

WEEK ENDED November 21, 2025

Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Anx-AI-ety

“Success in creating AI would be the biggest event in human history. Unfortunately, it might also be the last, unless we learn how to avoid the risks.”

– Stephen Hawking

The Through Line: AI’s leap into public consciousness is barely three years old, yet it can be hard to recall a time when its progress or impact didn’t enter the conversation. Depending upon your point of view, it might represent the greatest breakthrough since the invention of electricity – or an existential threat to our very survival. Recently, markets have been grappling with a wide range of concerns – from industry valuations to mounting commitments to long-term capital and how they are being funded. We unpack some of the most vociferous arguments, believing markets still offer opportunity for patient investors.

Breathe, people!

Can we all pause for a moment and draw a deep and centering breath? Nicely done. Traders could take a lesson. Instead, fear and volatility have roiled markets for many of this month’s trading sessions: indexes around the globe were down 4% to 5% earlier in the week. (Though let’s not lose sight of the fact that most of them ended October at all-time highs and remain up double digits year to date.)

We noted last week ([WSP - Through the Looking Glass](#)) that pullbacks are the price of admission for market participants; gyrations and volatility are the rule, not the exception. In fact, many **long-term investors consider pullbacks a feature not a bug, helping reset psyches and laying the groundwork for the next up leg** (provided fundamentals remain intact.)

AI anxiety

The bulk of recent market volatility can be chalked up to heightened concerns about AI. Factors such as:

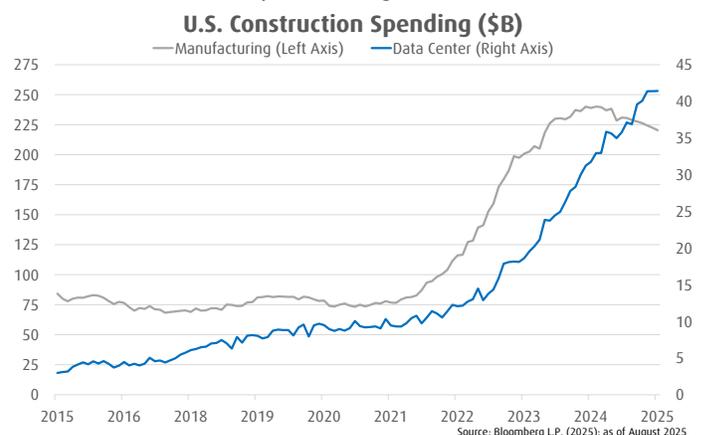
- mounting expenditures; how they are financed and what ROI (return on investment) can be demonstrated
- methodology for booking depreciation (a.k.a. the non-cash expense related to useful life of key assets that can influence earnings)
- high-profile investors reducing/eliminating their positions in leading AI companies
- significant outperformance of AI stocks over the last two plus years where that leaves valuations

We discuss the implications of these factors and how they intertwine in more detail below.

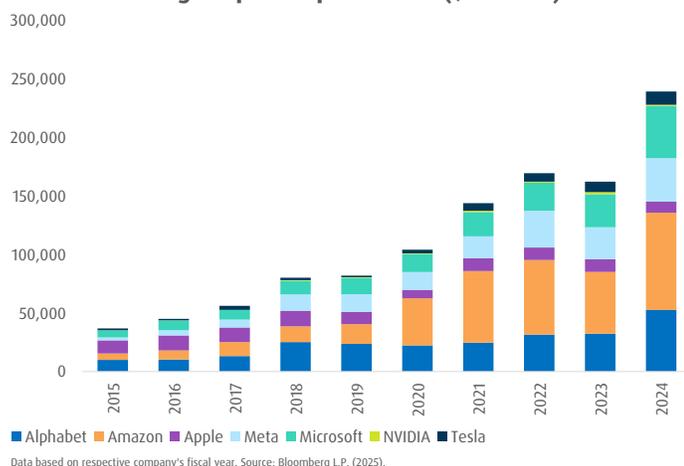
If you build it...

Commitments to purchase computer chips and build/retrofit data center and processing capacity have ramped quickly in the past several years. Although the bulk of spending so far has been financed largely from free cash flow, this has started to change as companies have tapped public and private debt markets. They have also entered into a variety of complicated financing arrangements and usage/access tie-ups. The flurry of activity has left investors questioning the circularity of the agreements and actions (e.g., vendor financing) that remind some people of the late 1990s internet bubble. We note the following:

Companies that are doing the bulk of today’s spending are generating revenues and profits at substantial margins and double-digit growth rates. This is very different from the sock-puppet days of the late 1990s when “business models” were based on eyeballs, clicks and catchy commercials – but no earnings and very few (if any) revenues. Tech companies that adapted and thrived from that period into today have been almost notorious for very low leverage – especially the largest ones where cash flow has been more than ample to fund growth.



Mag7 Capital Expenditures (\$millions)



In addition to investing cash flow back into existing businesses (e.g., cloud, cyber security, chip making capacity), cash flow is also funding R&D (research and development) in new technologies such as quantum computing, photonics and future generations of advanced chip and compute methodologies.

Accessing public and private debt markets and moderately increasing leverage ratios, provides flexibility to these companies' operating structure.

For many, debt financing is a lower cost of capital activity, allowing equity/cash flow to be used for acquisitions and employee compensation. *Microsoft, for example, can borrow in the debt markets at a lower interest rate than the U.S. government.*

Debt isn't inherently bad. Every business school teaches that there is an optimal level of debt (which varies by industry) that maximizes stakeholder interests. Consider the debt-to-asset ratios of bellwether companies like Walmart at 23%, or Caterpillar and Coca-Cola – both at over 44%. While the numbers sound big – largely because their first letter is a “b” and are blared breathlessly in headlines – **many of the largest tech names have very low leverage.** For example, Nvidia's debt-to-total-assets ratio is 7.5%, Microsoft's is 18.9%, Amazon's is 17.1% and Meta's is 16.8%.

It's really rather amazing that one of the largest CapEx and infrastructure buildouts in recent history is funded primarily by private industry rather than the government (aside from the deals cut by local municipalities to entice development in their regions). **It is also notable that these businesses are generating double-digit growth and double-digit margins even though they are decades old.** Each of those factors is notable, particularly in the technology industry where obsolescence is rampant and long-term survival requires continual adaptability.

The narrative shifts from slinging superlatives to casting aspersions

The AI/technology story has helped propel market averages upward for several years. In the early days, announcements of increased spend almost unanimously prompted increased stock prices and broader market rallies. In recent quarters, investors have become more discerning when analyzing each company's AI

expenditures, orders, backlogs and financing. The differentiation shows up in valuations, stock price performance (particularly when earnings were announced) and even in fixed income markets where credit default swaps (CDS, a.k.a. insurance policies that can be purchased to protect against default of a specific bond) have seen wide variations.

News headlines have also begun to shift from seemingly ubiquitous praise to questions about a number of issues: sustainability of the market advance; demonstrable progress in profitable AI deployment; and share disposition by high-profile holders. One of the more notable questions stems from the accounting principle of depreciation. Some folks are challenging the lengthening of depreciation schedules because this can appear to boost earnings. There can be a rationale for differing accounting treatment as chips put in service to train AI models have different life spans than those that support data storage (cloud), basic search or agentic AI. A number of analysts have scrubbed the accounting practices and found them defensible.!

Investor discipline (i.e., investors enforcing discipline on companies) is also evident in other arenas. Oracle is a case in point. Investors balked at the company's spending plans, sending shares down 35% from their recent all-time high (they remain up 30% year to date). CDS spreads have also widened materially, but Oracle sports a debt-to-asset ratio of 64%. The company does generate substantial free cash flow from operations which it had historically used to buy back shares. More recently, management opted to pivot toward AI/cloud build out funded with more debt. Thus, investors are right to be cautious. **This careful parsing of the fundamentals isn't bubble-like behavior.**

It's not all fun and games

We remain steadfast believers in the persistent advance of technology and the role it will play in economic and market life. That said, we are mindful of the many risks that the industry (and investing in it) present. For example:

- Though valuations seem full (despite the strong earnings, rolling projections to a new year and the recent pull back that mitigated some of the issue) tech valuations in general are higher than those of many other industries. The industry's revenues as a percentage of aggregate S&P earnings and GDP are also large. This can make for volatile market performance when a single company does anything that Wall Street wasn't expecting.
- Industry participants are starting to use the word “existential” to describe the need to spend – this can lead to indiscriminate expenditures if not monitored closely.
- Looking farther down the road, increased capital spending is shifting balance sheets back toward more capital intensity versus being asset light. This can lead to higher depreciation and fixed costs potentially hitting bottom lines if revenues fail to deliver.
- Can the data centers themselves scale fast enough? Energy is a gating factor. A snowball impact could be in play if capacity constrains revenue growth. Lower revenue applied to higher fixed costs can pinch earnings.
- Competition from new technologies is always a risk in this industry (think ChatGPT or DeepSeek). A new innovation in chip design, power systems or energy sources could send activity in a sharply different direction in very short order.

- Circularity in some deals makes it more difficult for analysts and investors to follow the money. Totalling full exposure can be difficult – particularly when private capital is funding growing amounts. We note that banks are increasingly backing private credit providers both directly and indirectly. Therefore, the risk of funding data centers is either very well spread around or potentially more concentrated than we can easily determine.
- A large proportion of today's spending is on items (e.g., the processing chips themselves) that have short life cycles and may need relatively frequent upgrades to maintain. This would suggest that the capital expenditure cycle for many of these companies may have wave-like cycles.

Implications for investors

Investing in technology is seldom a straightline affair – either up or down. Industry fundamentals invite volatility given higher growth rates and higher profile business models. In short, **these are real companies versus the story stocks that dominated indexes by the late 1990s. They generate real revenues from real businesses – but the share price gains are big, valuations are full, and psyches are on high alert.**

Many companies within the industry have tried to mitigate some of this volatility by running operations using very low leverage – a factor that is changing slightly, though it's garnering high profile attention. **For investors, keep your focus on fundamentals and do your best to ignore the most provocative headlines (or at least put them in a framework that focuses on long-term trends). Diversify holdings, particularly into other unrelated/ uncorrelated segments (a.k.a. those that respond to different economic drivers). Also seek those that will benefit from using the technology or enabling its use/build out.**

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Affordability dominates perception in the U.S. – Democrats were able to drive off-year election results that were better than anticipated. The reason: they emphasized affordability issues, which resonated with voters. Since consumers are anchored to their memories of what things used to cost, affordability is partially a perception problem that is hard for politicians of any stripe to change. Headline inflation peaked at 9.1% during President Joe Biden's term; less than three years later it had fallen to 2.9%.

Seeking a second term, Mr. Biden argued life was becoming more affordable. In reality, the pace of price increases decelerated, yet upward momentum continued. Voters were looking for *deflation*. President Donald Trump campaigned on a narrative of ending inflation and making "America affordable again." Ten months later, inflation remains close to where it was when Mr. Trump took office and once again affordability has become a top concern. For the majority, the struggle is real because reduced purchasing power makes the cost of everything from healthcare to hamburgers more difficult to afford. Over the last week, Federal Reserve officials have cited inflation risk to justify a pause on further rate cuts. To help address these concerns, President Trump announced the removal of reciprocal tariffs on specific agricultural products, including beef, coffee and bananas. Removing tariffs is likely to have only a minimal impact on inflation overall but demonstrates Mr. Trump's ability to adjust trade policy when necessary. Sentiment among lower- and middle-income voters may well get a boost in early 2026. That's when One Big Beautiful Bill refunds on tips and overtime hit bank accounts and the tax rate on Social Security income falls to zero for most seniors. Republicans will hope this provides a tailwind into midterm elections since affordability is destined to be the key battleground issue.

Canadian budget proposal boosts infrastructure spending –

In early November, the Canadian federal government tabled a budget full of spending, tax relief, a push for private-sector investment, more efficient government operations and significantly deeper deficits. Last week, Prime Minister Mark Carney unveiled a second round of infrastructure projects to be considered for fast-track approval. The government outlined the following strategies: realizing Canada's full potential as an energy superpower; creating new trade and economic corridors to diversify the nation's economy; building Canada's leadership in critical minerals to increase independence; and establishing data sovereignty at a scale to serve Canadians safely and securely. These projects will represent more than \$56 billion in new investment, support 68,000 good-paying careers, and (the government hopes) build Canada's economic strength for generations.

Growth rebounds in Canada – BMO Economics expects that growth in Canada snapped back in September after a tough summer. Sales volumes of both manufacturers (+2.7%) and wholesalers (+0.6%) saw strong gains, driven by a rebound in vehicle production. The August GDP drop of 0.3% is expected to be nearly reversed in September, mimicking the jobs rebound. Thus, the Q3 economy likely just barely avoided a second

consecutive quarter of GDP decline, sparing us a glut of "technical recession" headlines. The firmer tone in Canadian growth will put a further chill on prospects for Bank of Canada rate cuts near term. In contrast to the Fed debate, the next BoC rate decision now looks like a no-doubter: the central bank is keeping rates steady for now. The Summary of Deliberations from its October meeting revealed that some bank officials were uncomfortable with that cut. The two-month comeback in jobs, plus the pullback in the unemployment rate to 6.9%, will only reinforce moving to the sidelines for policy.

Canada inflation – Canadian consumer prices rose 0.2% in October (or just 0.1% in seasonally adjusted terms), cool enough to lower the headline inflation rate two ticks to 2.2%. Still, the details were a tad disappointing since lower gasoline and food prices were a big reason for the moderation, while many underlying prices ticked up. On the surface, this looks like a mildly friendly report that documents dips in headline and median inflation rates. However, the sources of relief were well-known ahead of time, and the news here is not great, driven by persistent strength in insurance costs and a snap higher in cell charges. Overall, this does little to change the BoC's view that underlying inflation remains close to 2.5%; but, if anything, most underlying metrics have been stuck a bit above that or have just crept up there.

Next week

Now that the U.S. government statistics are grinding back into action, a treasure trove of data is expected. Key reads on inflation – including the Fed's preferred Personal Consumption Expenditures measure – are slated for distribution during the holiday-shortened week. Canada's GDP is released on Friday.

Monday 11/24 – Canada Manufacturing sales

Tuesday 11/25 – U.S. Sept PPI, Consumer confidence | Canada Wholesale sales

Wednesday 11/26 – U.S. Initial jobless claims, GDP, Advance U.S. goods trade balances, retail and wholesale inventories, Durable goods orders, PCE reports

Thursday 11/27 – U.S. Thanksgiving holiday, stock and bond markets closed

Friday 11/28 – Canada GDP

Data scorecard as of November 19, 2025

Equity Market Total Returns						
	11/19/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,642	-1.3%	14.2%	25.0%	26.3%	-18.1%
NASDAQ	22,564	-1.5%	17.5%	29.6%	44.7%	-32.5%
DOW	46,139	-2.1%	10.0%	15.0%	16.2%	-6.9%
Russell 2000	2,348	-1.7%	6.5%	11.5%	16.9%	-20.5%
S&P/TSX	30,278	-0.1%	25.3%	21.7%	11.8%	-5.8%
MSCI EAFE	9,976	-3.4%	23.4%	3.8%	18.2%	-14.5%
MSCI EM	741	-1.8%	29.0%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.1%	6.7%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.1%	6.0%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.1%	6.9%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		-0.1%	7.0%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.0%	4.7%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.2%	2.8%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.2%	2.0%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		-0.2%	4.3%	6.9%	8.2%	-9.5%
Government Bond Yields						
	11/19/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.14%	4.08%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.25%	3.12%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.60%	4.41%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.71%	2.63%	2.71%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.77%	1.66%	1.64%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	11/19/2025 Level	WTD	YTD	2024	2023	2022
USD Index	100.23	0.9%	-7.6%	7.1%	-2.1%	8.2%
CAD:USD	\$0.71	-0.2%	2.4%	-7.9%	2.3%	-6.7%
Bitcoin	\$90,506.32	-4.7%	-3.4%	120.5%	157.0%	-64.3%
Gold	\$4,077.98	-0.1%	55.4%	27.2%	13.1%	-0.3%
Oil (WTI)	\$59.44	-1.1%	-17.1%	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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¹ [Burry Reveals Nvidia and Palantir Puts After Bubble Warning - Bloomberg](#), [AI Bubble Waves Off Michael Burry’s Debt and Depreciation Warnings - Bloomberg](#), [The ‘Core Controversy’ of the AI Bubble: Can GPUs Really Be Used for 6 Years?](#)