

2025 Year in Review: Resilience and Feedback

“Never confuse genius with luck and a bull market.”

– John “Jack” Bogle (1929 – 2019), American investor, business magnate and philanthropist, founder of The Vanguard Group

Resilience and feedback are two words that best sum up 2025. The year may also go down as the “t” year: tariffs, tensions, trade, TACO and Trump all featured prominently. However, “t” words also dominated the latter half of the year: turnaround, terrific and all-time highs. Most of the world’s stock market indices posted positive returns, some spectacular and surprising. Among the world’s top performers were benchmark stock indices in Canada (+28.3%), Mexico (+29.9%), and Korea (+75.6%), three countries that are heavily reliant on U.S. trade. In our opinion, the single most important development of the year was the crucial feedback the U.S. bond market delivered to the Trump administration, paving the way for a recalibration of its tariff policies.

Resilience

Resilience is the only way to describe households that continued to spend, and businesses that continued to invest despite all the change and widespread uncertainty in 2025. While the rewiring of trade and geopolitical relationships is challenging, it has set changes in motion that lean positive. Capital markets embraced the prospect of long overdue defence spending in Europe, Canada and elsewhere; an attitude shift toward government efficiency (the concept behind DOGE); and government spending increasingly used to stimulate productive investments (e.g., infrastructure and Canada’s nation-building initiatives).

Some of the resilience is genuinely amazing. Real GDP growth for the global economy is on track to reach 3.2% for the year. Growth is beating forecasts in numerous places – including, and forcefully, in Canada. Stunningly, world trade is estimated to grow roughly 5% in volume terms. That’s not only a solid outcome in a year of trade stress and uncertainty but also the best increase in four years. Globalization isn’t dead; it’s retooling.

While trade with the U.S. is under renovation, the rest of the world carries on. Scores of nations are forging and strengthening trade ties with each other.

Feedback

Standing in the Rose Garden on the afternoon of April 2, President Donald Trump delivered the shock of the year, unveiling the first batch of his sweeping global tariffs that upended decades of U.S. trade policy. The plans gave the impression that they were hastily drafted, the clue being levies on obscure, uninhabited islands (aka penguin tariffs). Global stocks swooned by double digits; U.S. stocks saw the worst declines (-19% for the S&P 500 from its recent February peak).

Since governments don’t own stocks, equity market declines are tangential feedback and easier to dismiss. However, disturbances in currency and bond markets bring immediate and forceful consequences. Governments borrow money in the bond market – and the U.S. borrows a lot. In response to the tariff shock, U.S. bond yields rose sharply, which would directly affect government finances. The U.S. Dollar Index (DXY) plummeted, extending its 5% year-to-date decline to 10%. These market consequences forced the administration’s hand, and within 10 days the tariffs were paused. This set the stage for what pundits called the TACO trade (Trump Always Chickens Out) that became a reliable phenomenon for the remainder of the year.

Patience paid off

Through the uncertainty, we relied on our training and experience to think about what is achievable, sustainable and congruent with the laws of supply and demand in a modern capitalist system. We

believed that crucial feedback loops would provide enough input to prod the U.S. administration into fine tuning its policies. Among these feedback loops are the checks and balances of Congress (the constitutional owners of revenue tools), the judiciary, public opinion and corporate lobbying. Many of these key voices were uncomfortably silent in the heat of the moment, but all have since begun to exert their influence. Feedback from the capital markets is unemotional and swift, and our view was quickly confirmed by the capital markets' immediate and forceful response as rising borrowing costs, tumbling stock markets and the U.S. dollar motivated the course correction.

Throughout the rest of the year, investors became more adept at filtering out the noise. A shift in how business gets done is not the same as wondering whether business will get done at all. For shareholders and bondholders, the question of where and how corporations generate revenue is distinct from whether they will make a profit.

Equity results in 2025 were solid because households and businesses showed resilience, and feedback tempered the administration's actions. Thus, the world was able to absorb and adapt to new developments, and capital markets and economies soldiered on. Ultimately, the business of the world is doing business.

Earnings are everything

Many equity markets enjoyed double-digit earnings growth thanks to a variety of factors: stable-to-falling inflation leading to reasonable bond yields; accommodative central banks; steadying economic growth, which is slowing a bit in the U.S. (cooling from hot to a slight post-tariff chill); but better-than-expected growth in multiple other economies. Stock market gains can be attributed to earnings growth, valuation expansion (paying more for the same level of earnings) and dividends. Earnings growth accounts for most of the gains in U.S. markets – a normal and very welcome development that is commensurate with the 16.4% gain for the S&P 500 on the year. Equity markets that achieved exceptional gains did so because of a combination of earnings growth and valuation expansion as these markets rerated higher from undervalued levels.

No need for elbows if you're winning

Canada needed "elbows up" through the spring election period and the harshest trade rhetoric toward Canada. Tariffs and Trump's threats galvanized and awakened us to the need for greater self-reliance in our defence and trading relationships. What followed was constructive debate over how we do business in this country. Currently, Canada has some of the most favourable access to U.S. markets. Future trade negotiations will require intense effort, but the conversations at home feel less panicked and more optimistic that we can move forward on measures designed to drive economic growth, investment and productivity.

Canada's situation was reflected in our capital markets. Our currency strengthened (up 4.8% to US\$0.729 from US\$0.701) and the S&P/TSX Composite bested many markets, including the S&P 500. Ten out of 11 sectors posted gains; seven notched double-digit upswings. Earnings growth underpins much of the gain, but the showstopper was the 98% advance in the materials sector, which was driven by rising prices for precious metals. This standout performance created a challenging environment for active money management. The magnitude of the rally in precious metals skewed benchmark returns. Even though disciplined, top-tier portfolio managers delivered very solid results, their returns still lagged the index.

Medium and longer-term bond yields rose slightly, while short-term yields fell, driving the FTSE Canada Universe Bond Index to a modest 2.6% return. Longer yields were rising on inflation and fiscal spending largesse but also – importantly – thanks to an improving outlook for Canada's economy.

Not so uninvestable after all

Earnings growth and valuation expansion account for the robust results in a lot of other markets. Outside the U.S., multiple equity markets entered 2025 undervalued relative to their historical averages. Heading into 2025, sentiment was reserved across markets because earnings growth had been sluggish in Europe, China's economy had been struggling for several years and, of course, trepidation had mounted over potential changes the new U.S. administration might bring. These cheaper valuations, plus better-than-expected results on earnings growth (modest in Europe yet impressive in Japan), led international developed markets represented by the MSCI EAFE Index (Europe, Asia, Far East) to post a 27.9% gain.

Back in 2024, we talked about Chinese equities being cheap. Sentiment was so bad that investors began wondering whether China might become uninvestable. Classically, that talk marked the bottom for Chinese equities. The rally gained traction in January 2025 on the news that a Chinese company, DeepSeek, had built a decent AI model at a fraction of the cost of those built by Western tech giants. This artificial intelligence startup reminded investors that China's tech companies had once been market darlings. U.S. trade antagonism toward China, while volatile, has landed less harshly than expected; ditto for the impact on Mexico. China is continuing its economic stimulus measures. Combined, these factors drove the MCSI China Index up 28.3% in 2025, and over 50% since September 2024. In turn, the MSCI Emerging Market Index (US\$) climbed 30.6% in 2025.

The last word: Beware bull-market genius

"Are we in a bubble?" is a question that has been top of mind for us and for our clients over many months. Our [BMO Nesbitt Burns 2026 Capital Markets Outlook](#) addresses this topic in detail and outlines our constructive view on capital markets for the year ahead.

One area we have yet to address is the flip side of bubble fears: the emotional condition known as bull-market genius. In a prolonged bull market, rising prices reward risk-takers, making investors feel brilliant and leading them to believe risk has vanished. This self-deception can cause people to take on excessive risk. But when the situation sours, they suffer losses they cannot tolerate.

Bull-market genius at the individual level is one thing, but bubbles and manias require crowds of investors to pile in recklessly. On an individual level, we work together with our clients to avoid complacency and keep risk exposures in line with expectations. As for the broader crowd, it's encouraging that the question of bubbles is so prevalent. Manias require a blindness of faith that prices will forever go up with no limits. Everywhere I go – from TV studio to Ubers, Bay Street to Main Street – people ask me if we're in a bubble. That's a good thing – it means that investors are aware of a potential bubble and are on guard against the dangers of that happening.

And it isn't just about asking the question. The price action in equity markets also points to healthy discipline. If the Magnificent Seven stocks in the S&P 500 are the centrepiece of the bubble talk, recall that, as a group, they have endured two sharp selloffs (17% and 28%) over the last 18 months. Individually, investors cut Tesla shares in half in early 2025. Shares of all the others (except Microsoft) have experienced drawdowns of 30% or more in 2025 alone. It's sensible – not mania or bull-market genius behaviour – to question debt levels and circular financing arrangements within AI-related businesses.

Lastly, yes, the bull market has broadened out, but we don't see this as a sign of mania. It's a healthy development if the broadening is supported by solid earnings growth – which it is. Annual earnings growth expectations for 2026 across the major equity market indices of Canada, the U.S., Europe, Japan and emerging markets range between a solid 12% and 16%. We haven't seen that level of uniform strength for at least five years.

How can you defend against bull-market genius? As Jack Bogle points out, recognizing it exists is the first step. Investing godfather Benjamin Graham also offers some sound advice: "The essence of investment management is the management of risks, not the management of returns." The investment style we employ at BMO Private Wealth is built to deliver prudent, risk-adjusted, high-quality, well-diversified solutions that will stand the test of time.

To you, our clients, we offer heartfelt thanks for your faith and trust in us, allowing us the privilege of working on your behalf. Our responsibility to you always comes first.

Best wishes for 2026.

Please contact your BMO Nesbitt Burns Investment Advisor if you have any questions or would like to discuss your investments.



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