

WEEKLY STRATEGY Perspectives



Private Wealth

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Interview with Dan DiCicco, Vice President, Equity Research, BMO Capital Markets

Industrial Renaissance

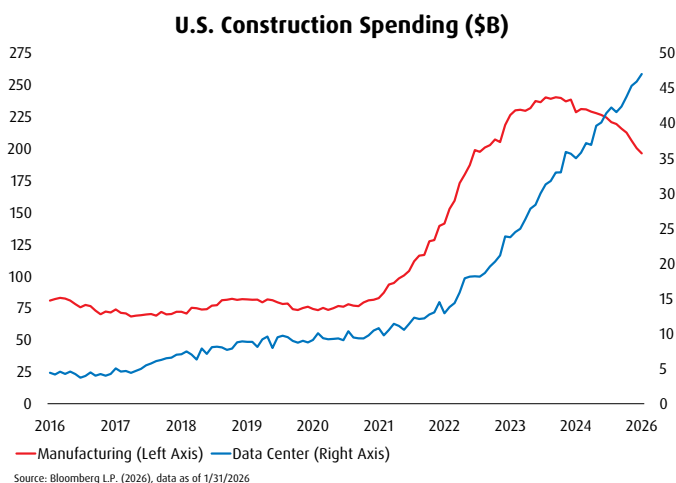
“Ever since the Industrial Revolution, investments in science and technology have proved to be reliable engines of economic growth. If homegrown interest in those fields is not regenerated soon, the comfortable lifestyle to which Americans have become accustomed will draw to a rapid close.”

– Neil deGrasse Tyson

The Through Line: AI and the infrastructure needed to support its development and use have dominated much of the narrative – and stock market performance – since the release of ChatGPT in November 2022. Yet, advances in other important technologies (e.g., robotics, autonomous vehicles, drones) plus an understanding that aging infrastructure needed serious upgrades, have motivated important changes in funding and policy. Recent wars, supply chain shocks and a record-breaking moon mission add to the complexity – and the opportunity. This week, we speak with BMO Capital Markets industrials analyst Dan DiCiccio, who outlines the potential macroeconomic implications of the many moving parts.

Widening the aperture

Q: Over the past few years, a disproportionate share of investor/financial media attention has focused on all things AI and the data centers needed to power them. (Perhaps this is not very surprising, given the substantial increase in expenditures allocated to these areas – see chart). However, a series of high-profile shocks, mishaps and opportunities have also highlighted prospects for innovation and investment in other key themes. What are your top theses and why?



A: We believe structural themes – AI/power, aerospace and defense (A&D) and infrastructure – are as strong as ever and will continue to dominate the narrative. Unprecedented spending associated with these themes plus increased demand for complexity, connectivity and speed will

drive a substantial increase in the industrial installed base and translate to high-margin aftermarket opportunities well into the 2030s. The sector entered 2026 showing solid momentum following strong order activity in the back half of 2025. This was accompanied by record backlogs, providing visibility and downside support despite macro noise. Early-cycle indicators are hinting at green shoots emerging. For example, the Institute for Supply Chain Management surveys turned positive January to March, and commentary has improved at the margin across pockets of auto, Europe and building. However, Europe, China and the consumer remain soft overall.

Three core themes

Q: Please outline key factors for each of these three themes.

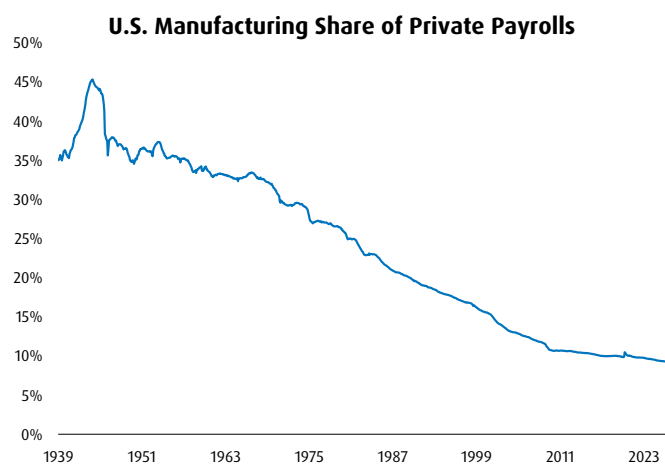
Major Theme #1 AI/Power: AI investment is emerging as a defining, multi year structural driver for industrials through its outsized impact on infrastructure and power demand. Global AI related capital spending is accelerating sharply; Bloomberg estimates US\$3.5 trillion of investment from 2025–2030; hyperscaler capex exceeding \$600 billion in 2026 alone; and sovereign AI initiatives potentially reaching around \$600 billion by decade’s end, reflecting governments’ prioritization of data security and domestic compute.¹ This wave of investment is driving a step change in electricity demand, which, according to the International Energy Association is now expected to grow more than 3.5% annually through 2030.¹¹ That’s above global GDP for the first time in 30 years and is split about evenly between data centers and broader electrification. **Critically, data centers are becoming both larger and far more power dense;** rack power rose from around 4-5kW historically to around 50kW today and has a clear path toward 100kW+ configurations. This materially increased demand for grid upgrades, power equipment, thermal management, and advanced cooling solutions. **The result is a sustained, infrastructure heavy capex cycle – spanning power generation, transmission, distribution, cooling and controls – that directly underpins long cycle growth visibility for a broad set of industrial companies.**

Major Theme #2 Infrastructure Spending: Global infrastructure investment remains a powerful, multi year tailwind for industrials, supported by a convergence of automation, reshoring, government funding and semiconductor led manufacturing expansion. Aging infrastructure, rising connectivity requirements and the growing need for reliability amid extreme weather events are driving sustained spending across power, automation, HVAC and smart building solutions. At the same time, supply chain resilience and reshoring have catalyzed a surge in domestic manufacturing investment, led by semiconductors – roughly \$640 billion committed in the U.S. since 2020 according to Bloomberg. Government programs like the IJA (Infrastructure Investment and Jobs Act of 2021) and the IRA (Inflation Reduction Act of 2022) further reinforce the backdrop by channeling hundreds of billions into transportation, grid modernization and clean energy; this is driving demand across the entire industrial value chain. Consistent with this view, management commentary points to unprecedented visibility and expectations for around \$1 trillion of cumulative global manufacturing capital expenditures through 2030, meaningful U.S. manufacturing and R&D investment, and accelerating energy transition spending. **Together, these factors underpin a secularly higher baseline for industrial demand well beyond the current cycle.**

Major Theme #3 Aerospace & Defense: This remains one of the most structurally attractive end markets within industrials, supported by strong commercial demand and a step change in global defense spending. Commercial aerospace continues to grow at a pace of high single to low double digits pace, underpinning this is improving execution at key original equipment manufacturers (e.g., Boeing and Airbus, which jointly have backlogs in excess of 15,000 aircraft representing more than a decade of production visibility).ⁱⁱⁱ Aftermarket demand remains robust as fleets are flown longer and retirements stay low, reinforcing high margin, recurring revenue streams across the supply chain. On the defense side, spending is poised to accelerate meaningfully: the U.S. Department of War/Defense spending is already above \$900 billion and longer term proposals point to materially higher budgets. President Donald Trump's recently issued budget contains a DoD ask of \$1.5 trillion.^{iv} International support is also strengthening thanks to NATO members targeting defense spending of around 5% of GDP by 2035 – potentially adding hundreds of billions in annual demand. Combined with next generation platforms and technology upgrades that expand content opportunities over time, the setup remains favorable. Key risks are centered on exogenous air traffic shocks or renewed supply chain disruptions rather than demand fundamentals.

Other considerations

Q: *The Trump administration has placed significant focus on turning the tide of declining manufacturing employment in the U.S. (chart). The increasingly constructive backdrop is buttressed by an industry whose muscle memory has been honed by a series of challenges in recent years. How has the sector turned challenge into opportunity?*



A: **Industrials have delivered strong financial performance despite navigating an unusually dense set of macro and geopolitical headwinds over the past several years.** Since exiting the pandemic, the group has absorbed supply chain disruptions and inflation (2021-22), rapidly rising interest rates, global destocking, election driven uncertainty, renewed trade and tariff concerns, and escalating geopolitical risk, all while maintaining persistent organic revenue growth. That resilience has been driven by structural end market tailwinds, commercial excellence and operating discipline. This has translated into improved margins and free cash flow even while debt ratios have trended lower, leaving balance sheets increasingly positioned to support both defensive flexibility and incremental capital deployment.

Industrials stocks ultimately trade on end market expectations; diversified exposure provides both resilience and optionality across cycles. Most companies participate in a wide set of markets – often only 10% to 15% exposed to any single end market – including manufacturing, power and data centers, buildings/HVAC, A&D, life sciences, commercial equipment and auto/process industries. This breadth means near term performance is driven by earnings revisions tied to shifting end market momentum, while longer term returns are anchored by durable earnings power from organic growth, margin expansion, and disciplined capital allocation.

Implications for Investors

Q: *Industrials stocks in general are a much smaller position in most market indexes than they once were, meaning there are fewer ways for investors looking for industry exposure to participate. This sets up a potential Econ 101-type supply/demand imbalance. How do you think about the tradeoffs of near-term fundamental challenges with long-run potential against that backdrop of higher valuations?*

A: **Business model quality further underpins long term value creation, though much of it is increasingly reflected in valuations.** OEM content – while lower margin – expands the installed base and feeds higher margin, recurring aftermarket revenue, reinforcing earnings durability over time. Long established distribution networks and channel access, often built over decades, remain a critical competitive advantage, enabling scale, proximity to customers, and faster commercialization. These strengths have not gone unnoticed, however, and the share prices and valuations have advanced meaningfully since early 2023. The setup underscores both the sector's structural appeal and the growing importance of execution and incremental growth drivers from here.

We are positive bigger picture, but near term volatility remains – driven by geopolitics, tariffs and broader uncertainty. Trade negotiations and tariff uncertainty persist, though the sector should begin lapping peak uncertainty by the second half of this year. Geopolitical risk remains elevated, and prolonged conflict in the Middle East could drive sustained higher oil prices and/or shipping disruptions, which could be a headwind for industrials.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. small business survey shows tentative mood – The National Federation of Independent Business (NFIB) reported that optimism among small business owners dipped below the 52-year average for the first time in a year. The Optimism Index for March dropped three points month over month to 95.8, falling short of the Bloomberg consensus forecast of 97.9. The data showed profits contracted on net in March versus the prior month, a sign that small businesses have been reluctant or slow to pass on higher costs from supply chains and energy headwinds. For a third consecutive month, the percentage of business owners anticipating an improvement in business conditions fell. This has negatively impacted capital spending plans, which have now fallen to the lowest level in more than 16 years. Still, the labor backdrop remains a relative bright spot; hiring plans are holding steady near historical averages.

Budget deficits continue to mount in Canada – The federal government and the provinces continue to run large budget deficits. Ottawa is in the middle of a significant stimulus push; it should continue this year, given some improvement in underlying finances. Meanwhile, the provinces continue to run large deficits while rolling out major capital spending and borrowing programs – although the surge in oil prices will shift the post-budget landscape. Prior to the oil shock, federal finances were clearly running better than initial expectations: the deficit was C\$31.2 billion for the April-to-January period (the first 10 months of the fiscal year), only slightly worse than C\$26.8 billion a year ago. Higher energy prices typically provide a moderate boost to federal finances – but through indirect channels since Ottawa collects little in the way of direct royalties. The increase primarily comes through higher corporate tax receipts, plus some boost to personal income taxes and even the GST on gasoline. A few provinces are slipping deeper into the red (Nova Scotia, Quebec), while a few are moving to slightly shallower shortfalls (Alberta, Saskatchewan). The group's chunky C\$40 billion deficit for the fiscal year just ending (fiscal year 25/26) will persist in fiscal year 26/27 – a combined shortfall of C\$46.7 billion expected. That's a manageable 1.4% of GDP. However, this shortfall was topped only twice in the last two decades: at the depth of the pandemic, and at the low point in the great financial crisis.

The International Monetary Fund (IMF) provided an advanced look at its upcoming April 2026 World Economic Outlook – Its title will be, "Global Economy in the Shadow of War." IMF Chief Economist Pierre-Olivier Gourinchas said global economic growth surprised to the upside in 2025 due to lower-than-feared effective U.S. tariff rates, fiscal stimulus, favorable financial conditions, productivity gains and a boom in the tech sector. Thus, 2026 was launched by positive economic momentum. In January, the IMF had forecast global GDP growth of 3.4%, and headline inflation decelerating from 4.1% to 3.8%. **War in the Middle East has now stalled this positive momentum and the IMF has revised its base case assumptions to 3.1% global GDP growth and a 4.4% headline inflation rate.** Currently, the world stands on the precipice of a major energy crisis. The scale of the damage will likely depend on how long the Strait of Hormuz remains closed and how quickly

damaged infrastructure can be restored. Conflict in the Middle East has caused global supply-chain shock, which has stoked inflationary headwinds and eroded consumer purchasing power. In the IMF's "severe scenario," global growth would fall to 2% while headline inflation tops 6%.

Canadian employment – Jobs rose by a moderate 14,100 in March after a tough start to 2026. The reported jobless rate was 6.7%, slightly below last year's rate. Average hourly wages unexpectedly jumped to a 4.7% year-over-year pace, the fastest in more than a year and well up from 3.9% the prior month. Manitoba and Quebec gained jobs while British Columbia and Ontario lost jobs. The only really "new" news here is that wages seemingly popped – the Bank of Canada will keep an eye on this, particularly since the central bank is already on high alert for any signs of spillover from higher energy prices to broader inflation.

U.S. consumer sentiment sours – The University of Michigan's April Index of Consumer Sentiment reading fell 10.7% to 47.6, the lowest level in the survey's 80-year history and well below the Bloomberg median forecast of 51.5. Survey Director Joanne Hsu said, "Demographic groups across age, income, and political party all posted setbacks in sentiment, as did every component of the index, reflecting the widespread nature of this month's fall." Consumer concerns centered on inflation pressures and perceived risk to asset values, contributing to an 11% drop in perceptions of personal finances. Many survey respondents said the Middle East war is the key catalyst for deteriorating economic conditions, indicating that future gasoline price movements will remain an important factor for consumer sentiment. Year-ahead inflation expectations rose from 3.8% to 4.8% while longer-term inflation expectations also trended higher. Historically, economists have tended to see limits to the value of sentiment surveys but do pay greater attention when moves are both significant and persistent.

Next week

Earnings season continues to build, bringing more insight into how companies are adapting to higher energy prices and another set of challenging supply-chain considerations. Eco data will include inflation readings in both countries and sentiment surveys from consumers and businesses.

Monday 4/20 – U.S. None scheduled | Canada Inflation rate, CPI, BoC business Outlook survey, Survey of consumer expectations

Tuesday 4/21 – U.S. retail sales, Business inventories, Leading economic indicators, Pending home sales | Canada None scheduled

Wednesday 4/22 – None scheduled

Thursday 4/23 – U.S. Initial jobless claims, flash services and manufacturing PMI's | Canada New home prices, PPI, Raw materials prices

Friday 4/24 – U.S. Consumer sentiment | Canada Retail sales

Data scorecard as of April 15, 2026

Equity Market Total Returns						
	4/15/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	7,023	3.0%	2.9%	17.9%	25.0%	14.4%
NASDAQ	24,016	4.9%	3.5%	21.2%	29.6%	13.4%
DOW	48,464	1.1%	1.3%	14.9%	15.0%	11.6%
Russell 2500	4,737	2.4%	10.1%	11.9%	12.0%	7.3%
S&P/TSX	34,156	1.4%	8.5%	31.7%	21.7%	16.1%
MSCI EAFE	11,366	1.0%	7.2%	31.2%	3.8%	8.9%
MSCI EM	868	2.3%	13.2%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.3%	0.6%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.3%	0.4%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.5%	0.6%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.4%	1.2%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.0%	0.5%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.2%	0.5%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.1%	0.4%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.2%	0.6%	4.4%	6.9%	1.5%
Government Bond Yields						
	4/15/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.29%	4.32%	4.32%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.47%	3.47%	3.47%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.81%	4.91%	4.91%	4.48%	4.56%	3.16%
German 10-Year Bund	3.04%	3.00%	3.00%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.41%	2.35%	2.35%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	4/15/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	98.06	-0.6%	-0.3%	-9.4%	7.1%	1.8%
CAD:USD	\$0.73	0.7%	-0.1%	4.8%	-7.9%	-1.5%
Bitcoin	\$74,864.95	2.0%	-14.6%	-6.5%	120.5%	24.8%
Gold	\$4,791.04	0.9%	10.9%	64.6%	27.2%	17.9%
Oil (WTI)	\$91.29	-5.5%	59.0%	-19.9%	0.1%	3.4%

*Annualized

5-Year data as of December 31, 2025. 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.

Analyst's Certification

I, Daniel DiCicco, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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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 AI Data Center Build Advances at Full Speed: Five Things to Know | BloombergNEF

ⁱⁱ Global electricity demand is set to grow strongly to 2030, underscoring need for investments in grids and flexibility - News - IEA

ⁱⁱⁱ Airbus And Boeing Report March 2026 Commercial Aircraft Orders and Deliveries - Flight Plan

^{iv} Trump \$2.2 Trillion Budget Pairs Defense Boost, Agency Cuts - Bloomberg