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January 2025

2025 Global Sector Outlook

Presented by the BMO GAM Global Equity Team

Global Asset Management

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Making sense of the global equity universe

Jeff Elliott
Head of Global Equity

When it comes to global equities, our philosophy is simple: *what* a company does matters more than *where* it is located.

U.S. banks have more in common with German banks than with an American health care firm. Artificial intelligence (A.I.) development can happen anywhere, from Silicon Valley to Singapore to Shenzhen, China. And oil will continue to be a uniquely international market whether the drillers are domiciled in Canada or Australia. This is why our PMs are sector specialists who have truly developed expertise in their own domain. We built a core equity portfolio using our best ideas, one sector at a time.

Our team's deep corporate relationships and advanced insights into industry trends—including supply chains, patents, and regulatory environments—allow us to identify superior investment opportunities and stay ahead of the curve. The result is a broader, deeper, more agile approach to global equity investing.

This special report represents our team's **best global sector insights** as we look ahead to 2025.

Access the strategy

Fund	Advisor Series	Series F	ETF Series
BMO Global Equity Fund	BMO99743	BMO95743	BGEQ CN
BMO Global Innovators Fund	BMO99164	BMO95164	BGIN CN
BMO Global Dividend Opportunities Fund	BMO99334	BMO95334	BGDV CN
BMO Global Infrastructure Fund	BMO99150	BMO95150	BGIF CN
BMO Global REIT Fund	BMO99336	BMO95336	BGRT CN

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Information Technology & Communication Services

We are constructive on the outlook for Technology stocks in 2025, with caveats on the Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla).

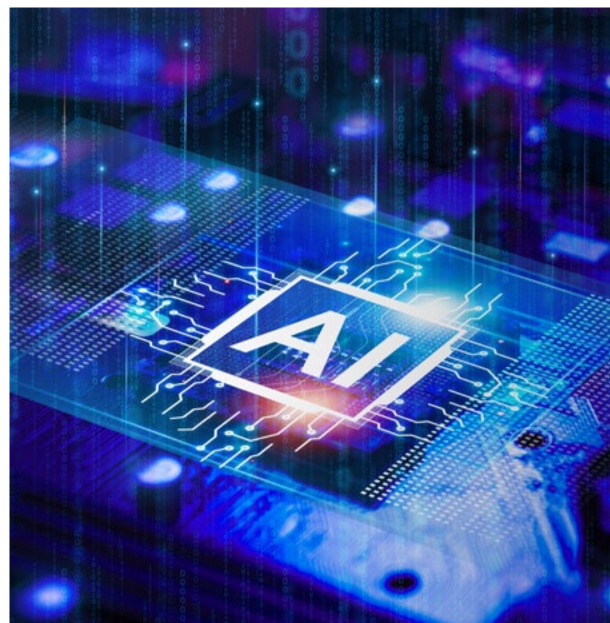
Malcolm White, CFA
Portfolio Manager

Jeremy Yeung, CFA
Portfolio Manager

Marco Iaboni
Analyst

Adriana Buduru
Analyst

Given the recent launch of Nvidia's Blackwell product line and the improvements it offers, we believe that the artificial intelligence (A.I.) capital spending cycle will continue in 2025. A potentially less-constrained regulatory environment in the U.S. under President Trump's new administration could create opportunities for acquisitions, potentially benefiting smaller capitalized acquisition candidates. Enterprise software, which had seen lower demand over the past few years, may see an improving outlook as economic conditions improve, and capital spending increases given potentially lower tax rates. An increased appetite for risk and a better interest rate environment may also revive equity capital markets after a long absence, leading to new Technology initial public offerings (IPOs) addressing new markets such as A.I. For the Communication Services sector, we are awaiting an imminent decision on the potential TikTok ban. A ban would likely be beneficial for U.S. social media companies whereas a possible presidential intervention and remedies could be negative for the sector.



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Health Care

Jeff Elliott, PhD, CFA, MBA
Portfolio Manager

Carmen Tang, CFA, MBA
Associate Portfolio Manager

Health Care faces an interesting set-up into 2025 with both positives and negatives on the horizon.

On the negative side, potential policy disruptions due to the incoming Trump administration and a broad expectation of economic strength would tend to warrant caution for the broader sector, while relative valuations nearing historical lows suggests the majority of concerns are largely priced in. Underneath the surface there are significant differentials between subsectors and individual companies, with some likely to benefit from changes to U.S. health care policy, while others are at risk. In our view, the biggest concern with the incoming Republican administration is for BioPharma, which is likely at continued and potentially increased risk of the threat of drug price pressure. That said, we think that companies with innovative products will do well in any political environment, and we continue to focus our health care investments on companies that either: 1) have products that save lives; or 2) can save the health care system money. Based on this we expect Managed Care and MedTech to be better positioned than Providers and Life Science Tools given expected policy outcomes and continue to prefer BioPharma companies with truly novel products.

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Consumer Discretionary

As we look ahead to 2025, the accelerating pace of change across key economic factors is fueling growing optimism for Consumer Discretionary spending, reinforcing our preference for Discretionary over Staples.

While consumer sentiment remains below pre-pandemic levels and spending patterns are selective, the upward momentum in wages and spending among higher-income U.S. consumers signal broader spending potential in 2025. Several additional factors contribute to this optimism:

- The broader labor market remains resilient, with stable wages and real wage growth.
- Inflation continues to ease, supporting purchasing power.
- Interest rates have retreated, creating a more favourable environment for big-ticket purchases.
- Overall wealth has increased, bolstered by strong returns across financial markets, which in turn supports higher-income spending.
- Declining fuel prices are particularly beneficial for low- and middle-income consumers, easing cost-of-living pressures.

Regarding specific categories, we have seen spending on goods largely revert to pre-COVID levels as a share of consumer spending and believe certain categories should experience improved trends moving forward. However, we remain cautious about some subsector valuations and the potential impact of tariffs, which could pose risks to the outlook.

Consumer Staples

We are relatively cautious on Consumer Staples into 2025.

Despite resilient wage growth and job opportunities, the low- and middle-income consumer is still recovering from the recent inflationary environment. Retailers are responding to this by exerting their muscle on suppliers. And the combination of less inflation with the increased promotional environment means that top-line growth is decelerating. In addition, trade wars serve as an additional threat to multinationals, both in terms of the impact to prices, but also the local perception of foreign brands and their appeal. While these risks are known to the market, it remains to be seen how pervasive the impact will be.

While we are concerned about the pace of growth for suppliers, we remain constructive on pockets within Staples, such as retailers and distributors. In addition, companies with leading and innovative brands remain resilient.

Ashley Bussin, CFA
Associate Portfolio Manager

Alex Payne, CFA
Senior Analyst

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Financials

The outlook for the global Financials sector remains generally positive.

In the U.S., we expect a resilient economy and declining regulatory headwinds to support healthy earnings growth across banks, brokers, investment management companies and insurers. Offsetting this positive outlook is recognition that valuations are rather full across larger benchmark names, and that will limit further upside potential in the broad U.S. Financial sector benchmarks. Outside the U.S., investors have a much more cautious outlook for economic growth. This is reflected in extremely discounted valuations, which could support significantly positive returns in a modestly positive economic environment.

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Goshen Benzaquen, MBA
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Real Estate

The outlook for global Real Estate Investment Trusts (REITs) is generally constructive as we look forward to 2025.

Kate MacDonald, CFA, MFin
Portfolio Manager

Hussam Maqbool, CFA
Senior Analyst

In the U.S., we anticipate a resilient economy and declining new construction deliveries will support improved supply/demand dynamics across various markets and property types. Further, a steep drop in construction starts foreshadows moderating new supply additions in coming years. While uncertainty remains regarding Trump's policies, proposals including lower taxes and deregulation could boost corporate profits and drive increased leasing activity and investment, which should be a positive for commercial real estate, including office, lodging, industrial and retail. With transaction markets reopening, REITs with stronger balance sheets are well positioned to capitalize on opportunities to drive external growth. Furthermore, refinancing headwinds are easing, leading to potentially improved earnings growth in 2025 compared to 2024.

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Energy

The oil market's upside potential may be limited.

This is largely due to higher spare capacity and more moderate demand growth, particularly in China, which has been a key driver of global demand for the past couple of decades. As well, several long-term projects in Brazil, Canada, Argentina, and Guyana are set to come online. Unless there is a tightening of U.S. sanctions on Iran, Russia or Venezuela that disrupts oil supplies, prices may need to soften to discourage short-cycle production and allow for decline, which may help to rebalance the market. While demand growth is expected to moderate, it is anticipated to continue for a few more years, mainly driven by increased demand from the aviation and chemical sectors.

Materials

Hoa Hong, CFA, MBA
Portfolio Manager

The Trump 2.0 presidency is expected to be highly contentious, with policies likely to create volatility[1] (and opportunity) in the Materials sector.

Tariffs, a key component of his agenda, could increase upward pressure on inflation, potentially slowing economic growth. One of Trump's pledges is to raise tariffs on China, the world's largest consumer of many raw materials. This could exert downward pressure on global demand, though China is likely to respond with stimulus measures to counterbalance the impact. Meanwhile, the ongoing rate-cutting cycle, which began in 2024, is expected to continue offering some relief and potential support for current weak manufacturing Purchasing Manufacturers' Indexes (PMIs). Trump's focus on deregulation and MAGA (Make America Great Again) policies will likely continue to support certain commodities such as aggregates and cement, which are difficult to import and are needed for construction in the U.S.

[1] Volatility: Measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

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Industrials

Industrials have supportive tailwinds from secular trends such as electrification, energy efficiency, automation, digitization, and nearshoring.

Massimo Bonansinga, MBA
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Janice Wong, CFA, CPA
Associate Portfolio Manager

Alex Yang, CFA
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While these trends are not new, persistent physical constraints on growth including labour, land, power, and equipment set the path for an elongated demand cycle. Indeed, the majority of bipartisan *Infrastructure Investment and Jobs Act* (IIJA) funding is yet to be spent. Still, the Trump administration does add uncertainty. While current industry sentiment reflects a favourable view towards accelerated nearshoring[2] and energy investments, the path forward will depend on policy impacts on inflation, interest rates, trade routes, and geopolitics. Outside of megatrends, short cycle and general industrial sentiment remains soft, reflecting weakness in the automotive complex, subdued Chinese activity, and project hesitancy. These markets seek to bottom in 2025. Meanwhile, business models with self-directed growth, strong inflation pass through, resilient recurring demand, mergers and acquisition (M&A) optionality and ongoing efficiency opportunities offer enduring value.

[2] Nearshoring: The shifting of supply chain networks from geopolitical rivals to allies.

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We are generally positive on global utilities.

Some front-loaded headline news on the new Trump administration's potential review of *Inflation Reduction Act* (IRA)/renewables credits, as well as adders and other incentives, may pose near-term pressure on U.S. names, especially renewables and clean energy stocks. However, the market has already priced in a limited level of revisions, and we believe sentiment could improve when there is more clarity on policies. We think U.S. independent power producers (IPPs) and regulated utilities will continue to benefit from secular power demand growth and rising requirements for grid hardening, whilst offshore wind could be at deeper risk. European utilities are likely to face less regulatory challenges given normalizing power tariffs, thanks to the ramp-up of global supply and stabilizing pricing of liquefied natural gas (LNG) as the marginal fuel. Furthermore, electrification is set to continue driving energy transition across Europe, calling for consistent transmission and distribution (T&D) investment and pricing reform to reflect the dynamics of the current and future energy mix.

Integrated utilities are going to benefit from these trends. In China, we could start to see renewable value chain passing their trough, which may lead the recovery from a multi-year bottom. Despite the low likelihood of massive stimulus, several segments, such as smart grid and coal-to-gas transition, are still likely to receive solid funding supports. We are concerned on rising rates in response to inflation in Latin America, which may adversely impact the valuation of their asset base.

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