

WEEK ENDED JUNE 19, 2026

Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Just the FAQs Part II – The Enigmatic Consumer

"I don't know what the unemployment rate will be in 2028, but I guarantee you that 100 percent of it is going to be blamed on AI by the American public and by lots of opportunistic politicians."

- Daron Acemoglu, Nobel-winning economist

The Through Line: Many of the questions we've received from clients and colleagues during our recent travels relate to consumers. The queries were plentiful – employment prospects, the status of balance sheets, willingness (and wherewithal) to sustain consumption, souring sentiment, the growing chasm between "haves" and "have-nots" and the impact of AI. This week's piece unpacks "all the things" and aims to weave them back together into a coherent overview.

The influence of consumers

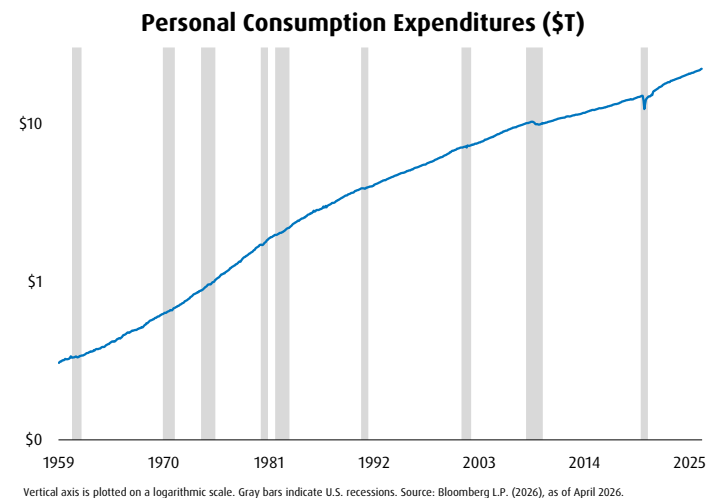
Consumers, who account for nearly two-thirds of the U.S. Gross Domestic Product (GDP) and over half of Canadian GDP, are understandably central to any discussion of economic vibrancy. An array of statistics (e.g., weekly jobless claims, retail spending, the unemployment rate and consumer price index) slice and dice their every move, ensuring this influential group plays a dominant role in investor psyches.

Yet consumer stocks represent a substantially smaller percentage of most major stock indexes – illustrating once again how the economy is not the market and vice versa. The S&P 500 has just a 15% weighting in consumer goods and staples equities for example, while tech and communications services are over 48%. The TSX is 6% consumer, 45% energy, materials and industrials, 35% financials and just 7% tech. Understanding these disparities is important when thinking about how much impact the consumer condition should have on market progress (especially relative to the secular tug that all things tech are exerting within the AI/infrastructure buildout in process).

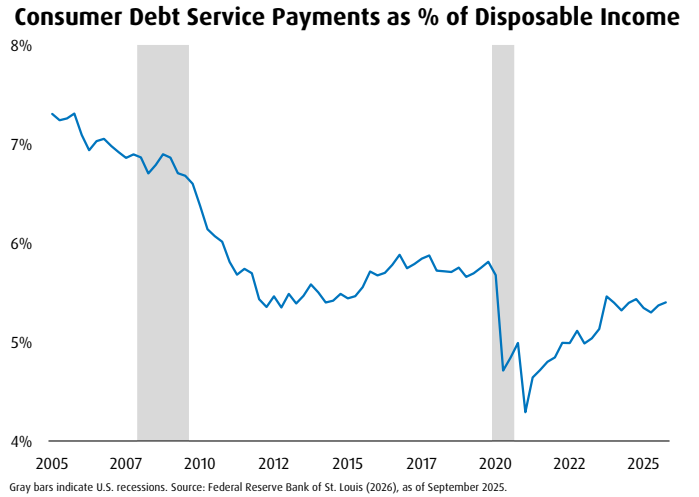
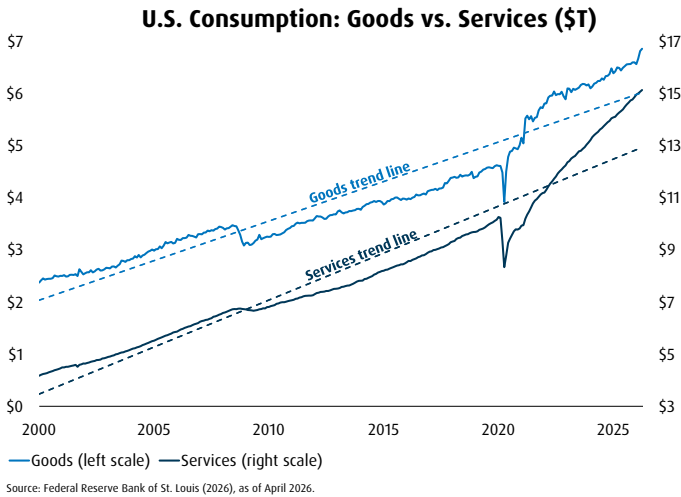
Q: Affordability was a hot-button issue even before the nearly 50% increase in gas prices triggered by the conflict with Iran. How concerned are you about a consumption-induced recession?

A: A lot of financial media airtime is devoted to handwringing over the potential for slowing consumer spending. However, history has shown consumers in aggregate rarely keep their wallets closed for long. In fact, after the initial sharp (and brief) pandemic retreat, the rate of consumption accelerated and has continued to climb. Part of the uptick may be related to accelerating inflation over that period. Another explanation could be the multiple rounds of fiscal stimulus doled out during the pandemic in an attempt to avoid

a more sustained economic pullback. Although total spending seldom strays from its moderate upward trajectory for any length of time, there can be noticeable shifts in where money is spent. These shifts will directly impact subsectors and specific companies. Household budgets affected by higher prices at the pump may well lead consumers to cut back in other areas – like eating out, for example.



Shifts away from spending on services toward spending on goods were particularly (and understandably) evident early in the COVID era. But both rebounded as time wore on and fiscal stimulus accumulated throughout the system. Consumer spending data released just this week came in stronger than most strategists had projected – across a wide variety of categories, not just at gas stations –underscoring consumers' reliability as an economic engine.

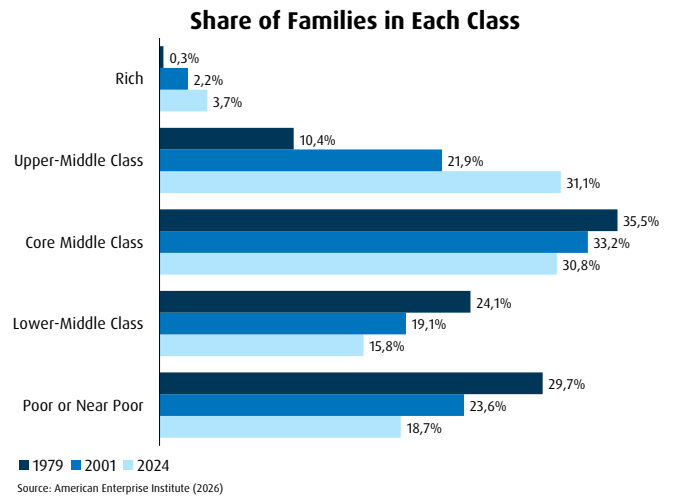
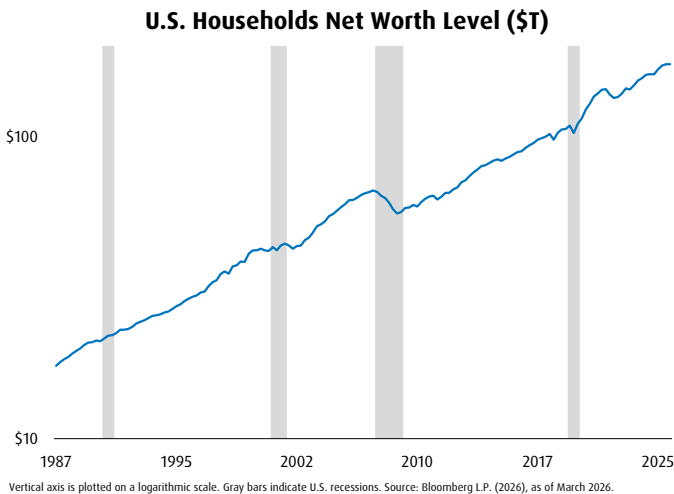


Q: Signs of strain in consumer finances seem to be emerging – how much longer can consumers power on?

A: Although it’s tough to get an accurate picture from headlines, consumer sentiment or the prevailing mythology, aggregate household finances are actually in pretty solid shape. For many, it admittedly doesn’t feel that way, given that prices on nearly all goods are substantially higher than they were pre-pandemic. Larger refunds in the U.S., courtesy of last year’s One Big Beautiful Bill Act, helped cushion part of the shock of higher energy prices (again in aggregate, though the impact on individuals was assuredly mixed). Total household net worth is at an all-time high (and double what it was at the start of the pandemic). Credit card balances and delinquencies have been creeping gradually higher – but bouncing only modestly from the post-GFC-cleansed state back toward longer-term norms. Debt service as a percent of disposable income tells a similar tale (charts).

Q: How concerning is the so-called K-shaped economy?

A: Getting a true handle on the situation can be challenging. A recent Bloomberg news article illustrates some of the inconsistencies in different data series that are focused on pinning down the percentage of wealth owned by the top tier and/or the percentage of their spending. For example, it’s commonly suggested that the top 10% do nearly 50% of the spending, but alternate measures put this number below 40%.ⁱⁱ It turns out that many of the statistics aren’t adjusted for taxes (tax rates – especially for those living in the highest-tax states – can approach 45 to 50%). Another set of statistics from the American Enterprise Institute, for example, shows that there has actually been growth over time in the middle-income tiers of households.ⁱⁱⁱ



Whether it's 40% or 50%, a dominant share of spending is concentrated in a minority of hands – a situation accentuated by recent high-profile IPOs (e.g., SpaceX and Cerberus). Anecdotal stories of a shortage of multi-million-dollar homes in elite parts of the San Francisco Bay area and Silicon Valley are spawning regional cries of “everyone’s getting rich but me” and appalled consternation elsewhere. This moneyed-class disconnect is not just a U.S. phenomenon. Workers at Samsung Electronics, South Korea’s largest corporation, recently threatened to strike unless the company created a plan to share excess profits. Once that happened, other workers in the country began agitating for *their* share.^{iv}

Oddly enough, while some industry workers are realizing eight-digit paydays, others have been subject to mounting layoffs hitting high-paying technology jobs (e.g., engineers, coders) as tech companies lead the way in accelerating efforts to embrace AI. According to a site that tracks tech layoffs, year-to-date industry layoffs are running at a rate of over 900 per day – up from the nearly 675 per day last year.^v Hundreds of thousands of tech jobs have been lost over the past four years. Despite these numbers, overall employment is holding up surprisingly well.

Q Consumer sentiment is terrible – yet consumers continue to spend. Why? How?

A: In addition to the comparative anxiety outlined above, a confluence of events (accelerating boomer retirements, shifting immigration strategies, policy-induced industry makeovers) is impacting the business environment, with hiring and retention in the middle of it all. The concomitant rollout of AI, robotics, plant automation and autonomous vehicles has touched (or will shortly touch) virtually every corner of the global infrastructure backbone. Humans are not wired to comfortably embrace change – especially when it’s broad, fast moving and apparently offering nowhere to hide. Psychological stress is high and clearly weighs on the sentiments that individuals are relaying to pollsters who conduct the various sentiment surveys (University of Michigan and the Conference Board). On the other hand, employed citizens spend – and the employment numbers have been steady – despite the quantity of policy pivots and technological changes thrown at them. Recent months have hinted that employment may well be finding an even firmer footing, which augurs well for continued expenditure based on sturdy underpinnings. An added boost may come from the tax receipts and reinvestment from all those newly minted millionaires.

Q: AI concerns are ballooning. Companies are making AI available but not teaching people how to use it. The pace is so fast that regulation and equity issues are not being addressed. What can workers do to protect themselves?

A: AI is coming whether we are ready or not. Globally, entire countries (especially China and many tech-dominated Southeast Asian economies) are in a no-holds-barred race for superiority. Yet the populace is highly skeptical (and perhaps a whole lot fearful). An NBC survey conducted earlier this spring found that AI had a lower approval rating than U.S. Immigration and Customs Enforcement (ICE).^{vi} Business leaders tell us repeatedly that they are desperate for individuals who can lean into the messiness of change and help figure out new processes and procedures. Those early adopters – or reverse mentors – are getting voting seats at the critical tables where blueprints for the future are being drawn up.

Early reads indicate that deploying AI across teams leads to multi-disciplinary thinking, meaning employees think outside their silos and learn to operate at a higher level of strategic thought. It also creates new opportunities for those who can integrate actions across multiple business activities and help clients see the big picture. AI is great at munching through reams of complex data to determine patterns – the kind of intensive, rote work that can lull the human brain into oblivion. Humans, on the other hand, have social and strategic visioning skills – plus the ability to create nuance and creativity that machine learning does not possess (at least for now). Non-linear thinkers should thrive, along with those who possess solid people skills and can communicate well. For all the current fear-mongering about the rapidity of change, given institutional process inflexibility (and a host of other factors), it’s likely to be more gradual and at the margin than the current perception. The hindsight view will be remarkable when we look back in three, five, or 10 years. We can’t expect to fully grasp the big picture by next Friday.

Q: What can be done to head off AI angst?

A: For workers – lean in, get uncomfortable, challenge yourself. Over and over and over again, we hear from employers and company leadership that they are yearning for those willing to jump in. No one expects perfection. It’s going to be sloppy. You didn’t move from crawling to walking without a whole bunch of instructive falls that eventually taught you lessons that become ingrained in muscle memory, balance and neural pathways. We’re all stepping off into a new time and place – it’s our collective “stretch assignment.”

From a corporate vantage point, companies could lean into intentionally offering training on the new technology or reskilling. Microsoft recently announced a five-week training certificate program to equip people to work on building their data centers. Graduates are guaranteed work at a D.C. site.

Implications for Investors

Despite headlines that might suggest otherwise, consumers are employed and spending “choicefully.” This economy continues the machinations of a system in secular transition, creating opportunity for businesses and individuals willing to lean into the change. Yes, the dynamism can create interim volatility as companies adopt new technologies and processes. But it should ultimately lead to continued growth and margin enhancement for a broadening group of companies able and willing to avail themselves of the new technologies.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

New Fed chair takes the reins – The Kevin Warsh era looks set to usher in a period of change at the Federal Reserve as the new Fed Chair seems ready to reshape communication policy, balance-sheet composition and data collection. A significantly shortened policy statement highlighted the fact that investors should anticipate less information from the Fed under its new leadership. Mr. Warsh believes reduced focus on what the Fed may or may not do will allow financial markets to shift their focus to the factors investors deem most important and that, in turn, will help the Fed in its decision-making process. The Federal Open Market Committee unanimously agreed to maintain policy rates at the current 3.5% to 3.75%. Nine of the 18 Fed officials who submitted forward policy rate projections anticipate it may be necessary to raise rates, while Mr. Warsh chose to abstain. Fed officials also significantly increased their PCE inflation projection for year-end 2026; the median estimate rose from 2.7% in March to 3.6%. This was a more hawkish tilt than the market had anticipated. The equity and bond markets sold off in response. Mr. Warsh noted “dot plot” projections are made in pencil rather than pen and do not commit the Fed to any preordained policy path. Inflation has been above target for more than five years, and Mr. Warsh once again reiterated his view that inflation is a choice. He said that under his stewardship, the Fed will deliver inflation in a range that begins with a two. This implies he would be open to a policy rate increase. Even President Donald Trump acknowledged on Wednesday that the Fed may need to adjust policy rates higher this year. Mr. Warsh called much of the data currently used by Fed officials “echoes of history.” A task force has been established to evaluate the best data sources, collection practices and analytical tools used by the private sector in order to identify potential ways to improve real-time decision-making by Fed officials. The key near-term takeaway is Fed officials appear to see inflation as broad based and stickier than previously assumed. Over the longer term, Mr. Warsh wants to wean investors off their dependence on Fed guidance and steer them toward greater reliance on underlying market and economic fundamentals.

U.S. headline retail sales – We saw a rise of 0.9% month over month (MoM) in May for U.S. retail sales. The figure was better than the +0.6% median forecast from economists. Higher prices at the pump helped boost the headline number. Retail sales excluding gasoline and autos rose 0.5%, still better than the consensus forecast of 0.3%. The retail sales control group, which after exclusions more closely aligns with Personal Consumption Expenditures (PCE) used in the GDP accounts, rose 0.72% compared to the consensus forecast of 0.4%. Economists focus on the control group, but the headline figure better represents consumers’ day-to-day activity. In May, 11 of the 13 retail and food service categories saw growth from April levels. Unsurprisingly, gasoline prices led: spending rose 3.4% MoM and 26.5% year over year. The three categories of gasoline, autos and e-commerce accounted for 84% of the increase in headline retail spending. While online sales were strong, department store sales fell 0.3% MoM; electronics and appliance store sales

dropped 0.5%. This stands out because warmer temperatures would traditionally support a relative improvement in brick-and-mortar traffic. Food service and drinking establishments also saw spending drop from April levels, despite May’s improved weather conditions. Higher tax refunds also boosted disposable income. The recent decline in gasoline prices should help support disposable income, and a solid labor market should continue to provide a favorable backdrop for consumer spending.

Canadian home sales rebounded – On a seasonally adjusted basis, Canadian home sales were up 5.5% but were still down 5.1% year over year. Housing sales continue to be weak in the GTA, Southwestern Ontario and B.C. The national housing benchmark price was still down 3.9% from a year ago, but some markets are starting to look less difficult in the waning days of spring. New listings were down 1% in the month, or 7.9% from a year ago, which is helping keep the market in balance overall. Since the Bank of Canada is on hold for now, it’s unlikely that home buyers will get a meaningful reprieve on mortgage rates.

Global oil prices support improved sentiment – Oil prices have tumbled on news that the Strait of Hormuz will be reopened – part of a broader agreement between the U.S. and Iran to extend the current ceasefire and enter more substantial negotiations. Fuel prices have gone along for the ride; the national average gasoline price fell from a peak of \$4.39 per gallon to below \$4.00. The University of Michigan’s preliminary June survey indicated that lower gasoline prices were one factor contributing to a 9% improvement in consumer sentiment. A recent Reuters/Ipsos poll indicates that optimism over talks to resolve the Middle East conflict and potentially lower gasoline prices have given President Trump a slight uptick in his approval rating. The prospects of a full opening of the Strait have also eased broader inflation concerns, supporting a rally in both stocks and bonds. Shipping-industry participants have indicated that a prolonged period of stability may be needed to fully restore supply chains through the Strait of Hormuz, leaving the pace of the reopening uncertain. At a minimum, both the U.S. and Iran seem committed to finding a longer-term resolution. Hundreds of fully loaded ships are ready to depart once the all-clear is given. **Unless there is a material reversal in the progress achieved at the negotiating table, the worst of fuel-price inflation is likely in the rearview mirror.**

Bank of Canada rate-cut expectations coming down – Fixed income markets have been rigidly trading almost tick-for-tick with oil prices since the conflict began. In turn, this implies that markets had been pricing in much higher odds of rate hikes in a variety of economies, including those of the U.S. and Canada – until now. BMO Economics believes it’s likely that expectations for rate hikes will be fully erased eventually, at least in Canada, if oil prices stay down. GDP and hours worked have both dropped over the last year, core inflation is on target at 2%, and USMCA uncertainty lingers.

Next week

A relatively light week ahead. The Fed's preferred inflation measure, the PCE, and will be closely parsed for hints about the pass-through of inflation. Assuming the resolution of peace negotiations, all eyes will be on the potential for an increase in ship traffic moving through the Strait of Hormuz and the world's transition back to pre-conflict energy prices.

Monday 6/22 – U.S. none scheduled | Canada CPI and Inflation series

Tuesday 6/23 – U.S. Services and Manufacturing PMIs | Canada none scheduled

Wednesday 6/24 – U.S. New Home sales, leading economic indicators | Canada Manufacturing sales

Thursday 6/25 – U.S. Initial jobless claims, Personal income and spending, PCE | Canada Average weekly earnings

Friday 6/26 – U.S. Trade balances, retail and wholesale inventories, Consumer sentiment | Canada Wholesale sales

Data scorecard as of June 17, 2026

Equity Market Total Returns						
	6/17/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	7,420	-0.1%	9.0%	17.9%	25.0%	14.4%
NASDAQ	26,022	0.5%	12.3%	21.2%	29.6%	13.4%
DOW	51,493	0.6%	8.0%	14.9%	15.0%	11.6%
Russell 2500	5,112	-1.0%	18.9%	11.9%	12.0%	7.3%
S&P/TSX	35,125	0.6%	11.9%	31.7%	21.7%	16.1%
MSCI EAFE	11,754	1.8%	10.8%	31.2%	3.8%	8.9%
MSCI EM	981	3.9%	28.0%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		-0.1%	0.3%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		-0.1%	-0.1%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		-0.1%	0.6%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.1%	1.8%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.2%	0.9%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		-0.1%	1.7%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		-0.1%	1.3%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		-0.1%	1.7%	4.4%	6.9%	1.5%
Government Bond Yields						
	6/17/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.49%	4.44%	4.32%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.42%	3.41%	3.47%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.75%	4.81%	4.91%	4.48%	4.56%	3.16%
German 10-Year Bund	2.93%	2.94%	3.00%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.59%	2.66%	2.35%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	6/17/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	100.09	0.3%	1.8%	-9.4%	7.1%	1.8%
CAD:USD	\$0.71	-0.8%	-2.7%	4.8%	-7.9%	-1.5%
Bitcoin	\$64,369.21	1.5%	-26.6%	-6.5%	120.5%	24.8%
Gold	\$4,256.93	0.9%	-1.4%	64.6%	27.2%	17.9%
Oil (WTI)	\$76.79	-9.5%	33.7%	-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 2500™ Index is a market-cap-weighted index that tracks the performance of approximately 2,500 small to mid-cap companies in the U.S. equity market.

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.

ⁱ In the Hybrid A.I.-Human Work Force, Who Will Actually Thrive? - The New York Times

ⁱⁱ The K-Shaped Economy's Defining Statistic Has Some Problems - Bloomberg

ⁱⁱⁱ The upper middle class is now the largest income group in the U.S., study finds - CBS News

^{iv} Exclusive: South Korea labour minister calls on tech firms to share excess AI profits with suppliers, staff | Reuters

^v Layoffs Tracker - All Tech and Startup Layoffs

^{vi} Poll: Majority of voters say risks of AI outweigh the benefits