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Q3 Earnings Learnings

"It is a capital mistake to theorize before one has data."

– Arthur Conan Doyle

The Through Line: A dearth of official data (thanks to the longest U.S. government shutdown on record) needn't prevent investors from gathering the information necessary to make informed investment decisions; plenty of insights can be gleaned from the earnings reporting season currently underway. We highlight key themes and what they suggest for the road ahead.

Not so spooky after all

As daylight grows markedly shorter and the scent of peppermint supplants pumpkin spice, markets defied naysayers to finish the spooky season at all-time highs. This marked the sixth consecutive month of positive market index performance. Despite having to navigate continued tariff conflicts, geopolitical tensions and central bank machinations, investors seemed ready to focus on the constructive fundamental news emerging from a raft of corporate earnings releases.

Based on the better than 75% of company reports currently in hand, Bloomberg data reveal that **aggregate sales growth is over 8%**, well above expectations coming into the period. Better yet, **bottom line earnings are up nearly 12%** (versus early expectations that growth would be in the upper single digits). This illustrates acute attention to margins despite the potential hurdles of trade wars and supply chain disruptions. Technology, communication services and healthcare sported double digit *revenue* increases. Threads of key themes – infrastructure and grid build out, deregulation and awakening animal spirits – were evident in the **sectors flashing double digit earnings increases: materials, industrials, technology, financials and utilities**. The chart shows in vivid detail both the expectations reset in the spring and subsequent beats from Q2 and now Q3 results.



What we've learned about consumers

Reporting season began much the same as it always does in the U.S. – the largest money center banks and credit card companies were up first. Analysts looked closely for hints re consumer health and purchasing behavior and came away reassured that fundamentals remained constructive across the top deciles of consumers. We noted several weeks ago ([WSP - Consumer Conundrum](#)) that the top 10% account for fully half of all consumption, or nearly one-third of GDP. Their willingness to spend is arguably tied more closely to markets and home values (the so-called wealth effect) than it is to employment trends. That said, we do suspect that anxiety about the sustainability of recent market gains and/or a softening white collar employment picture could prove challenging moving forward.

Although consumers in the middle and lower income tiers don't make a large contribution in terms of aggregate spending, they are showing mounting signs of stress. This stress showed up in the results of some of those companies most heavily weighted toward serving them. Prices for many basics from groceries and electricity to housing, autos and childcare remain worryingly elevated relative to prepandemic levels – even if the annual rate of change has slowed. This continued frustration over higher prices (and in some cases downright revolt against them) produced earnings misses across several name brand consumer goods companies that tried to push their own increased costs through to customers, only to see sales slump. Affordability issues were also clearly evident at the ballot box with record turnouts and upsets in some of this week's off-year election results. The more challenging environment plus a more lenient attitude toward large mergers and acquisitions has prompted more than a few potential transactions. We expect this trend to continue, particularly in the most frontline facing industries.

What we've learned about employment

There is no question that layoff announcements feature prominently in headlines and, increasingly, in earnings releases. After years of first building up and then hoarding staff, some managements are conceding they are a bit bloated and have multi-layered ranks in need of precision trimming to improve speed and flexibility. While the reported numbers may look large, it's wise to put them in context. For example, Amazon has announced it is trimming up to 14,000 jobs – but this is barely 2% of the 700,000 added over the course of the pandemic (on a base of 800,000 in 2019). Similarly, of the 1,800 HQ cuts announced by Target, fully 800 are slated to come from eliminating unfilled job postings. The scalpel like precision (versus chainsaw hacking of DOGE) is helpful for margins, competitive positioning and outlooks.

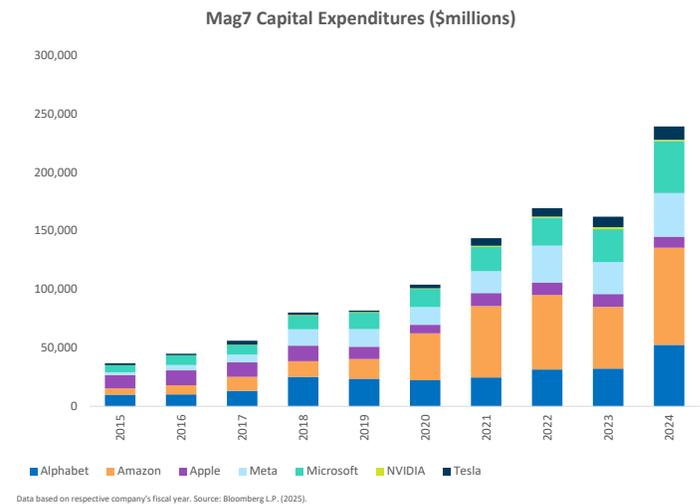
The deployment of AI, robotics and other advanced technologies is also likely to contribute to leaders' growing confidence that they should hold the line on/surgically trim their workforces. This is helpful as the supply of workers fades (via less immigration, aging boomers and smaller cohorts of Gen Z and Gen Alpha workers). Lower turnover and moderating salary increases should also aid margins. Longer term, it remains to be seen what sort of new jobs will be created while the shift to new processes and workflows plays out. Such transitions are painful to those caught in the gears, though history is full of such periods during the course of each evolution: agrarian to manufacturing; manufacturing to technology; and tech to more advanced knowledge and automation.

What we've learned about tech spend

Another prominent theme throughout earnings season is related to tech: AI and data centers, robots, driverless vehicles, defense, cybersecurity and cloud spend/migration for example. Investors are becoming more discriminating, rewarding those generating profits and/or converting AI into use cases but punishing those who are spending less discriminately or productively. This is especially true if the company has a record of investing significant sums in moonshot activities only to subsequently withdraw and write down. Investors are also punishing companies having difficulty executing well and/or seeing margins bogged down by inability to compete. **Similar to the K shaped consumer economy, there are hints of a K shaped corporate economy too.** The super large have the heft and connections to spend, argue for tariff/regulatory relief and partner that may be beyond the reach of small- and mid-sized firms.

So far, six (Tesla, Meta, Apple, Microsoft, Alphabet and Amazon) of the Mag 7 have reported results. Their capital expenditures – already spent and pending – have shown large increases over prior periods. We see investors applying increased scrutiny to who is partnering with whom and the circularity of some deals. OpenAI, for example, has announced nearly \$1.5 trillion in deals with all the primary cloud providers (Microsoft, Amazon, Google). Scrutiny is also increasing over how CapEx and joint ventures are being funded – from cash flow or financed by debt. For example, Microsoft had intended to float a \$25 billion bond offering to fund data centers but spurred by substantial demand (it was five times oversubscribed) increased it to \$30 billion. Microsoft

simultaneously floated an additional \$30 billion off balance sheet debt. Meta recently completed a \$28 billion debt offering underwritten by Blue Owl and Pimco.



Despite the large numbers, companies are noting that they are substantially backlogged for every megawatt of compute they can bring online – giving investors and lenders alike some level of reassurance. **Construction of data centers, reshoring of manufacturing activity and upgrading/expansion of grid and infrastructure needed to power the facilities is producing ripple effects in tangential industries such as materials, machinery, electricity and other utilities.**

What we've learned about deals

After a rocky first few quarters when the Trump administration was finding its footing, transactions are on track for a solid year. Municipal and corporate debt issuance is strong and the merger and acquisition space is headed for the second best year on record. IPOs were starting to make a resurgence until the government shutdown shunted SEC review of those transactions to the sidelines – but plenty remain in the pipeline. During earnings season, a number of tie ups or expressions of interest/activity have been noted in everything from media & entertainment to pharma companies. We've also seen several announcements of take private transactions. All this activity keeps markets on their toes and investor interest piqued.

Implications for investors

To date, third quarter earnings season has been more constructive than projected just a few months ago. Expectations that were ratcheted down markedly in the wake of the early April reciprocal tariff announcement have been handily beaten. Equity markets are forward looking, and judging from solid performance off the April lows, apparently discounted much of the constructive underpinnings. Given full valuations and continued high expectations, a pullback or interim reset would not be out of the question. However, considering the solid fundamentals, we do not believe such an event would be lasting.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. government shutdown rolls on – Now in record-breaking territory, the shutdown has implications for consumption and consumer companies. Last week, two separate federal district courts ruled that the Trump administration must use contingency funds and reserves to pay Supplemental Nutrition Assistance Program (SNAP) benefits. The U.S. Department of Agriculture (USDA) administers SNAP, which distributes roughly \$8.6 billion each month to increase the nutritional purchasing power of about 42 million low-income households. Congress appropriates funds annually for the program and in 2024 added \$6 billion to a rainy-day contingency fund. On September 30, the USDA published a report that reaffirmed these contingency funds should be used in the event of a government shutdown but then reversed course on October 24 when it noted that SNAP payments for November would be suspended. The U.S. District Court for the District of Massachusetts ruled the administration's "suspension of SNAP benefits is contrary to law" and that there is a statutory mandate "to use the previously appropriated SNAP contingency reserve when necessary." The court ordered the USDA to use contingency funds as necessary to fund the program. TD Cowen's consumer team said earlier this week that SNAP recipients account for about 12% of dollars spent on food and beverages.

U.S. employment update – The ADP National Employment Report noted that private sector employers added 42,000 net jobs in October, the first positive gain since July. Outpacing the Bloomberg median consensus estimate of 38,000, the tally was still considered weak by recent historical standards. Wage growth has remained flat for over a year, indicating a cooling of labor demand. Data also show greater dispersion across sectors and firm sizes. Hiring in October was concentrated entirely among large firms, while small and medium-sized enterprises thinned their ranks. Manufacturing has lost jobs for three consecutive months, in contrast to President Donald Trump's stated goal of adding jobs in the sector. Professional and business services have also seen three consecutive months of job losses, suggesting white-collar workers may be more susceptible to cuts than their blue-collar peers. Leisure and hospitality employment fell for a third month, signaling a possible slowdown in consumer discretionary spending. Education and health services and trade, transportation and utilities continue to be bright spots in the job story, the last likely finding additional support from seasonal factors. After 35 days of shutdown and no government data, third-party sources such as the ADP have become increasingly important. The improved ADP report does not strengthen the case for a Federal Reserve rate cut in December.

New Canadian budget proposed – Canada's recently elected federal government has tabled a budget full of spending, tax relief, a push for private sector investment, more efficient government operations and significantly deeper deficits. Broadly,

this is an economically favourable pivot from the deficit budgets run by the prior government but also forecasts what looks like a substantial structural deficit down the road. For FY25/26, the budget deficit is estimated at CAD\$78.3 billion (2.5% of GDP), generally aligned with what was expected, before narrowing somewhat to \$65.4 billion (2.0% of GDP) for FY26/27. There is no path back to balance in the forecast from these levels, and deficits persist above \$50 billion by FY29/30, or around 1.5% of GDP even when the economy returns to sturdy potential growth. Net new stimulus runs at roughly \$20 billion (or about 0.6% of GDP) for FY25/26 and \$22 billion for FY26/27, including the many policy measures already announced in recent months (e.g., personal income tax reduction and increased defence spending). Equity markets will zero in on the push to drive private sector investment. Many industries will benefit from accelerated CCA rates, and we'll see a government push in areas like critical minerals and nuclear. The climate plan also opens the door to eliminating the oil and gas emissions cap alongside development of carbon capture. In a country starving for productivity growth, it's hard to dislike tax relief and a major infrastructure push, although execution on the latter will matter a lot.

Canadian GDP hits late summer lull – It was a rough August for Canada's economy; GDP contracted 0.3%. A few special factors weighed on growth: the Air Canada strike hammered air transportation and drought hit hydroelectric generation. While those two sectors will rebound, they account for only a modest share of the softness; 12 of 20 sectors reported a decline in activity. Flash estimates point to a slight rebound in September (0.1%) and the Q3 estimate comes in at +0.1% (or +0.4% annualized). The economy is expected to struggle until there's more certainty on trade.

Next week

Light data week – even if U.S. government statistics mills were open and functioning. Main event of interest may be China's Singles Day (11/11) – it will provide a read on consumer spending and willingness to indulge.

- **Tuesday 11/11** – U.S. Veteran's Day holiday – bond markets closed | Elsewhere: Singles Day in China, one of the biggest shopping events of the year
- **Thursday 11/13** – U.S. *Initial jobless claims, CPI*
- **Friday 11/14** – U.S. *retail sales, PPI, Business inventories* | Canada Manufacturing sales

Data scorecard as of November 5, 2025

Equity Market Total Returns						
	11/5/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,796	-0.6%	16.8%	25.0%	26.3%	-18.1%
NASDAQ	23,500	-0.9%	22.4%	29.6%	44.7%	-32.5%
DOW	47,311	-0.5%	12.7%	15.0%	16.2%	-6.9%
Russell 2000	2,465	-0.6%	11.7%	11.5%	16.9%	-20.5%
S&P/TSX	30,103	-0.5%	24.5%	21.7%	11.8%	-5.8%
MSCI EAFE	10,140	-0.9%	25.5%	3.8%	18.2%	-14.5%
MSCI EM	752	-1.3%	31.1%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		-0.3%	6.5%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		-0.3%	5.7%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		-0.4%	6.9%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		-0.3%	7.1%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.0%	4.5%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.2%	3.3%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.2%	2.5%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		-0.1%	4.7%	6.9%	8.2%	-9.5%
Government Bond Yields						
	11/5/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.16%	4.08%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.16%	3.12%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.46%	4.41%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.67%	2.63%	2.71%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.66%	1.66%	1.64%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	11/5/2025 Level	WTD	YTD	2024	2023	2022
USD Index	100.20	0.4%	-7.6%	7.1%	-2.1%	8.2%
CAD:USD	\$0.71	-0.7%	2.0%	-7.9%	2.3%	-6.7%
Bitcoin	\$103,659.22	-5.3%	10.6%	120.5%	157.0%	-64.3%
Gold	\$3,979.57	-0.6%	51.6%	27.2%	13.1%	-0.3%
Oil (WTI)	\$59.60	-2.3%	-16.9%	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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