June 2025

BMO GAM's Monthly House View

Neutral for now—but keep the engine running

Presented by BMO GAM's Multi-Asset Solutions Team

BMO | Global Asset Management

Neutral for now—but keep the engine running

In investing, there are times when the market environment warrants making big bets and pushing every potential advantage.

Sadiq S. Adatia, FSA, FCIA, CFA
Chief Investment Officer (CIO)

But with uncertainty continuing to be the overarching theme, this is not one of them. Rather, we've opted to rein in our bets this month, returning to a neutral stance so that we can nimbly shift once we know whether a bullish or bearish outcome is more likely.

Over the past several months, market dynamics have been seemingly in a continuous state of flip-flopping. Trump's tariffs were the big story in April, but as they were paused, we saw a big rally in May. In recent weeks, we've seen a court battle erupt over the tariffs—first, they were struck down, then temporarily re-instated to allow the Trump administration's appeal to be heard. We've seen the U.S. President announce even steeper tariffs on steel and aluminium, while negotiations with China are akin to a soap opera. The bottom line, in our view, is that markets could move in any direction, which is reflected in our largely neutral stance—we're not overly bullish, but we're not necessarily bearish either.

Looking ahead, we expect continued volatility[1] as Trump contends with the legal row around tariffs and potentially explores other ways to pressure America's trading partners. What we don't know is how other countries will respond—will they be as willing to strike a trade deal with Trump if it's determined he has no legal ground to stand on? Much could come down to the U.S. Supreme Court, which is likely to be the final destination for the battle.

At the beginning of the year, we predicted that markets would be higher by year's end. Despite the ups-and-downs, we stand by that call.

It's important to stress that uncertainty doesn't necessarily mean a negative outcome. As part of our neutral positioning, we still want to have some defense in our portfolios, including an allocation to Gold, a tilt towards lower-volatility Equities, and some protection via options strategies. The U.S. economy continues to hold up relatively well despite some signs of slowing, and we still believe that the U.S. Federal Reserve (Fed) will step in with some rate relief in the second half of the year. In addition to the interest rate outlook, we'll be closely monitoring unemployment data and consumer sentiment, including hard numbers from consumer spending-oriented companies such as credit card firms, for signs of which way the wind is blowing. Once we have a clearer picture, we won't hesitate to move—one way or the other.

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Less Navarro, more Bessent, please

The worst-case ideologically driven trade scenarios are being held at bay for the moment, spurring expectations for U.S. economic re-acceleration next year.

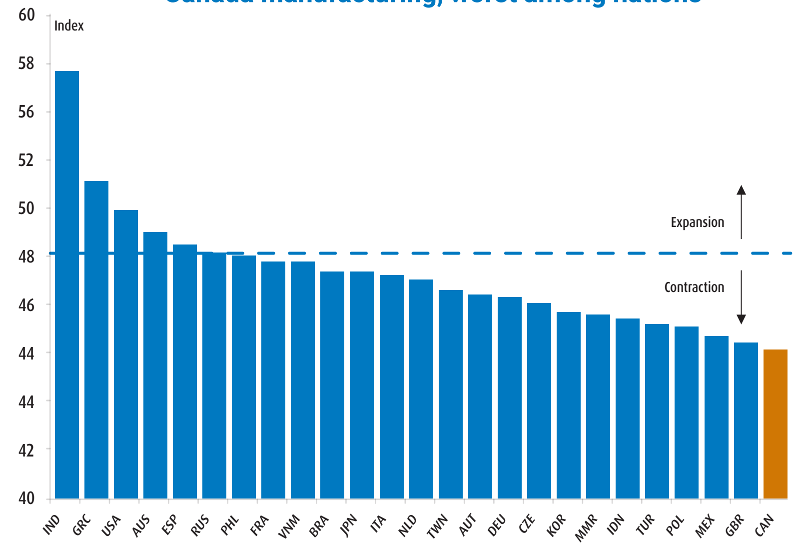
Fred Demers, MA
Director, Head Strategist,
Multi-Asset Solutions

U.S. outlook

The scope and impact of trade deals is far from benign at this point, but the backdrop is much less fraught on the growth outlook, both domestically and globally for the moment. The worst-case scenarios envisioned in the wake of Liberation Day (April 2) have been avoided and the situation, though still volatile, appears more manageable. Further, fiscal policies should be stimulative, while tax cuts are coming. While the economic backdrop is now lower than what we previously expected to start the year, recession risk is definitively lessening at this point—about 25% is the consensus for a contraction in the next 12 months, which from an economic perspective, is almost trivial (it's never zero). Looking at the actions from the White House, it appears the trade hawks have lost some ground to others—less influence from the likes of Peter Navarro, more from Treasury Sec. Scott Bessent. That helps us rule out the more ideologically driven scenarios, while tariffs are clearly here to stay. There are of course flare-ups, but on net we're seeing a trade regime emerge that throws some sand in the gears of the economy, but doesn't stall it out.

The outlook for inflation remains a concern, with elevated tariff costs beginning to show up in the data, but those expectations have now peaked. In terms of overall growth, from an expectations point of view, whatever the long-term fiscal implications are from Trump's tax bill, the near-term impacts are supportive, with tax cuts serving to offset some tariff damage. The most significant effect on the economy should be felt in 2026 with the narrative for re-acceleration of U.S. growth re-implanting itself now, creating a potential backdrop that should be more positive, once near-term tariff uncertainty cools off. Fed policy remains on pause, with pricing for cuts moving further and further out into the fall and beyond. It will be difficult for Chairman Powell to lower rates without cracks in the U.S. labour market, which for the moment, just aren't there.

Canada manufacturing, worst among nations



Source: S&P Global Manufacturing Index, May 2025.

Canada outlook

We've seen some better resilience in the first-quarter data, but under the hood it's not altogether much of a surprise and depicts a weakening economy. Much of the strength came from export demand, with domestic firms producing more for U.S. stockpiles as supply lines filled to build inventories ahead of any escalation of trade tensions. Ex-exports, final domestic demand in Q1 actually had a negative print. The Canadian manufacturing sector is now in recession. Labour Force Survey data showed a stalled labour market year-to-date through May, while the payrolls report is showing a more concerning 80,000 job loss through March.[2] Hiring from public administrations is slowing, taking a significant tailwind away from the job market.

On a regional basis, the manufacturing contraction is uneven, with Ontario and Quebec feeling the brunt (unemployment is cascading higher in places like Windsor, Ont., for example). The auto industry is a perfect example of how the threat of tariffs alone is taking a toll—there's almost no duties on the Canadian auto sector, per se, because of the Rule of Origin laws in the United States-Mexico-Canada Agreement (USMCA). The threat has simply created uncertainty among automotive firms that has led to cancelled investments, movement of production lines and reduced hiring. It's not the end of the Canadian industry, but it's certainly bad news. All in all, to put it politely, these are not great fundamentals and should, in our view, drive the Bank of Canada (BoC) to cut its policy rates to at least 2% by the end of the year, assuming a mild manufacturing recession without severe spillovers.

International outlook

We're seeing the continuation of a trade-induced slowdown. Yet there too, it is being counterbalanced by the wake-up call Canada has received—the reshaping of trade away from U.S. dependencies and toward greater domestic reliance is a longer-term positive driver. EAFE (Europe, Australasia and Far East) may experience a slowdown through the summer, before the data should turn more optimistic as new fiscal supports and economic vigour take root. The numbers themselves are not yet that exciting, with anticipated growth in Europe of around 1% this year, but with the scope to accelerate to something like 1.5% next year. A narrowing growth differential with the United States is going to be important; we don't see the U.S. growing above 3%, which means U.S. outperformance shouldn't be as pronounced. As the gap narrows, it represents a more bullish backdrop for European and international economies, especially after factoring in a weakening backdrop for the U.S. Dollar (USD).

With respect to Emerging Markets, it is a similar story of disruption from trade in the second quarter. The policy support is still there—Beijing is putting more stimulus and firepower into that economy. But it, like every other trading nation in the world, is levered to the U.S. economy which still accounts for a third of global consumption. Everybody is feeling some headwinds. Our base case now however is for an adjustment phase to the new trade environment to persist through 2025. Then, in part through public policy supports, we should see re-acceleration in 2026.

Key risks	BMO GAM house view
Recession	• Diminishing U.S. odds for a contraction in the next six to 12 months • In Canada, accelerating recession risk
Inflation	• U.S. tariffs create near-term upward revisions to global inflation, but pressure is lessening • Cheap oil is helping temper consumer price growth
Interest rates	• Fed calculus is shifting to back-loading of cuts in 2025 amid economic resilience • The BoC still requires multiple cuts to alleviate pressure on households—and more importantly, the private sector
Trade policy	• Moving through adjustment phase for new global trade dynamics • Peak uncertainty has passed as deals materialize
Consumer	• Consumer sentiment could be bottoming on trade deals and stock market recovery • Tariff risk could still weigh on confidence but is lessening
Housing	• Still-elevated rate risk joined by slowdown fears as drags on market • Canadian buyers on pause amid lower rate expectations, and rising macro anxiety
Geopolitics	• Trade deals overshadowing military conflicts (Ukraine, Middle East) as sources of uncertainty
Energy	• Recession risks are exerting downward pressure on oil prices • OPEC+ is delivering cheap oil, creating headwinds for North American producers

Asset classes

Steven Shepherd, CFA
Director,
Portfolio Manager

The faintest hint of signal within the cacophony of market noise suggests a very modest tilt toward risk—but barely. Caution remains the watchword of the day.

Compared to earlier in the spring, there's an argument to being a touch more bullish though timing and short-term volatility are significant considerations. A major caveat however is that all views and opinions should be considered valid for 12 hours only and that window is perhaps getting shorter by the day (just kidding … sort of …). To the central question of how to allocate capital in such conditions, the answer is, to be as diversified as possible. On trade policy, we've gone from something approximating economic insanity down to extremely problematic: an effective tariff rate of only 17% on U.S. imports sound far more reasonable on a relative basis, but when considered as a nearly seven-fold increase from the average rate that's been in place for the past couple of decades, it remains a sobering factor. Yet the market response to Trump's climbdown from exorbitant duties on China, while pausing global reciprocal tariffs was a positive one, with the S&P 500 returning and surpassing its pre-April 2nd level.

Our present view on Equities is, we're now buyers on dips, rather than sellers on rallies. Despite widespread withdrawals of guidance from a number of companies, Q1 earnings were better than initially feared, and in fact showed higher than average levels of upside surprises. Profits were supported by some tariff front-running so some giveback in Q2 should be expected. However, the worst-case scenarios seem priced out of valuations and the outlook is becoming a bit more optimistic. For now, our view is, we've seen some aggressive outflows from Equities, which means there's potential upside to be had as we revert to the mean—but caution remains warranted.

On bonds, we remain neutral (0). The focus has shifted from how the Fed would respond to a tariff-induced stagflation scenario to what Trump's 'big, beautiful' tax bill is going to do in terms of U.S. deficit sustainability. It's impacting the value of the USD while we saw the 30-year U.S. bond yield crack 5%. What are holders of long-dated U.S. Treasuries going to demand going forward, and with that added level of risk and unreliability, is that going to be a permanent upshift in what the long end of the yield curve[3] looks like? On the short end, market expectations early in the year had as many as four cuts priced in. We're down to two or maybe even one as of this writing, at the September meeting at the earliest. Higher than expected May non-farm payrolls and hourly wage growth may push these off even further.

EQUITIES	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish
FIXED INCOME	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish
CASH	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish

PORTFOLIO POSITIONING

Equity

Conviction remains lacking, prompting neutral ratings on all regions. That said, underlying earnings growth is proving resilient—a positive sign.

Marchello Holditch, CFA, CAIA
Head, Multi-Asset Solutions

We have neutralized our view on Equities across the board, slightly raising our outlook on the U.S. (0) while lowering our scoring for Europe (0). Amid chronic policy, economic and financial market uncertainty there is one consensus: a baseline of ~10% tariffs into the U.S. market is likely here to stay. Beyond that, we're in for a state of persistent flip-flopping. The bargaining process of Trump coming out hard, and then backing down is inherently volatile. That's a central reason we've brought in our bets in general—it's difficult to make a call in any particular direction.

We've slightly lowered our view on Europe while becoming incrementally more positive on the U.S. for two reasons: a) the worst-case scenarios appear to be avoided (so far), while U.S. Technology earnings and valuations are proving more resilient than expected. The themes coming out of earnings reports this past quarter was, there is perhaps less macro risk than expected while underlying profit growth, notably among the Mag 7 (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, Tesla), are sturdier than expected. Our warm-up on Technology has improved the view on the United State market in general. On European stocks, yes, the profit and economic growth differentials with the U.S. are narrowing and yes, fiscal stimulus should help unlock higher returns, but at the same time, the European market has moved quite strongly in a short time. The case for more upside from here isn't as clear. Given the volatility that's likely to persist, in our view, we have taken some profits on that trade and are now neutral.

On Canadian Equities, we're not as bearish on stocks as we might be on the economy. We've noted multiple times here domestic economic composition compared to the stock market is markedly different. We remain neutral, however we are favourable to Financials as a sector as well as Gold producers, for example. We also anticipate some fiscal support later in the year as a potential catalyst for additional positivity for the Canadian market.

CANADA

Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

U.S.A.

Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

EAFE

Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

EM

Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

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Fixed Income

A drift up in long-end yields bears monitoring, while asymmetry on the short end of the curve holds potential.

Marchello Holditch, CFA, CAIA
Head, Multi-Asset Solutions

As we've seen long-end U.S. bonds dance toward that 5% threshold, raising the spectre of a very costly long-term refinancing problem for the U.S. government, it's worth unpacking what's behind those yield movements. A smaller component is supply. We've seen some messy auctions (in both the U.S. and Japan; the weakness is not limited to U.S. Treasuries), creating an upward drift in long rates. The bigger driver going forward are concerns around U.S. debt sustainability; the new U.S. tax bill is effectively going to lock in a significant budget deficit of ~6-7% of Gross Domestic Product (GDP) for the foreseeable future. However, we will say that one positive is the effective interest rate being paid is still only about 3.5% but will inevitably increase. over time, especially if rates stay higher for longer. For the moment, the real rate remains manageable relative to nominal GDP growth. As those two things (effective interest rate on aggregate U.S. debt and nominal U.S. growth) converge, we start to envision real trouble. We are not there yet.

Elsewhere, at the short end of the yield curve, we are seeing some asymmetry as cuts get priced out which makes the front end a lot more attractive. Our view is that the bar for hikes is extremely high, while the one for cuts is low if we start to see a weakening in employment and consumer spending. We remain neutral (0) on Canadian Duration.[4] We've seen the Canadian curve drift higher at the long end in sympathy with the U.S. At the short end, the BoC has control in setting the rate, while further out the curve we're of course along for the ride as long yields in the U.S., Japan other places drift up. We are similarly neutral (0) on credit. We aren't seeing significant spread widening in High Yield while the return of higher for longer is not good for smaller issuers relying on floating rate debt.

IG CREDIT
Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

HIGH YIELD
Very Bearish | Bearish | **Slightly Bearish** | Neutral | Slightly Bullish | Bullish | Very Bullish

EM DEBT
Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

DURATION (U.S)
Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

DURATION (CANADA)
Very Bearish | Bearish | Slightly Bearish | **Neutral** | Slightly Bullish | Bullish | Very Bullish

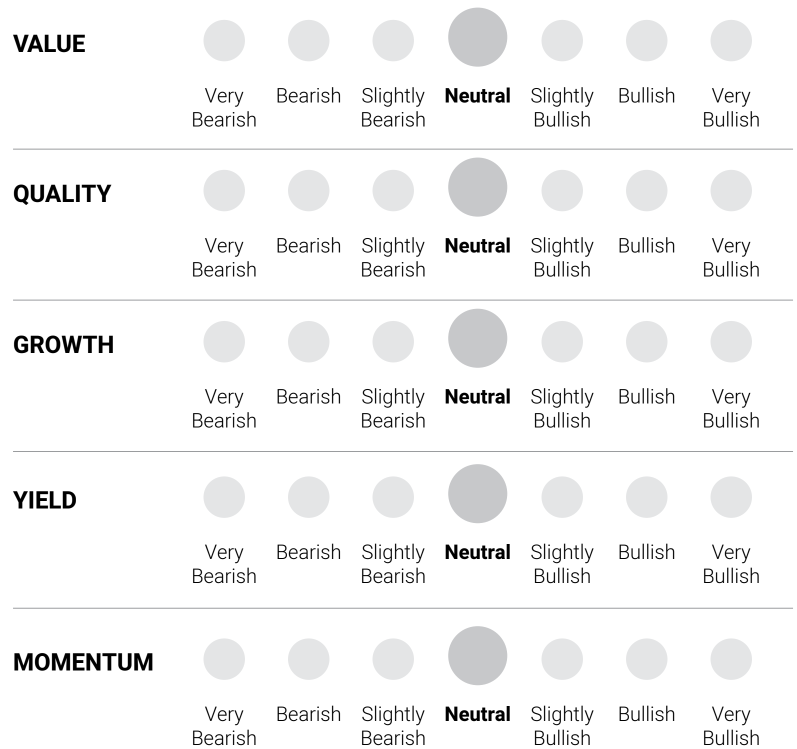
Style & factor (tactical)

The nuance of a neutral stance: markets are shifting, and capital allocators should be preparing their investment decisions accordingly.

Steven Shepherd, CFA
Director,
Portfolio Manager

Our Value tilt has been taken down to neutral (0) in favour of an upgraded outlook on Momentum, which has been brought up from a slightly bearish score to neutral (0). Momentum is not where you want to be when valuations are moving downwards, but that theme has perhaps stabilized and in some instances is reversing. Growth has similarly moved from -1 back to neutral (0) as well as Volatility (0) as the VIX has come back below 20.[5] Quality and Yield, by contrast, have been downgraded from a +1 back to neutral (0). What all of these score changes reflect is a very cautious increase in risk appetite across portfolios. The nuance to understand here is that being neutral across the board is not indicative of indecision, but rather a view that we're in the midst of a sentiment shift in the market. To summarize, the cost of being wrong is lower right now, and there's potential alpha[6] on the table for long-term investors. With respect to the tariffs, our current view is, on balance they shouldn't be as bad as the market presumed earlier—but they could still be worse than they are at present. As our diversifications comments above indicate, we have broadly flattened out our factor exposures, and are moving toward risk-on on the margins.

In terms of sectors, Canadian banks (Financials) and Energy are areas to look at in terms of longer-term opportunities. Canadian Energy is very cash flow positive, and if we do see any expansion of pipeline capacity and international exports, that's bullish. Bear in mind, this is an industry that learned how to make money at $40 a barrel. Although feeling the weight presently of potential OPEC supply increases, the tailwind of reduced global recessionary fears should support continued energy demand forecasts. Canadian banks have come through a mixed earnings season but downside surprises have been idiosyncratic, as opposed to macro in nature. On U.S. sector considerations, we've taken Information Technology from a slightly bearish score (-1) up to slightly bullish (+1). Nvidia's earnings provided some needed reassurance of continued growth and AI-related infrastructure spend among customers, which reflects longer-term opportunity.



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Implementation

The use of currency hedging and option overlays help guard returns and put a floor on downside risk, while our shine to Gold takes a pause.

Steven Shepherd, CFA
Director,
Portfolio Manager

There's no change in our view on the Canadian dollar, which is still slightly bullish (+1)—though it won't be without volatility. In general, in the portfolios we view currency hedging as a defensive tool rather than a potential alpha generator. It is used to take a little bit of edge off the risk that the USD could continue to fall.

On Gold, although our score remains unchanged at an overweight (as an off-benchmark position in most portfolios, any amount of gold represents an overweight), we are starting to see element of both valuation risk and opportunity cost risk. For the better part of a year, we've been oscillating between being buyers or holders. This is the irst month in some time where we can be considered potential sellers. That's not because Gold is going to necessarily fall off a cliff, it is more an issue of its potential to lag other risk markets. The precious metal has consolidated but hasn't fallen below any technical breaking point that leads to a big leg down, and if you've got a long enough investment horizon, you could argue that we're in the early innings of a multi-year super cycle. But for the moment, we're on the sidelines—the move to US$3,500/ounce was fast, led by retail flows, which are notoriously fickle.

We continue make use of option overlays primarily from a defensive standpoint given the volatility, but we are scaling back at the margin. We have been sellers on market rallies in order to buy some downside protection in preparation for the inevitable reversions. The need for protection remains, but our risk appetite for the moment is a touch higher.

	Very Bearish	Bearish	Slightly Bearish	Neutral	**Slightly Bullish**	Bullish	Very Bullish
CAD					●		
GOLD					●		

DISCLAIMERS

[1] Volatility: Measures how much the price of a security, derivative, or index fluctuates.

[2] Statistics Canada, January-March, 2025.

[3] Yield curve: A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. A normal or steep yield curve indicates that long-term interest rates are higher than short-term interest rates. A flat yield curve indicates that short-term rates are in line with long-term rates, whereas an inverted yield curve indicates that short-term rates are higher than long-term rates.

[4] Duration: A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise).

[5] VIX: the ticker symbol and popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

[6] Alpha: A measure of the excess return of an investment compared to its expected return, given its risk level.

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