even more sharply: \$3 billion in bitcoin was liquidated after the market closed and Bloomberg noted an unwind of over \$130 billion of the most aggressive alt-coin assets in the subsequent 72 hours.¹¹

What we will be watching – Earnings season is here, bringing aggregate expectations for somewhere around 8% growth. In the next few weeks, we'll see lots of color re capital expenditure and expansion plans, hiring or trimming levels, merger plans, tariff absorption, AI use cases, and so on.

Hello volatility, my old friend

Obviously, we have touched on just a handful of the many out-of-the-closet concerns that are capable of prompting continued volatility. Coming immediately to mind we have the ongoing government shutdown (especially if thousands of workers are fired and knock-on impacts hit adjacent contractors and suppliers), stubborn levels of sovereign deficit spending, and continued concentration of market averages. Yet volatility isn't a risk in and of itself when fundamentals remain sturdy. We think many of the trends that brought us through so far are well enough established to continue to support. Viewing volatility as price movement, rather than fundamental inevitability or structural breakdown, can allow it to be put to constructive use in portfolio maintenance.

Recall that headlines do not exist to make you feel comfortable about your investment (or life) choices. They are optimized to generate clicks (a.k.a. activity that will compensate the creators and advertisers). Volatility is a normal part of investing – particularly when the worry closet's door opens enough to let some or all of them slip out. Having a plan for moving through (or better yet, taking advantage of) volatility provides a helpful perspective.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Trade tensions continue – China processes and refines more than 90% of the world's rare earth elements (REEs) into critical minerals used in everything from smartphones and home appliances to the F-35 stealth fighter and missiles. Late last week, China expanded restrictions around REEs, bringing the total number affected by trade restrictions to 12 since an initial announcement in April. The Chinese government's broadened policy may also make it harder for Western countries to outsource manufacturing of products containing REEs after the Ministry of Commerce (MOFCOM) stated that any overseas-made product containing listed China-origin REE items may fall under China's export controls if those inputs account for more than or equal to 0.1% of the product's value. This mirrors U.S. extra-territorial export-control tools designed to keep products manufactured using U.S. technology or equipment out of designated Chinese entities. Exports of REE-sector processing equipment, technology and know-how, along with permanent magnets, will also be subject to approval and licenses. China placed export controls on lithium batteries, anode materials, artificial graphite and associated technologies while also announcing retaliatory port levies on U.S.-linked ships in response to U.S. port fees on Chinese ships. Investors will need to judge whether China's move is a negotiating tactic ahead of a potential meeting between Presidents Trump and Xi at month's end or another step in the downward spiral of U.S.-China relations.

U.S. Reserve still on a rate-cutting path – On Tuesday, Federal Reserve Chair Jerome Powell gave a speech to the National Association for Business Economics that focused on the Federal Reserve's balance sheet, a topic that he noted some might compare to a trip to the dentist. In the wake of the COVID-19 pandemic, the Fed began aggressively purchasing Treasury securities and agency mortgage-backed securities (MBS). After that deep shock to the global financial system, the Fed used its balance sheet to restore liquidity, which helped facilitate credit availability for households and businesses while keeping a lid on interest rates. For the two-year period ending March 2022, the Fed purchased roughly \$4.6 trillion in assets to prevent an unwanted tightening in financial conditions and reduce downside risk to the economy. Since June 2022, the Fed has engaged in quantitative tightening (QT), allowing Treasuries and MBS to mature and roll off, which reduces the size of its balance sheet. Fed officials are actively monitoring bank reserves to ensure they remain ample but not excessive, which is the point at which QT will end. That time may be near. On the broader economy, Mr. Powell said little has changed since the Federal Open Market Committee's September meeting. The labor market is somewhat softer; risks to employment are tilted to the downside; inflation remains elevated since tariffs are putting upward pressure on goods prices; and housing services continue to experience disinflation. The dissonance in the dual mandate sets the stage for policy to drift toward a more neutral level if current conditions persist.

Canadian employment firmer than expected – Canadian employment rose 60,400 in September, well above expectations for a modest gain, and largely reversed the ultra-weakness in the prior month. Despite the solid advance, unemployment held steady at 7.1%, up four ticks from a year ago. The strong report is certainly welcome after the big declines in the prior two months. Canada's economy continues to tread water while it awaits more certainty on trade. For the Bank of Canada, the soft labour market over the summer was one of the key drivers of the September rate cut. That factor is no longer front and centre, so unless CPI (on Oct 21) slows materially, the solid jobs figures lean toward a pause at the October meeting.

Canada's consumer spending surprises to the upside – Second-quarter data on the household distribution of consumption, wealth and saving show that each income quintile, from poorest to richest, contributed materially to the surprisingly strong rebound in consumer spending in a quarter marked by peak intensity of the trade war. This is because all groups benefitted from rising incomes (despite weaker employment), increasing wealth amid surging equity markets, and the redirection of funds away from travel to the U.S., which is down by almost a third this year. *Despite low confidence, households across the income spectrum are pitching in to support Canada's economy. This suggests some durability to the expansion, which we suspect resumed modestly in the third quarter.* While the foundation might be a little shaky, personal consumption will be underpinned by more supportive fiscal and monetary policies in the months ahead.

U.S. small business optimism remains tentative – This week, the National Federation of Independent Business (NFIB) released results from its monthly member survey. The Small Business Optimism Index reading for September fell to 98.8 versus the Bloomberg consensus forecast at 100.6. This represents the first decline for the Index in three months, reflecting rising uncertainty among respondents. Of the 58% of survey respondents looking to hire, 88% reported being unable to find qualified labor; labor costs continue to be a top concern. The number of companies seeing a contraction in sales outpaced those seeing growth in the wake of continuing consumer spending declines. The impact of the government shutdown will be reflected in next month's report.

JPMorgan announces a new lending initiative – Earlier this week, JPM announced a 10-year, \$1.5 trillion "Security and Resilience Initiative." The plan will focus lending activities and investment on four key areas (further broken down into 27 sub-industries): supply chain and advanced manufacturing, defense and aerospace, energy independence and resilience, and frontier and strategic technologies. The bank will also make direct investments of up to \$10 billion to help fund companies in these critical areas of the economy. In a press release, JPM CEO Jamie Dimon states that the U.S. has become "too reliant on unreliable suppliers of critical minerals, products and manufacturing," which has created a threat to national security. JPMorgan believes now is an opportune time to invest since U.S. policy is promoting supply-chain fortification and infrastructure modernization.

Next week

As of this writing, the U.S. government remains closed with scant movement on either side toward reopening. This will continue to delay the release of many key sets of data. The one exception: September CPI will be published on Friday in order to provide the base for a variety of cost-of-living increases that are tied to it. Canada, in contrast, has a wealth of statistics on everything from business sentiment to retail and manufacturing sales.

Monday 10/20 – U.S. Leading Economic Indicators | Canada PPI and BoC Business Outlook Survey

Tuesday 10/21 – Canada CPI

Thursday 10/23 – U.S. Weekly initial jobless claims, Existing home sales | Canada Retail sales, Manufacturing sales

Friday 10/24 – U.S. provision Sept CPI, S&P flash services and manufacturing PMIs, Consumer sentiment | Canada New housing price index

Data scorecard as of October 15, 2025

Equity Market Total Returns						
	10/15/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,671	1.8%	14.6%	25.0%	26.3%	-18.1%
NASDAQ	22,670	2.1%	18.0%	29.6%	44.7%	-32.5%
DOW	46,253	1.7%	10.2%	15.0%	16.2%	-6.9%
Russell 2000	2,520	5.2%	14.2%	11.5%	16.9%	-20.5%
S&P/TSX	30,637	2.6%	26.6%	21.7%	11.8%	-5.8%
MSCI EAFE	10,143	0.6%	25.5%	3.8%	18.2%	-14.5%
MSCI EM	743	0.0%	29.4%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.2%	7.0%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.1%	6.2%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.4%	7.7%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.6%	7.2%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	4.5%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.4%	3.1%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.5%	2.4%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.3%	4.4%	6.9%	8.2%	-9.5%
Government Bond Yields						
	10/15/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.03%	4.15%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.12%	3.18%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.54%	4.70%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.57%	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						
	10/15/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.79	-0.2%	-8.9%	7.1%	-2.1%	8.2%
CAD:USD	\$0.71	-0.3%	2.4%	-7.9%	2.3%	-6.7%
Bitcoin	\$111,177.01	-2.8%	18.6%	120.5%	157.0%	-64.3%
Gold	\$4,207.48	4.7%	60.3%	27.2%	13.1%	-0.3%
Oil (WTI)	\$58.27	-1.1%	-18.8%	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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ⁱ Chart: U.S. Stock Ownership Is High But Unequally Distributed | Statista

ⁱⁱ Daryl White BMO Markets Plus Podcast

ⁱⁱⁱ A \$131 Billion Crypto Crash Has Traders Fearing Lasting Damage - Bloomberg