

WEEK ENDED MAY 8, 2026

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## A Brave New World

*“The bravest are surely those who have the clearest vision of what is before them, glory and danger alike, and yet notwithstanding, go out to meet it.”*

– Thucydides

**The Through Line:** For weeks, markets have tried valiantly to lean into the growth thesis provided by the transformative technological rewiring the globe is undergoing. The long-term focus has been periodically interrupted, however, when each zig or zag in the Iran conflict wrenches attention back into the present tense. Last week, we examined strategies for *wrangling risk* into a more manageable package. This week, we turn our attention to envisioning what the future may hold as the next Industrial Revolution continues to evolve.

### If it’s not one thing, it’s another

If you had just awakened from a decade of slumber and saw the Dow Jones Industrial Average flirting with 50,000 or the S&P 500 sporting a seven-handle, you would assume investor sentiment was running hot. Actually, you only have to roll time back to April of last year: **the Dow is up over 30% from its post-Liberation Day lows while the S&P has increased over 45% in the same time frame.** However, there are few signs of overt ebullience among investors. In fact, quite the opposite: investors’ anxious mindsets are underscored by their sharp intraday reactions to unexpected headlines.

Market participants have a long laundry list of concerns – our consumers, sticky inflation, persistently threatened Fed independence in the U.S., soft productivity in Canada, private credit, tariffs, trade policy, lofty valuations, the K-shaped business/consumer economy, politics, geopolitics, inflation and probably one or two dozen other things. **Our list last year was equally long. And the year before. And the decade before.** True, our most recent challenge seems especially dire – a historically sharp energy shock that we are told will lead to massive demand destruction (a.k.a. an equivalent pullback in economic activity that balances the reduction in oil supply). *Yet, time and again, despite unexpected shock after unexpected shock, North American businesses and consumers have powered on – illustrating an increasingly well-honed propensity for resilience.*

### What’s going right?

Just for the sake of argument, let’s flip the script this week and spend a little time writing in our market gratitude journal. (I promise we can go back to obsessing over the negatives next week.) Choosing to look on the bright side reveals several positive themes:

- Economic readings have recently come in sturdier than projected, displaying a delicately balanced labor market, green shoots in the manufacturing sector, resilient consumer spending (even though admittedly some of the spending is pushed up by the higher gas prices), and slightly better-than-expected housing numbers at the beginning of the all-important spring/summer selling season.
- Companies have well developed muscle memory of facing down trade wars, multiple supply chain disruptions (from rebels lobbing missiles, dockworker strikes, severe weather shutdowns, and upended cargo ships blocking channels), and massive reboots to consumer tastes caused by a pandemic.
- Balance sheets are in solid shape alongside management teams who have keen margin-management skills that include fine-tuning employment levels/management layers and (in aggregate) resisting the urge to spend extravagantly.
- A pro-infrastructure tilt started under the Biden administration in President Donald Trump’s second term has expanded into a more broadly pro-business framework (e.g., facilitating larger M&A, faster permitting, loosened regulatory requirements, and oversight/rules written for key emerging industries such as crypto currencies, stable coin and AI).
- Well-functioning capital markets are parsing risk into ever more finely tuned buckets. They also continue to offer a critical feedback loop for global policy makers.

All told, this represents a sturdy base from which to face both the ramifications of the Middle East conflict and the challenges and opportunities afforded by what we expect will be **the most substantially transformational opportunity in any of our lifetimes: the Industrial Revolution 4.0.**

## One suite (of technologies) to rule them all

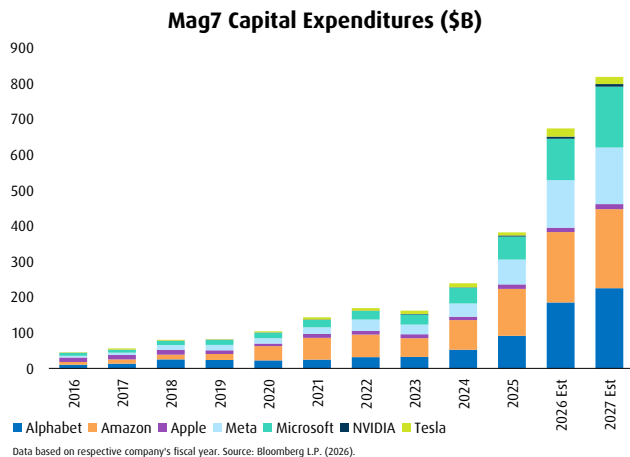
Despite the fact that AI gets top billing, it is merely one of many rapidly advancing technologies thrusting us into a new age. Robots, cloud computing, autonomous vehicles, sensor-laden smart home/automation technologies and the like will rewire virtually all areas of human/economic endeavor.

The scale is unlike anything we have ever witnessed both in scope and the speed at which the technologies are being adopted. ChatGPT reached one million users within FIVE DAYS of its launch in late 2022 (interestingly enough, Meta’s Threads app took two hours to hit two million barely six months later).<sup>i</sup> And today, a handful of large language models (LLMs) boast over one billion active weekly users – ChatGPT alone had over 800 million by late last year.<sup>ii</sup> **This presents a compelling opportunity for stock investors seeking growth. But it also brings risks since the speed and trajectory will prove disruptive for established companies/industries that don’t keep pace.**

Eye-watering levels of investment are required to create/train AI models, buy the chips and establish the data center infrastructure to house and support the whole system. **Announced spend to date totals approximately three-quarters of a trillion dollars via just a handful of primary hyperscalers (chart).**

This amount dwarfs by many orders of magnitude what was spent to wire the internet, construct railways, or send humans into space. **According to McKinsey, the all-in AI data center tech-stack build (including the buildings to house, chips to run, land materials and such) could aggregate more than \$6.5 trillion by 2030 – or 22% of U.S. GDP in 2024 dollars. Total spend to build out the interstate transportation system was less than 1% of GDP (in 2024 dollars).**<sup>iii</sup>

Those companies are spending like their very lives depend upon it, treating the whole situation like an existential exercise. Demand for construction materials, land, infrastructure and a host of other second- and third-tier (and beyond) knock-on effects add to the potential and investor complexity as the ultimate winners and losers are parsed.



## Announcing it does not equal completing it

Several important caveats must be noted. Just because a project is announced doesn’t mean it will ever come to fruition. We can see potent potential choke points: permitting, construction, lack of consistent oversight (a.k.a. oversight at the national level versus a piecemeal approach through states), escalating “not-in-my-back-yard” (NIMBY) pushback, and serious lack of energy/water capacity to power/run the data centers.

Other technologies may well be stymied via equipment-production bottlenecks, nascent ability to scale cost efficiently, tariffs and the like. **However, if a mere fraction of the intended technology builds is completed, it will theoretically dwarf all capital infrastructure builds that have come before. EVERY. SINGLE. ONE.** Also of note – the U.S. is not alone in this buildout: China, select Middle Eastern countries and other Southeast Asia locales view leadership in the AI race in existential terms. If the U.S. slow walks, we run the risk of falling behind and limiting our ability to ever regain leadership. The competition is fierce – and predicated on a belief it’s a life-or-death undertaking.

## Ready or not here it comes

The potentially record-setting infrastructure build is obviously noteworthy, but it just scratches the surface of long-term potential. We’ve heard it described as the singing of the national anthem prior to an 11 or 12-inning ball game. **Historically, investment in infrastructure has teed up extended periods of above-average productivity growth, which translates into more/higher level output from the same amount of capital** (human and machine labor). This, in turn, can lead to higher profitability and giant leaps forward in “think-heavy” applications like science, technology, security, space, defense and a host of other applications. This potential for non-inflationary growth is what incoming U.S. Federal Reserve Chair Kevin Warsh has been hinting at in his confirmation hearings and other public conversations.

While vast numbers of individuals are experimenting with AI (either by choice, or because employers are increasingly demanding it), systemic corporate-level deployment is still nascent. It takes time to reengineer routines, especially when sales incentive programs, compliance, data integrity and security of proprietary information are at stake. Employees report in numerous polls that they are wary and fearful of the new technology – perhaps because the spending to aid in transition management is sparse and managers themselves are hard pressed to know how to use it. **A PwC study noted that 93% of AI spending to date has been allocated to purchasing and deployment of the technology itself while only 7% is being allocated to training and development.**<sup>iv</sup> No wonder people are scared witless: they’re being told their jobs depend upon it (or soon will) but are given no indication how to deploy it. Employers note they are counting on employees to lean in and figure out use cases. Those employees who are active experimenters are getting voting seats at the tables and in the work groups that are crafting the new deployment regimens.

## Other knock-on implications

The world has shifted in major ways several times previously – going from agrarian to manufacturing to the first round of the information age. This transition is likely to happen much faster and touch many more areas of endeavor – creating complex issues for legislators and business owners to manage. What retraining, physical trades and apprenticeship programs can be implemented, for example? **Canada's spring economic update plan specifically sets aside money to provide transition training and development for up to 100,000 displaced workers.**

Strategists and economists will need to develop new data sets to measure the brave new world. Many of the most frequently quoted economic series of today were developed to measure a society that doesn't exist anymore. For example, why are we calling it "non-farm payrolls" when farming accounts for less than 2% to 3% of employment? ISMs and other baskets put greater emphasis on manufacturing and process engineering routines that make up a smaller share of today's activity. Software, for example, was not included in national economic statistics until late in 1999.

Other eventual considerations may well be a shift in margins, valuations and balance sheet ratios, the result of asset-light companies taking significant data-center debt onto their balance sheets. Margins could also be capped via increased debt service. The extent to which this changes rapidly – especially among the hyperscalers that are so influential to aggregate numbers – could shift the valuation narrative.

## Implications for Investors

Arguably, spending must slow eventually or it would overtake the actual size of entire countries. Then, too, there will be inevitable hiccups in actually bringing the intended capacity online. **Investors may not have worked out how to handle that eventuality when it comes. They will need to realize a slowing in data center spend will not equal a turnback in the technological momentum. The internet did not stop evolving when the dotcom bubble burst.**

We face a brave new world indeed. The only certainty we have is that it's coming – whether we like it or not. So why not grab the tiger by the tail and hang on to see where it takes us? Finding companies and industries that lean into the opportunity is a worthwhile challenge. **Let's admit it: realistically, we don't have a solid clue how all this will work out. We do know that the Debbie-downer, navel-gazing over yet another alarming headline will be replaced by angst over some new crisis. Contemplating the potential upside is a lovely alternative. Let's embrace it.**

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**Tariffs are still a thing** – Last week, President Trump accused the European Union of not complying with the transatlantic trade pact and then threatened to increase import tariffs on European-made vehicles from 15% to 25%. The Europeans argue that the agreement must be approved by the European Parliament and then potentially ratified by all 27 member states; this process is ongoing. Ratification was delayed by the Supreme Court's recent overturning of country-wide tariffs implemented under the IEEPA ruling. Europeans are still waiting for the Trump administration to finish working through Section 232 and Section 301 investigations to determine how the U.S. tariff structure will be re-imposed. This latest across-the-pond spat comes at a time when tensions remain on the boil over the Middle East conflict. **The Middle East conflict has caused disproportionate economic hardship for the European economy; ECB President Christine Lagarde warned last week of a potential two-sided macro shock to Europe as accelerating inflationary pressures threaten growth.** Polish Prime Minister Donald Tusk warned, "the greatest threat to the transatlantic community are [sic] not its external enemies, but the ongoing disintegration of our alliance." Europe is increasingly being forced to manage both the spillover from U.S. trade actions and the Iran conflict against a backdrop of uncertain U.S. strategic direction.

**Digging into the K-shaped economy** – The New York Federal Reserve's Liberty Street Economics group released two blog posts that examine the drivers of the U.S. K-shaped economy and the risks ahead. COVID-19 appears to be the genesis of the economic conditions that ultimately produced today's divergence among income groups. While the pandemic hit the low-income cohort hardest, they subsequently benefited from strong wage growth and fiscal support. By 2023, these supports had largely run their course and excess savings were depleted. Sticky inflation in rents and services disproportionately weighed on lower-income households, contributing to a decline in real spending. Middle-income consumers muddled through 2023 and kept their spending levels relatively flat. Lower- and middle-income households alike saw a pickup in real spending; the breadth of disinflation spread and real incomes improved. This brief stabilization has now given way to renewed affordability pressure, reflecting both the cumulative burden of earlier price increases and a reacceleration in inflation. Low-income households were hardest hit because necessities account for a larger share of their spending. In contrast, spending by high-income consumers stayed on an upward trajectory through this entire period, buoyed by wealth gains attributable to financial assets. Top-income households saw growth of more than 25% in real net worth compared to less than 10% for middle-income consumers. This expansion of wealth at the top has supported continued spending growth not only on luxury goods and services but also across the aggregate necessities basket. The New York Fed warns that the U.S. economy

has become increasingly reliant on a narrow, high-income segment to support consumption growth, a condition that adds vulnerability in the event of a financial market correction.

**Canadian economy picks up (a wee bit of) steam** – Continuing its decent start to the year, the Canadian economy picked up; February GDP climbed the expected 0.2%. Strength came in manufacturing, transportation/warehousing and wholesale trade (+0.9%). However, only eight of 20 sectors grew in the month, highlighting the economy's ongoing struggles regardless of the decent headline. March's GDP flash showed activity was unchanged in the month, though the Q1 GDP flash came in at +1.7%, slightly better than expectations. Canada's economy continues to hang in there despite the lingering dark cloud of trade uncertainty. There's nothing in this data to move the needle for the BoC since growth is about as expected and policy makers are watching energy prices and the potential passthrough to core inflation.

**Canada's merchandise trade account swung back into surplus** – The Canadian trade upswing amounted to C\$1.8 billion in March, up from a revised C\$5.1 billion deficit in February. Exports jumped 8.5% – the outbreak of the war drove up energy prices and broader geopolitical uncertainty resulted in very strong metals and energy exports. In contrast, imports fell 1.6% after jumping in February; the decline was driven by consumer goods (-3.9%) and aircraft and other transport equipment (-12.8%). Meanwhile, the services trade account was little changed, showing a \$0.1 billion deficit following a similar-sized surplus in February.

**U.S. government shutdown finally ends** – A bipartisan Senate bill to end the longest government shutdown in U.S. history was approved in the House of Representatives. The legislation, which provides funding for the Department of Homeland Security (DHS), excluding ICE and Customs and Border Protection (CBP), was passed and later signed by President Trump. Great news for TSA, the Coast Guard, FEMA, the Secret Service, and cybersecurity agency workers, who will receive paychecks. On February 3, Congress advanced legislation to fund most of the federal government, ending a four-day full shutdown. However, DHS workers were left in limbo since the agency's funding lapsed on February 14. On March 27, the Senate passed bipartisan legislation to fund DHS, excluding ICE and parts of CBP. Speaker Johnson at that time called the legislation a "joke" and refused to bring it to the House floor. On April 2, the same thing happened. The third time proved to be a charm for the legislation. After bipartisan support from the entire Senate and pressure from the White House, the Speaker finally allowed a floor vote just before the House was set to leave for recess. For House Republicans who want to address other priorities (e.g., defense spending, tax breaks, and advancing the SAVE Act), the goal now is to push through a budget reconciliation bill this summer though some senate republicans are pushing back on such a plan.

## Next week

Geopolitics are likely to dominate with a China-U.S. summit still on the calendar (as of this writing). Theoretically, a resolution (or at least a more durable stabilization) in the Iran conflict seems close. Soon, CUSMA/USMCA negotiations will reopen; expect rhetoric to gain in voracity beforehand (escalate to deescalate).

**Monday 5/11** – U.S. Existing home sales | Canada BoC market participants survey

**Tuesday 5/12** – U.S. NFIB Optimism index, CPI, Federal Budget | Canada none scheduled

**Wednesday 5/13** – U.S. PPI | Canada none scheduled

**Thursday 5/14** – U.S. Initial jobless claims, retail sales, Business inventories | Canada Wholesale sales

**Friday 5/15** – U.S. Empire state manufacturing, Industrial production, capacity utilization | Canada housing starts, Foreign security purchases

## Data scorecard as of May 6, 2026

Equity Market Total Returns						
	5/6/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	7,365	1.9%	8.0%	17.9%	25.0%	14.4%
NASDAQ	25,839	2.9%	11.4%	21.2%	29.6%	13.4%
DOW	49,911	0.8%	4.4%	14.9%	15.0%	11.6%
Russell 2500	5,023	2.7%	16.8%	11.9%	12.0%	7.3%
S&P/TSX	33,982	0.3%	8.0%	31.7%	21.7%	16.1%
MSCI EAFE	11,465	1.5%	8.1%	31.2%	3.8%	8.9%
MSCI EM	933	6.2%	21.7%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.3%	0.5%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.2%	0.2%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.4%	0.5%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.2%	1.5%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.1%	0.5%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.2%	0.7%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.2%	0.4%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.1%	0.8%	4.4%	6.9%	1.5%
Government Bond Yields						
	5/6/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.35%	4.37%	4.32%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.51%	3.54%	3.47%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.94%	5.01%	4.91%	4.48%	4.56%	3.16%
German 10-Year Bund	3.00%	3.04%	3.00%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.50%	2.52%	2.35%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	5/6/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	98.02	-0.1%	-0.3%	-9.4%	7.1%	1.8%
CAD:USD	\$0.73	-0.3%	0.7%	4.8%	-7.9%	-1.5%
Bitcoin	\$81,421.35	4.6%	-7.1%	-6.5%	120.5%	24.8%
Gold	\$4,691.36	1.7%	8.6%	64.6%	27.2%	17.9%
Oil (WTI)	\$95.08	-6.7%	65.6%	-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.

## 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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Precious metal investing involves greater fluctuation and potential for losses.

<sup>i</sup> Chart: Threads Shoots Past One Million User Mark at Lightning Speed | Statista

<sup>ii</sup> \* LLM Statistics 2026: Where 800M Users Are Searching Instead of Google | Evolv Agency

<sup>iii</sup> The \$7 trillion race for AI data center infrastructure | McKinsey

<sup>iv</sup> CEOs, to get real value from AI, put the right foundations in place | PwC