# WEEKLY STRATEGY Perspectives

BMO Private Wealth

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**Carol Schleif, CFA, SASB-FSA**
Chief Market Strategist

**Note:** This is the final issue of *Weekly Strategy Perspectives* for 2025. We will use the next two holiday weeks to refresh, regroup and prepare for the twists and turns that markets may bring in the new year. Wishing you and yours health, happiness and days filled with all the things you love best.

## Surprise, Surprise

*"Surprise is the greatest gift which life can grant us."*

– Boris Pasternak

**The Through Line:** For writers and poets, surprise is a gift. But investors hate plot twists – and 2025 had more than its fair share. We look back at some of the year's biggest eye-openers, highlighting key lessons that can be carried forward into the New Year.

### A random walk down Wall/Bay Street

Investors go to great lengths to find order and predictability in capital markets, which are often chaotic. Here's the nasty little secret, though: ***by definition markets are unpredictable and random, at least in the short run***. Yet much of the business in and around the markets focuses on trying to forecast how various asset classes and their measurement yardsticks will behave. Or where they will land on a specific date such as December 31.

Humans are hardwired to fear unpredictability, searching instead for repeatable patterns and relationships that can help organize our existence. Relegating the bulk of our daily tasks to auto pilot leaves our brains free to better focus on and deal with unique events that invariably happen. However, **there's a downside to "lather-rinse-repeat" when it comes to investing: it can lure us into presuming cause and effect where none exists – and ignoring signs that might point us in a different direction**. Similarly, past patterns lull us into believing that the future will play out the same way. For example, we have the adage that "an inverted yield curve (when short-term debt carries higher yields than long-dated bonds) leads to a recession" or "stocks don't grow to the moon; what goes up, must come down."

### Everything everywhere all at once

The early days of the new Trump administration introduced an onslaught of unanticipated surprises in nearly every aspect of life: immigration; trade policy; higher education accessibility; non-profit funding; U.S. support/leadership of post-WWII organizations (e.g., the World Bank and NATO); military protocol and deployment; industrial policy; regulation of key emerging technologies (crypto, stablecoin, AI); passage of a major tax overhaul bill; deregulation of old-line industries (banking, mining); who could work for the government; who could lead government agencies; who was allowed in the press pool. Virtually everything was on the table.

In retrospect, most of the action items should not have been that shocking – they were consistent promises on the campaign trail. The biggest surprise was the frenetic pace of change, the communication channels used to deliver the messages, and the fact that it was all happening at the same time. For market watchers, the challenge was to sort through everything to isolate the issues that had lasting implications for the health or trajectory of capital markets.

## What doesn't kill you makes you stronger

Perhaps the most significant surprise of 2025 was how resilient both businesses and consumers were. No matter what obstacles were thrown in their path, they kept moving forward. Despite the handwringing headlines that featured a desperate search for historic precedents on which to base expectations, maybe we should have seen that sturdiness coming, given all the trials both have successfully overcome this decade. Let's review a few of this year's most notable examples:

- **DOGE's rampage** through government agencies in an attempt to root out "waste, fraud and abuse," plus border closures and ramped up deportations, did not materially harm the broader economy.
- **Tariffs** didn't cause widespread inflation, prompt a trade war or cause a recession.
- **Businesses didn't need clarity after all** to execute on their plans; aggregate S&P 500 earnings in the most recent quarter saw revenue and earnings per share growth of 8% and 13%, respectively.
- **Consumers can be crabby** and still spend in spite of (or because of) their agita.
- **The U.S. actually IS still investable –** the dollar and U.S. Treasurys continue to play hedge-in-time-of-distress roles; foreign direct holdings of U.S. Treasurys hit an all-time high in the second quarter.[i]
- **A lot of other countries** are also investable – the global geopolitical pivot (security alliances/trade policy) was actually good for forcing a rebalance of global trade.
- **Bull markets don't die of old age –** another double-digit up year is possible, even though we already have two in the bank, provided fundamentals remain intact (WSP - Fearless Forecasts).
- **A significant alteration in the U.S. geopolitical trajectory was enough to tilt elections –** in Canada and Germany, for example – in directions that had seemed implausible mere weeks before.

## What lessons did we learn?

Now that we have nearly 12 months under our belts and the advantage of 20/20 hindsight, here are a few lessons from 2025:

- **Follow the fundamentals –** particularly those that can be gleaned from corporate earnings reports and other front-line indicators, including the Fed's Beige Book.
- **Ignore the headlines –** not everything that is reported has investment implications. Always ask 1) is that true; 2) who wrote/said that; 3) is the source biased?
- **Take your finger off the trade button –** if your first reaction comes from a place of emotion, step back and breathe. Lean into the space between stimulus and response (and refer to the two preceding points). Many who moved to the sidelines when markets (over) reacted to tariff news in early April had difficulty getting back into the markets – despite the fact that the downturn lasted less than two months.
- **Diversification matters –** although AI stocks, data center spending and the narrowness of U.S. equity markets captured most of the headlines, many global bourses (including the S&P/TSX) were up substantially more. The U.S. bond market generated above-average returns while Canadian bonds put up more modest gains. But both played their traditional role as ballast.
- **Substantial stimulus is working its way through the system –** including deregulation, tax benefits to consumers/businesses from the tax act passed on July 4, establishment of regulatory framework for emerging technologies like AI and stable coin, and tolerance of much larger tie ups. These help form a solid base to tee up progress in 2026.

## Implications for investors

Stepping off into a new year with full valuations and a trio of double-digit up years on the books is likely to leave nerves just a bit raw and stomachs churning. The potential for continued surprise is high although a modicum of clarity on key fronts (e.g., tariffs) is starting to emerge. A few suggestions to help avoid acid indigestion:

- **Focus on things you can control** (turnover, costs, fees).
- **Know why you own each asset/asset class** and the role it is expected to play – risk diversifier or dampener, growth vehicle, income generator, place holder for a future expenditure.
- **Rebalance** strategically; use volatility to your advantage to trim/reinvest.
- **Use dollar cost averaging** (buying/selling set amounts at periodic intervals) versus leaning into "all or none" thinking.
- Ideally, **have a written plan** (investment policy statement) that establishes ranges and a framework for how your portfolio is to be invested.
- **Keep everything in perspective;** money isn't a be-all and end-all – it's a tool that allows you to do other things (e.g., provide a lifestyle and support for the people and causes important to you).

If we are able to learn helpful strategies from the developments of 2025, perhaps all the surprises delivered some gifts after all.

# In focus in North America

*Jon Borchardt, Sr. Analyst*
*George Trapkov, CFA, VP and Portfolio Manger*

## This week

**Delayed U.S. eco data continues to trickle out –**
In November, the unemployment rate rose to 4.6%, its highest level since September 2021. The unemployment figure was part of the Tuesday morning data dump, which provided mixed signals. Nonfarm payrolls rose by 60,000 in November following a 105,000 decline in October. October's drop was led by government cuts after federal employee buyouts hit the books. Private payrolls fared better, rising by a net 121,000 jobs over the two-month period, but gone are the days of broad-based growth, with only three of the 11 major sectors adding workers in November. Manufacturing continues to shed jobs, suggesting the much-discussed reshoring push has yet to translate into meaningful labor demand, while the construction sector posted solid gains. The pace of wage growth continues to moderate, signaling rising slack in the labor market that is easing inflationary pressure on worker compensation. On the more positive side of the ledger, core retail sales rose 4.7% year on year in October. This reflects continued consumer spending, a trend affirmed by retailer commentary during the calendar Q3 earnings season.

**Canadian inflation remains moderate –** Consumer prices rose 0.1% in November (or +0.2% in seasonally adjusted terms), a bit lower than expected and mild enough to hold the annual inflation rate steady at 2.2%. The main core inflation rates all took a step down in the month; the Bank of Canada's two measures both chilled two ticks to 2.8% year over year (and both were up just 0.1% month over month in seasonally adjusted terms). There's not much debate that food prices are the major underlying problem causing inflation. Even in seasonally adjusted terms, overall food costs rose a hefty 0.9% month over month in November. While the central bank's policies can do precious little about that, the reality is that rising food prices can make a big impact on inflation expectations – which the bank cares about a great deal. Overall, though, the calming core metrics support the view that the BoC will be comfortable sitting on the sidelines for some time.

**Canadian housing markets still chugging along –** Canada's housing market remained balanced overall heading into the quiet depths of winter. Soft sales activity and prices were still correcting in some markets while others held firm. Existing home sales rose 0.6% in seasonally adjusted terms in November but were still down 10.7% from year-ago levels. Balanced conditions have left the national benchmark price effectively flat since the spring. On a seasonally adjusted basis, prices were down 0.4% in November and 3.8% from a year ago. The market has transitioned from a steep correction (prices are still more than 17% below peak levels) to a long and slow grind. BMO Economics suspects that will continue in 2026 with little to spark the market.

**U.S. Congress fails to pass healthcare subsidies –** Members of Congress are heading home for the holidays, leaving roughly 24.3 million Americans who are enrolled in Affordable Care Act (ACA) coverage facing a stark choice in the new year: absorb higher healthcare costs or drop coverage when the expanded enhanced premium tax credits expire and subsidy levels revert to their pre–American Rescue Plan structure. Both chambers have advanced multiple healthcare bills. In fact, the House saw a valiant bipartisan effort to address healthcare affordability, but no single proposal garnered sufficient support for final passage. Open enrollment for the 2026 ACA plan year runs through January 15, giving Congress a short window early in the new year to deliver a retroactive solution for those on the ACA. Failure to do so could see roughly 7.3 million fewer people enrolled in subsidized marketplace coverage. On January 31, the federal government's short-term budget expires, potentially setting the stage for another congressional showdown over healthcare. The run-up to the midterm elections will heighten headline risk and reduce the odds of a swift compromise.

## Next Week

Several key delayed U.S. reports, including GDP and consumer confidence, will be released in the holiday-shortened period. In Canada, GDP and notes from the most recent Bank of Canada rate-setting meeting are on the docket.

- **Monday 12/22 –** Canada PPI
- **Tuesday 12/23 –** U.S. Q3 GDP, Durable goods, Consumer confidence | Canada GDP, BoC summary of deliberations
- **Wednesday 12/24 –** U.S. Initial jobless claims | Canada Budget balance
- **Thursday 12/25 –** Christmas holiday – markets closed
- **Friday 12/26 –** None scheduled

# Data scorecard as of December 17, 2025

| Equity Market Total Returns | | | | | | |
|---|---|---|---|---|---|---|
| | 12/17/2025 Level | WTD | YTD | 2024 | 2023 | 2022 |
| S&P 500 | 6,721 | -1.5% | 15.7% | 25.0% | 26.3% | -18.1% |
| NASDAQ | 22,693 | -2.2% | 18.3% | 29.6% | 44.7% | -32.5% |
| DOW | 47,886 | -1.2% | 14.5% | 15.0% | 16.2% | -6.9% |
| Russell 2000 | 2,492 | -2.3% | 13.2% | 11.5% | 16.9% | -20.5% |
| S&P/TSX | 31,250 | -0.8% | 29.6% | 21.7% | 11.8% | -5.8% |
| MSCI EAFE | 10,433 | -0.3% | 29.1% | 3.8% | 18.2% | -14.5% |
| MSCI EM | 741 | -2.2% | 29.2% | 7.5% | 9.8% | -20.1% |
| **Bond Market Total Returns** | | | | | | |
| | | WTD | YTD | 2024 | 2023 | 2022 |
| Bloomberg U.S. Aggregate | | 0.3% | 7.0% | 1.3% | 5.5% | -13.0% |
| Bloomberg U.S. Treasury | | 0.3% | 6.1% | 0.6% | 4.1% | -12.5% |
| Bloomberg U.S. Corporate | | 0.2% | 7.4% | 2.1% | 8.5% | -15.8% |
| Bloomberg U.S. High Yield | | 0.0% | 8.0% | 8.2% | 13.4% | -11.2% |
| Bloomberg 1-10 Year Munis | | 0.0% | 4.9% | 0.9% | 4.5% | -4.7% |
| Bloomberg Canada Aggregate | | 0.1% | 2.1% | 4.0% | 6.5% | -11.3% |
| Bloomberg Canada Treasury | | 0.2% | 1.1% | 2.9% | 5.0% | -9.9% |
| Bloomberg Canada Corporate | | 0.2% | 4.1% | 6.9% | 8.2% | -9.5% |
| **Government Bond Yields** | | | | | | |
| | 12/17/2025 Level | Last Month End | Last Quarter End | 2024 | 2023 | 2022 |
| U.S. 10-Year Treasury | 4.15% | 4.02% | 4.15% | 4.57% | 3.88% | 3.88% |
| Canada 10-Year Government | 3.43% | 3.15% | 3.18% | 3.23% | 3.11% | 3.30% |
| U.K. 10-Year Gilt | 4.47% | 4.44% | 4.70% | 4.56% | 3.53% | 3.66% |
| German 10-Year Bund | 2.86% | 2.69% | 2.71% | 2.36% | 2.02% | 2.57% |
| Japan 10-Year Government | 1.97% | 1.81% | 1.64% | 1.09% | 0.61% | 0.41% |
| **Currencies & Real Assets** | | | | | | |
| | 12/17/2025 Level | WTD | YTD | 2024 | 2023 | 2022 |
| USD Index | 98.37 | 0.0% | -9.3% | 7.1% | -2.1% | 8.2% |
| CAD:USD | $0.73 | -0.1% | 4.3% | -7.9% | 2.3% | -6.7% |
| Bitcoin | $85,948.73 | -4.7% | -8.3% | 120.5% | 157.0% | -64.3% |
| Gold | $4,338.33 | 0.9% | 65.3% | 27.2% | 13.1% | -0.3% |
| Oil (WTI) | $55.94 | -2.6% | -22.0% | 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] Foreign holdings of US Treasuries climb to record $9.13 trillion in June | Reuters