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More record highs for major indexes and US$5,000 gold: What BMO GAM's chief investment officer sees next for markets

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BMO's CIO Sadiq Adatia for Q&A

North American equity markets have staged a spectacular multi-year rally. While concerns about valuations are growing and were on display in markets on Tuesday, Sadiq Adatia, chief investment officer at BMO Global Asset Management, believes the underlying fundamentals remain supportive for equity markets to climb

higher. He argues that the S&P 500 “could easily get another double-digit return” next year.

Last week, The Globe and Mail spoke with Mr. Adatia on why he is bullish on equities and where he sees investment opportunities.

In your October outlook report, you indicated that you are slightly bullish on U.S. equities. The Dow Jones Industrial Average, the S&P 500 and NASDAQ Composite are all at or near record levels. Earnings growth is solid and the U.S. Federal Reserve is cutting rates. Why don’t you have a higher conviction with a bullish or very bullish call? Is it due to valuations?

There are two things. One is valuations are a little bit higher than we would like. I wouldn’t call them exceptionally stretched. And the second thing is there is still some uncertainty around the tariff situation, particularly with China. So, for those two reasons we’re remaining slightly bullish.

So, if we see some resolution on tariffs between the U.S. and China, would it give you greater conviction to raise your outlook?

Yes, it definitely would.

If that cloud lifts and we feel that the tariff that gets resolved is a decent amount and not too high, I think it means a bullish signal across the board for both China, which impacts global markets, including the U.S., and the big overhang over the U.S. goes away as well.

The S&P 500 is on track to close out the calendar year with a double-digit return for a third consecutive year. Looking ahead to 2026, what’s the probability that we see fourth consecutive year with double-digit gains for the S&P 500?

Normally, if you were to ask that question at the beginning of a four-year period, I’d say that the probability would be quite low.

However, I think if you look at what has transpired this year, the fact that earnings remain relatively resilient, consumers are still spending, we’re getting potential tax cuts, deregulation, and we’re now starting to get interest rate cuts as well, we could easily get another double-digit return in the market.

Now, I will say that as this four-year run has gone on, we’ve added more protection as the run has gone on, and I suspect next year will be no different. We’ll have hedges in our portfolio to allow us to still be bullish on the markets but have some protection in place.

And I’ll just give you one example. We’ve had an overweight to gold since 2023, but over the last few months, we have added protection on gold because we like it longer term,

but we think given the run-up, we were due for a correction, and we've got that call completely right because we've seen gold pullback and it's allowed us to maintain our position, profit a little bit on the pullback, but stay the course as well, and I suspect that will be the same situation with the U.S. market next year as well.

While we've seen a bit of a pullback in the price of gold, do you believe gold stocks will maintain their momentum going forward?

That's correct. I think because the uncertainty around the political environment remains. There is uncertainty on the impact of tariffs going forward. All we're getting right now is the short-term impact and people have done things to move things forward like inventory and purchases. We'll get a better sense of the impact in 2026. So, all those things still mean that you want to own gold.

I expect the U.S. dollar to weaken a little bit next year, not a whole lot, but a little bit, and there's still foreign buyers of gold across the board, including retail now. So, all those things give momentum to gold outside your traditional reasons. Therefore, you want to still be owning gold, I believe, into 2026. But given the run-up, you have to be prudent in how you're holding that gold and make sure you have some protection for when there are pullbacks.

Do you have a target on gold?

I think U.S. $4,500 to U.S. $5,000 is a reasonable target.

Next year, I think another 10 per cent higher to a bit more than that is definitely reasonable, especially if you continue to see rate cuts and you continue to see choppy markets. And what I mean by choppy is not a lot of down days, but some days where markets react really heavily to data or comments by Trump or geopolitical risk, which, I think, are not going away next year.

What do you believe is the probability that investor optimism has become too speculative where the market is due for a correction?

People have been worried about the markets and consumers for the last two years, and I think what people forget is coming off the COVID period, there was an excess amount of savings that kept everybody spending while rates were high. We're now changing course to rate cuts, which is beneficial for the consumer. As well, it's going to be beneficial to corporations because the cost of debt starts to come down.

But, as we go into next year, there's no doubt that the probability of doing what we did in the last three years does diminish because that is priced in.

The question is what derails the market, and that's obviously a question we always ask ourselves. It is things that we don't see, and that's more possible under this regime than any other regime. Tensions that occur in the Middle East, geopolitical risk around the

world, and trade deal impacts as well. With all these things, I think it's prudent to be a little cautious.

However, the fundamentals are still good. We haven't seen poor earnings. We've seen really good earnings, particularly in the United States. We haven't seen too many cautious outlooks so far this year. And, I think people are forgetting to add in the positives that might happen under a Trump regime. An example of that is the partnership that we've seen with AMD, Nvidia and the U.S. government on allowing them to ship to China but taking 15 per cent of their revenue from that. These are the types of things I think you might see more of in 2026 that would be positive for markets, at least in the short term, which allows for higher record index levels.

The S&P/TSX Composite Index is up over 20 per cent in 2025. Why do you have a neutral call on Canadian equities?

First, I think, valuation wise, Canada looks a lot better than the U.S., and all the headwinds that we've been seeing in Canada, I think, are all priced in.

Second, the USMCA deal, I think, is an important risk out there. Canada has the lowest tariff rate today because we have this USMCA deal in place, but next year that comes up for renegotiation. It's not going to be the same number, which means our tariff rate will go up. The uncertainty of what that rate is going to look like keeps a lot of companies in Canada hesitant to invest because they don't know what their input costs are going to look like and how things are going to play out on their margins. So, they're not investing as they probably would have liked to invest.

As we get closer to that USMCA deal and get a sense of how those negotiations are going, once there is clarity, companies can navigate that, and that generally gives that country a lift up, and that's what I think we'll see in Canada at that point.

There's been broad-based strength in the TSX Composite Index in 2025 with notable strength in the materials, technology and financials sectors. What sectors do you believe will be the leaders in 2026?

I still like financials. They've had a great run. I think there's a good opportunity in that space. It's not just the banks, it's insurance companies, it's asset management businesses, and the reason that I say that is because we have seen an enormous amount of wealth being built up over the last few years with the market run-up, for instance, and that wealth has started to see more and more money go into markets so the asset management side of the businesses of many of these companies are going to be very positive.

We don't have a big tech sector but the sectors that are tied to higher growth, and I'll put tech into that category, I think still have momentum to go higher from here. So those are the areas I would focus on.

Let's touch on the earning season. In your October outlook report, you commented on the positive second quarter earnings season and said that you see, "no reason why that trend can't continue into Q3 and beyond". Just how long do you see this positive trend potentially continuing and what insights give you the confidence to believe the positive trend will extend beyond the third quarter?

So, one of the beauties of how we manage money is that we have great teams, including sector teams that travel around the world. From a sector-by-sector perspective, we are going to different parts of the world to understand the dynamics that are going on. I was just in China less than a month ago.

You don't see earnings just drop off overnight. It's a gradual situation. So, what we're trying to figure out is compared to each of the previous quarters, are we seeing any of that potentially happening? And no, things still look pretty good. We're not seeing supply chain issues, competitors in the space are also saying similar things. There's not one outlier, for instance, that's saying something different that we should watch for. So those are the types of things telling us that we should still see pretty good results coming through, not just this quarter, but probably even the next quarter.

During your trip to China last month, what surprised you?

When I went to China, I heard that the U.S. and China tariff situation was not going to be like all the other countries in the sense that the U.S. dictated everything. China was not going to be in that same boat. They were not going to give in. They were going to continue focusing on their rare minerals, and when I came back that's exactly what happened. So, it was great because we had that insight.

We've heard a lot of negativity on the property sector and we expect that to continue. However, one of the things that you don't hear as much about is that people are selling their properties at a loss. But they've taken that money and put it into the markets, and that has not been traditionally what they've been doing. Chinese equity markets have had a run-up of 20 per cent so it's offsetting the negativity you were getting from holding a depreciating asset in real estate. And positive sentiment should eventually lead to more consumer spending. It won't happen overnight, but that's the positive. It also means that we should see more of that, more selling of the property sector, but it's not necessarily going to be a negative going forward in the same way that it was previously.

Outside of North America, what equity markets look attractive to you?

China, to me, is the big one. The Shanghai Composite.

A couple of years back, you had people wondering if you even invest in China, people were worried about delisting of stocks, people were thinking about a big trade war between the U.S. and China, and that put negativity on that market. Money flows weren't going in.

I think a lot has improved. The outlook looks a lot better. You've seen the Chinese government spend, but they have a lot left to do, if they wanted to, which can help stimulate the economy.

And then, if we do get a resolution on the U.S.-China trade deal, then it opens up every country to go back to working with China, and it allows both the U.S. and China to benefit and that should lift everybody up across the board. So, that to me means there's a lot of upside potential still left in China. And we've already seen a lot of it happen this year, particularly in China tech, which has done exceptionally well.

Geographically, how would you rank your top three exposures?

I would put the U.S. at the top of that list, China below it, and Canada would be next over Europe. I like the valuation in Canada. I like that a lot of negatives are already priced in. In Europe, each country is quite different. So, we put Canada a little bit ahead.

We just had the BMO U.S. Canada Summit a few weeks ago. At that summit, we had politicians and CEOs from Canada and the U.S., and what they were all expressing was some positivity about the Canada-U.S. potential relationship.

Part of that was tied to AI. Data centers require a lot of land, energy and water. If you look at who's a great partner for that it's Canada. We have a lot of land. We have a lot of energy and hydro so we would be a perfect partner.

And if you ask the U.S. who is the most trustworthy ally, it would have to be Canada. And data centers contain important information from a privacy perspective.

It will depend on the political side but that's why another reason why I think you put Canada ahead of Europe heading into next year.

So, your perspective has not changed with Trump saying trade negotiations are off with Canada?

I would say they're on pause versus not going.

There are things that disturb Trump at any given point in time, and the [anti-tariff] ad was just one of those things. Broadly his relationship with Mark Carney looks a lot better. I think his relationship with Canada is actually a lot better.

He just doesn't want the U.S. to be put in a bad light on the tariff front, and so when that happened, he made his voice heard.

I think it will not be a big headwind going forward.

What factors or styles do you believe will lead to portfolio outperformance?

We had been a bit more tilted towards growth, and that's been the right call for us. I don't think we're taking a massive tilt towards growth anymore.

We are less about style and more about where we see opportunities. For instance, we're bullish on financials and we're bullish on technology,

We are tilted more towards larger caps than small caps. We will admit that small caps are looking attractive, and as rate cuts happen more and more that will be bullish for the small caps because their cost of capital is more impactful to their bottom line, so I think there's an opportunity there. Canadian small caps have done quite well, so I think there's some possibility that we could go down that spectrum but we're not there yet.

We're not buying a lot of low volatility, for instance, because we are bullish on markets.

So, maybe a little bit tilted towards the growth side, maybe a little bit tilted towards the momentum side, but nothing major.

What are your thoughts on AI adoption?

It's only going to grow. It's a much longer theme. It's not just tied to the tech sectors, it's across all sectors.

And what you have to figure out here is, in terms of how to win in the space, is: 1) productivity is important, 2) does it help you in terms of minimizing your head count or your headcount growth into the future, which is a big cost for a lot of companies, and 3) it allows you to do things you couldn't otherwise do, and that would be an important part as well because then it opens up markets that you didn't have before.

We know that the revenue that you get from AI will continue to increase over time. Today, it's about the investment, and the future years are about the revenue. So, you want to see revenue pick up and drive that growth. And what people will try to figure out is if companies are getting that potential revenue or efficiencies that they had projected when they first made their investments. And that would be where we might see some volatility because it might be a company-by-company story.

You have a neutral recommendation on Canadian fixed income. Can you elaborate on that call?

Going forward, we're not seeing a lot of potential upside compared to equity markets or even compared to gold. We're a bit more bullish on gold and a bit more bullish on the equity side.

BMO is a leading ETF provider. Are there ETFs that have outperformed and have fundamental characteristics that align with your investment recommendations?

BMO Global Equity Active Fund (BGEQ-NE +0.16%increase) allows you to participate in the world from an active approach.

BMO Global Innovators Fund (BGIN-NE -1.68%decrease) gives you access to the key leading innovative companies across the spectrum. It is tilted a bit more to tech.

If you want to get exposure to dividend-oriented companies, we have **BMO Global Dividend Opportunities Fund** (BGDV-NE +0.17%increase).

If you want to participate in markets but in a more risk-controlled fashion, we have an incredible covered call ETF lineup across all sectors predominantly.

What's an important lesson that you gained during your career that may benefit investors? A piece of advice that investors don't often hear.

Focus long term. I think people are forgetting that if you just stayed invested over this cycle and didn't worry about the bumps that you're going to see in the road, because you are going to see bumps, you would have done exceptionally well. Trying to time markets never works and you lose so much potential money. So, just stay invested, keep buying on dips because markets do go higher more often than they don't.

I think the other thing to remember is that it's not easy to manage money. It's a full-time job, and you might want to get an investment manager to manage that for you who can monitor risk and use tools, like options and hedges, for downside protection.

Is there a key message that you want readers to take away from this conversation?

I'd say try to weed out the noise that's in the markets. There's a lot of it. Always focus on the fundamentals. The fundamentals take the markets to where they need to be. Fundamentals do get out of whack in the short term sometimes, but longer term, that's what drives the stock market.

Is there anything we didn't discuss that you want to highlight?

I think people should also remember to pay attention to the currency aspect. It does have an impact on your total return.

Can you comment on currencies?

My longer-term view is that Canadian dollar starts to appreciate once we get past the USMCA deal.

I don't think you're going to see the demise of the U.S. dollar. The key here is that people still need the U.S. dollar. It's still going to be the reserve currency.

However, people are looking to move a little bit out of the U.S. I don't see a lot of weakness in the U.S. dollar in the short term, but over the long term, people will start to look for different trade avenues that are outside the U.S., and that will mean some selling of the U.S. dollar at some point.

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