WEEKLY STRATEGY

Perspectives

BMO | Private Wealth

WEEK ENDED NOVEMBER 13, 2026

Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Q3 Earnings Recap: Passing the Baton

"There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things."

– Niccolò Machiavelli, Italian Renaissance political philosopher and statesman

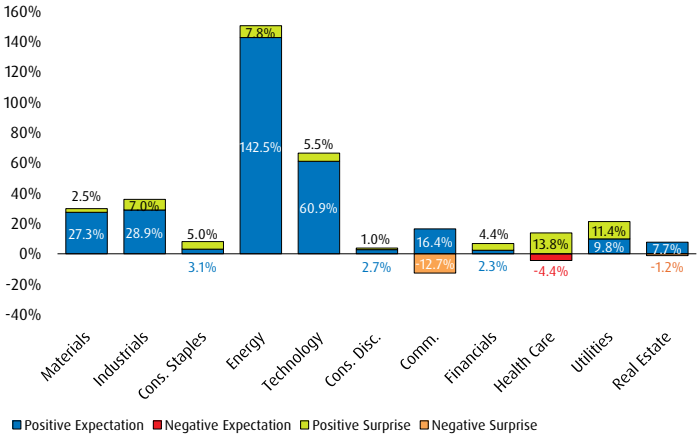
The Through Line: Expectations were high coming into the Q3 reporting season – and companies met them (for the most part). The problem, however, is that recent quarters have trained investors to want OH. SO. MUCH. MORE. Despite aggregate earnings growth of nearly 30%, many stock-market averages struggled, reflecting attempts by investors to shape a consistent storyline. Threads woven throughout individual company and industry commentary hint that the economic recasting we've been anticipating is underway. Recently reported statistics, including above-trend GDP and productivity, support this view. We break down key insights from the quarter and what they can teach us about the path ahead.

Another record-setting quarter

Now that most of the earnings results are in (451 of 500 S&P 500 Composite Index companies at press time), for **Q3 2026 it looks like we have the third consecutive quarter of earnings growth that tops 25% for the largest publicly held U.S. companies.** In our preview of the quarter (WSP - Q3 Earnings Watch: Scaling the Wall of Worry), we noted that the expectations bar had moved up markedly from earlier periods, making upside surprises that much more difficult. **Still, the results are nothing short of jaw dropping, particularly in the fourth year of an economic expansion.**

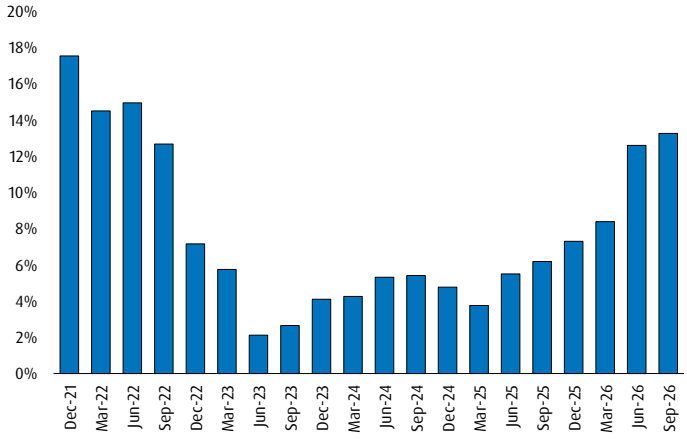
With 90% of reports in, S&P 500 aggregate revenue growth is running at 13% while earnings growth is 27%. This indicates yet again that companies are paying close attention to margins, which allowed top lines to drop in amplified fashion to the bottom line. **All 11 sectors participated**, led by energy, tech, industrials and materials. **Nevertheless, the S&P 500 is down nearly 2% for the period, bringing the forward price/earnings ratio to around 17 – well below both the five- and 10-year averages.** The quarter's fundamental strength yet valuation moderation tees up a solid foundation for the days ahead.

S&P 500 Sector Q3 2026 EPS Growth: Expected & Surprise



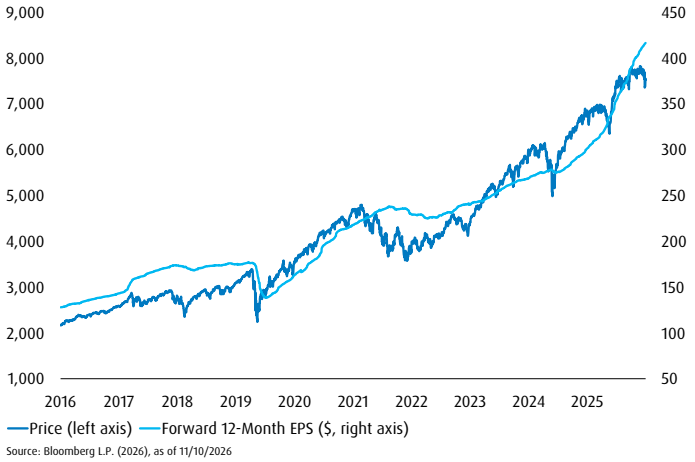
Source: Bloomberg L.P. (2026), as of 11/10/2026

S&P 500 Year-Over-Year Revenue Growth



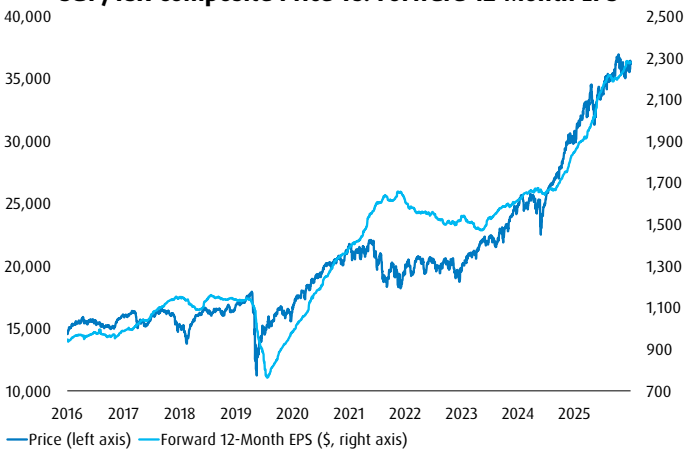
Source: Bloomberg L.P. (2026)

S&P 500 Price vs. Forward 12-Month EPS



Source: Bloomberg L.P. (2026), as of 11/10/2026

S&P/TSX Composite Price vs. Forward 12-Month EPS

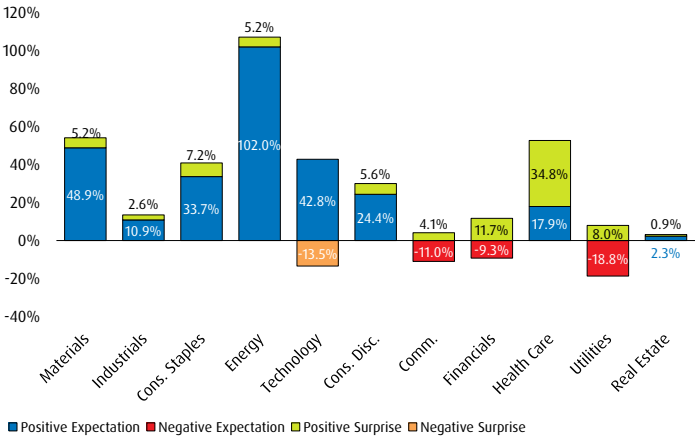


Source: Bloomberg L.P. (2026), as of 11/10/2026

Canada's market attends the party too

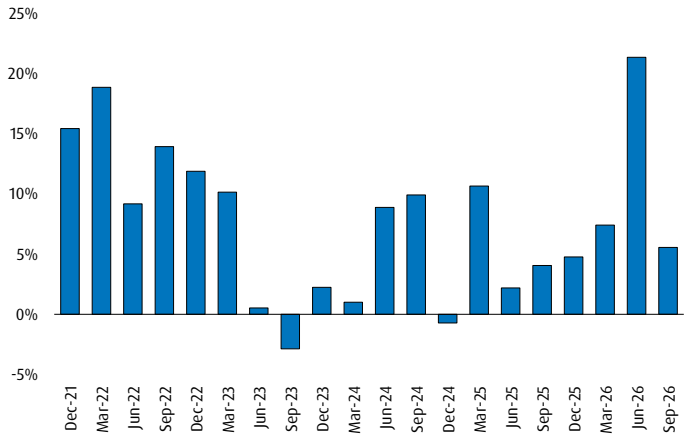
With 75% of S&P/TSX results in, topline growth is 10% while the aggregate bottom line advanced 40%. Participation here is also broad: 10 of 11 sectors generated revenue growth; nine of 11 sported earnings advances. Leading the way were energy, materials, healthcare and consumer staples. It's important to remember that the composition of the S&P/TSX (dominated by banks and miners) is quite different than the Canadian economy. Meaning the index can do well even if the economy is adjusting to ever-shifting trade policy and geopolitical headlines.

S&P/TSX Sector Q3 2026 EPS Growth: Expected & Surprise



Source: Bloomberg L.P. (2026), as of 11/10/2026

S&P/TSX Year-Over-Year Revenue Growth

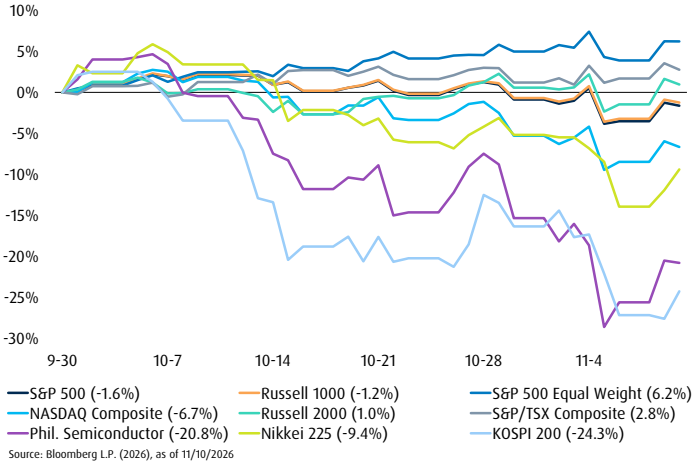


Source: Bloomberg L.P. (2026)

Leadership it is a-changin'

Popping the hood illustrates a compelling trend: namely, **a leadership transition away from the handful of tech companies with the largest market capitalizations toward a broader list of participants**. While the standard S&P 500 Index was down several percent for the quarter to date, for example, the equal-weighted flavor was actually up 6%, hitting an all-time high just last week. (Market-cap-weighted indexes give more emphasis to larger companies and equal-weighted indexes give every company the exact same weight regardless of size.) Another notable trend was the widespread underperformance of tech-dominated indexes like the NASDAQ, Japan's Nikkei, Korea's KOSPI and the Philadelphia Semiconductor Index.

Select Indices Quarter-to-Date Return



Source: Bloomberg L.P. (2026), as of 11/10/2026

Spreading participation is being underscored by strong economic numbers:

- Last week's report from the Institute of Supply Management showed that U.S. manufacturing activity was solidly in expansionary territory for the fifth month running.
- The ISM services read was likewise in expansionary territory, underscoring the breadth of activity that is also appearing in solid earnings reports across a wide variety of companies. This includes many that are decidedly non-AI-first companies (e.g. hotels, healthcare, consumer goods, travel and entertainment).

- Productivity in Q3 surprised EVERYONE by posting a +3.6% read – well above the roughly 2% recent readings.
- Throughout last week a variety of labor market reports underscored a sturdy labor market. For example, on Tuesday the ADP numbers came in above expectations. The Job Openings and Labor Turnover (JOLTs) report showed a pickup in the number of folks willing to leave existing positions to find a new (and higher paying) one. Challenger numbers out later in the week reported fewer layoffs and more hiring. On Friday, the Nonfarm Payrolls report delivered the best surprise of all: the economy added 165,000 jobs and revised the prior two months upward, suggesting broadening activity throughout the system.

Seems AI deployment and careful hiring are showing up in the economic numbers (and margins). This is a welcome underpinning to our belief that the AI rollout can continue even if newly elected policymakers work to put a framework around it (both datacenter build and model use).

A few MORE words on the midterms

The breadth and depth of democratic wins in the U.S. midterms shocked markets, throwing the AI trade that had dominated activity and attention for many quarters into a tailspin. It was painfully evident that markets often (over) react sharply while they process unexpected developments. Don't forget that the AI trade in general (and several core subcomponent sectors such as chips and software in particular) had traded fitfully for many weeks before the election. Investors were already on edge and looking for almost any excuse to confirm their fears. Subsequent reports have pointed to a large quantity of systemic and algorithmic trading (a.k.a. rules-based mechanical trading) that exacerbated last week's swings.[i]

Looking through last week's tangled trading, it's worth remembering it will take time for the incoming policymakers to get organized, outline leadership/coalitions and establish priorities and working relationships. Despite the governable majorities, keep in mind that they are not veto or filibuster proof. President Donald Trump still wields the veto pen. Congress will either need to find a way to organize a disparate set of factions in search of common ground from which they can craft legislation – or stay entrenched in their respective corners, leaving themselves vulnerable when the next elections roll around in less than two years. We suspect they will look for easy wins where bi-partisan support can be mustered. That could take the form of enshrining provisions for no tax on tips and/or Social Security income (both provisions are set to expire in 2028). Making all of that difficult, of course, is the need to avoid adding to the $2 trillion annual deficit.

AI: delayed not denied

Datacenter agita dominated midterm election results, sending shivers down investors' spines. Valuations had been under pressure for months while earnings advanced and stock prices treaded water or declined. Obviously shares got a whole lot cheaper on several occasions after the midterms: NASDAQ, the Philadelphia Semiconductor Index, and South Korea's primary index all pulled back sharply at one point or another.

A number of newly elected officials, including the Texas governor-elect who campaigned on datacenter issues, have already gone on record to suggest a more nuanced approach – not a wholesale ban. Time will tell, but **we expect growth to continue, just at a more measured pace and with a more inclusive stance**. Instead of coming into a community in the dead of night, forcing local planning officials to sign nondisclosure agreements and extracting maximum tax concessions, builders will need to change their ways. They will have to conduct business in the light of day, provide full disclosure and preferably arrive bearing gifts. Offering to sponsor local high school sports teams (or better yet, build a new ball field) can't hurt. It might also help assuage local fears if builders arrange their own energy supply or are willing to sign agreements that they will fully fund any upgrades needed to hook into the grid and pay ongoing taxes.

All this takes time, of course, meaning the aggressive ramp to build capacity will almost assuredly moderate (at least after the current round of in-process facilities is finished). Bear in mind that moderating is different than outright bans. A slower ramp technically favors the hyperscalers that have the strongest balance sheets, most access to global capital markets, and existing businesses that generate substantial revenue, cash flow and earnings.

On the bright side, the fact that all players may be forced to temper capital expenditure plans could help preserve/replenish cash flows (good for investors) and actually help extend the life cycle of the buildout. The datacenter issue won't go away, given demand is still growing exponentially. OpenAI reported $10 billion in revenue during Q3 according to an insider quoted by Bloomberg. This is triple the prior year run rate and a nearly 50% increase over the prior quarter.[ii] Anthropic PBC's revenues are ramping similarly. Constricted supply could also encourage fast-forwarding of other innovations to reduce power usage.

Other observations

We observed a few other themes as this quarter's earnings results rolled in:

- Margins generally held up well though there were a number of comments (and hints in the economic reports) about cost pressures building. Companies are raising outlooks for revenue growth because consumers are still spending; nevertheless, managements are noting the potential pinches on margins from persistent increases in energy and transportation inputs. While some are hinting they can hold the line until after the holiday season, all else being equal they may have to increase prices for the spring selling season and beyond.
- The third quarter proved quite transactional, boasting record debt issuance, several sizeable initial public offerings and a number of mergers and acquisitions. Some IPOs were pulled when volatility increased in recent weeks – all signs of healthy, functioning markets where investors are performing a critical role in the feedback loop.
- Consumers continued to spend in the period. Hotel room rates and airfares were up double digits over the year before. Consumers traveled anyway. Perhaps part of the pandemic legacy will be a lasting preference for memorable life experiences.
- While increasing use of agentic AI (e.g., Meta's Muse app) is in the early stages, it will likely have profound impacts on

consumer activities in the future. Consumers can theoretically encourage price transparency and remove frictions (like waiting on hold to talk to an agent or searching for the lowest price), which could ultimately increase consumption. On the other hand, agentic AI may very well upend traditional consumer and financial services companies that have spent years trying to prevent electronic intrusion and bots (AI agents are basically acceptable bots after all. Teaching them to ID bikes and bridges so they can pass reCAPTCHA web security tests can be an ordeal of its own).

Implications for investors

The robustness of the nearly complete Q3 earnings season has been obscured by choppy market action. The surprising outcome of midterm elections added to volatility as investors struggled to factor an altered political landscape into their investment frameworks. **The robustness of the earnings cycle – carried through into broader economic progress – supports our conviction that the underpinnings are durable. Better yet, the flattish overall stock-price performance relative to double-digit earnings means that valuations ticked down – yet again. We expect the broadening of activity into other sectors, market caps and industries to continue.**

When surprised, markets are often quick to assume outcomes that are much better or much worse than what actually happens – rushing to the extremes of the normal distribution curve or pendulum swings. In reality, the bulk of our existence happens in the middle – where we sit fretting about one extreme or the other.

Next week in North America

A host of manufacturing and housing yardsticks will show up throughout the week in both countries, which should give solid insights into each economy's plumbing. Minutes from the last FOMC meeting will appear on Wednesday and will be thrust under the microscope in a scramble to find hints about the Fed's next rates decision (due in December).

Monday 11/16:	**U.S.** Empire State manufacturing | **Canada** Bloomberg Nanos confidence, CPIT
Tuesday 11/17:	**U.S.** AI bellwether Nvidia reports earnings, Retail sales, Import/Export prices, Industrial production, Capacity utilization, Business inventories | **Canada** Existing home sales, housing starts, international securities transactions
Wednesday 11/18:	**U.S.** Anthropic PBC IPO expected to price, Housing starts, Building permits, Pending home sales, FOMC meeting minutes | **Canada** none scheduled
Thursday 11/19:	**U.S.** Jobless claims, Leading Economic Indicators (LEI), Philly Fed business outlook survey | **Canada** CFIB Business barometer, Industrial production, Raw materials price index
Friday 11/20:	**U.S.** University of Michigan Consumer sentiment | **Canada** Retail sales, Bloomberg November Canada Economic survey

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.

The Russell 1000® Index measures the performance of the large cap segment of the US equity market. The index includes approximately 1,000 of the largest US companies based on a combination of their market cap and current index membership.

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.

PHLX Semiconductor Sector (SOX) is a capitalization-weighted index comprising the 30 largest U.S.-traded companies (not necessarily U.S. companies) primarily involved in the design, distribution, manufacture, and sale of semiconductors.

Nikkei 225 index is a price-weighted stock index representing 225 major Japanese companies. ·

KOSPI 200 Index is a stock market benchmark index managed by the Korea Exchange (KRX) that tracks 200 major, highly liquid blue-chip companies listed on the South Korean stock market main board.

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.

BMO Private Wealth

Information contained in this publication is based on sources such as issuer reports, statistical services and industry communications, which we believe are reliable but are not represented as accurate or complete. Opinions expressed in this publication are current opinions only and are subject to change. BMO Private Wealth accepts no liability whatsoever for any loss arising from any use of this commentary or its contents. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice, tax advice, a recommendation to enter into any transaction or an assurance or guarantee as to the expected results of any transaction. You should not act or rely on the information contained in this publication without seeking the advice of an appropriate professional advisor.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. BMO Nesbitt Burns Inc. is a Member – Canadian Investor Protection Fund and is a Member of Canadian Investment Regulatory Organization. BMO Trust Company and BMO Bank of Montreal are Members of CDIC.

"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.

Precious metal investing involves greater fluctuation and potential for losses.

Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index.

[i] The Wild Week That Brought AI Investors to the Brink - WSJ

[ii] OpenAI posts steep losses even as quarterly revenue rises to $10 billion, WSJ reports | Reuters