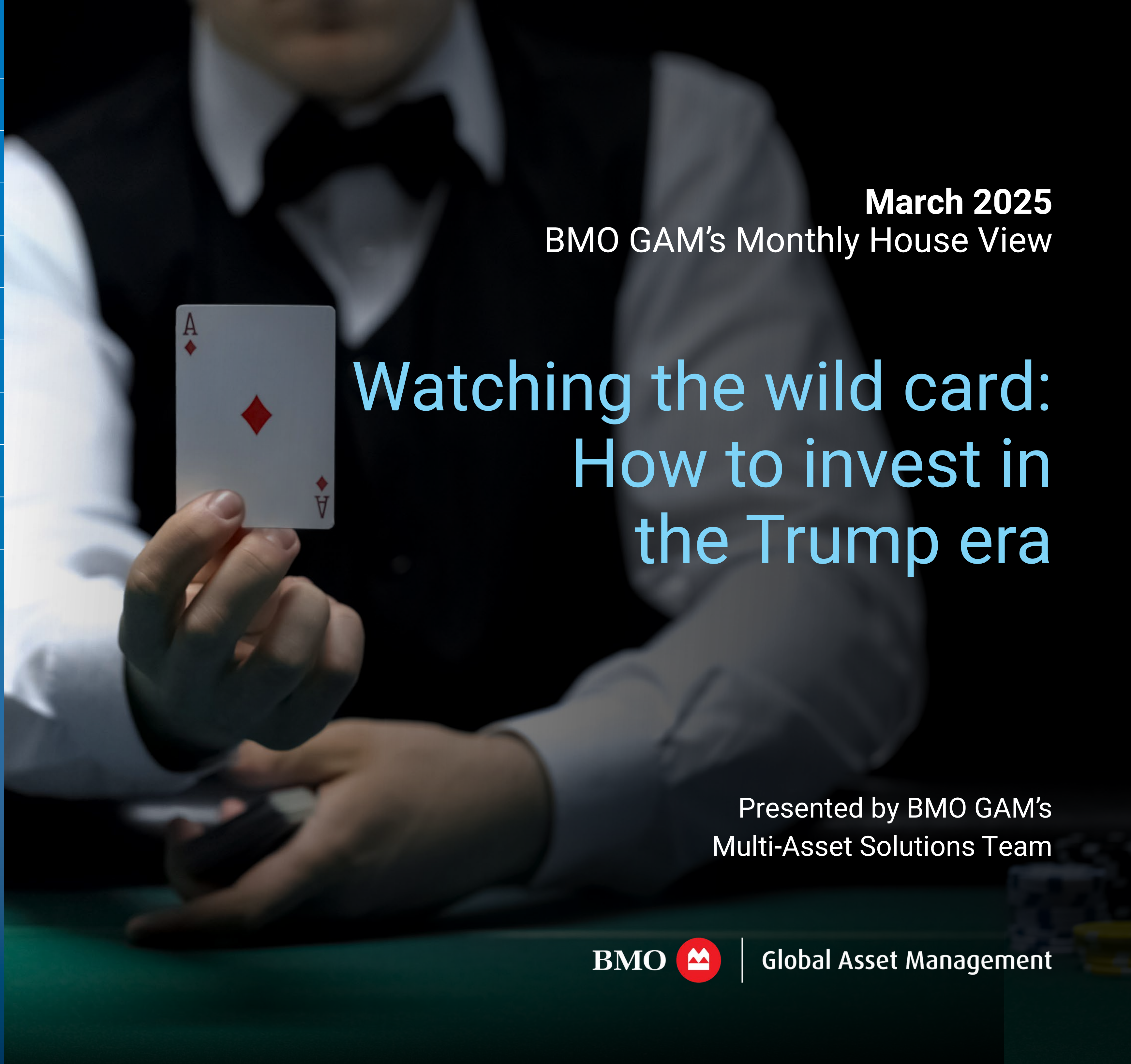


March 2025

BMO GAM's Monthly House View

Watching the wild card: How to invest in the Trump era

Presented by BMO GAM's
Multi-Asset Solutions Team

BMO | Global Asset Management

CIO STRATEGY NOTE

Watching the wild card: How to invest in the Trump era

When you're playing poker, the hardest person to play against is often the person who has an unconventional (or non-existent) strategy, as it makes them nearly impossible to read.

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

In many cases, they have no idea what they are doing. That's the kind of situation markets currently find themselves in due to the unpredictability of Donald Trump. Simply put, it's hard to stay two steps ahead when you don't know what the next move will be, likely because he doesn't know himself. For the second straight month, we've reduced our risk exposure, and we are no longer overweight Equities—and U.S. Equities in particular. The market is very nervous about tariffs and potential trade wars, and we believe that Trump-related uncertainty has to be baked into portfolios at this stage. While the market has largely gone risk-*off*, we've opted to go risk-*down*, because companies don't suddenly go bad overnight. But it is a situation that should be monitored closely, because the stakes are high for investors, companies, and consumers alike.

The market is very nervous about tariffs and potential trade wars, and we believe that Trump-related uncertainty has to be baked into portfolios at this stage.

Right now, many businesses on both sides of the Canada-U.S. border don't know what the trade landscape will look like going forward. As a result, they don't know whether they should be investing in their companies or tightening their belts. It isn't a good situation for anyone, including the U.S., and investors are clearly realizing that Trump-related uncertainty wasn't fully priced into markets. Once we do have greater certainty, markets could rebound. But until then, we have no choice but to wait it out as anything can happen in the short term (both positive and negative).

Exercising caution doesn't mean sitting on the sidelines. Rather, it means remaining invested while implementing some protective measures in portfolios. As we said in our annual outlook, we believe that having hedges in place is critical in this kind of unpredictable environment. Bonds have quietly done fairly well recently, we continue to look to Gold as a defensive play, and we have also taken some profits from our Equity positions after strong performance in both Q4 and January. All of these factors have helped to lower our risk exposure. We still expect that markets will be higher by the end of the year (though our confidence in that view may be diminishing, aligning with our reduction in risk). In the meantime, if there are any significant downturns, the dry powder we've accrued will allow us to selectively buy on the dips if quality companies are available at a discount.

In poker, when you're sitting across the table from an unpredictable player, the best strategy is usually to play quality cards, limit your risk and stick to the fundamentals. If you stick to that strategy, you normally come out on top over the long term. That how we're choosing to play Trump's volatile market.

On the brink

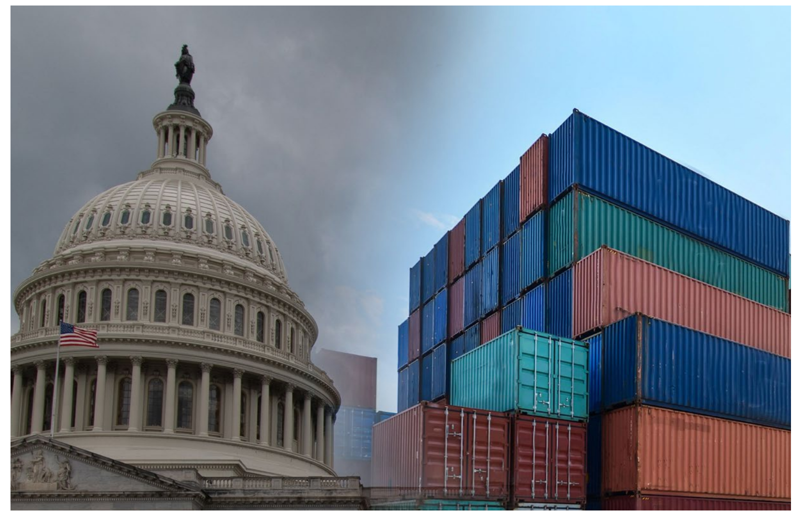
Led by broadsides against North American trading partners, the United States appears intent on igniting global trade wars, damaging growth expectations—including its own.

Brittany Baumann
Vice President,
Investment Strategist

U.S. outlook

We're monitoring closely an incoming soft patch in growth that could slide into a deeper crevasse on the imposition of tariffs as well as government spending cuts. There is now a growing fear that U.S. policies will be a net negative on growth, rather than positive, which is a reversal from the post-election consensus view. To be sure, this soft patch likely reflects factors that are more temporary in nature. It has been a colder-than-normal winter, creating a dampening effect on spending and housing activity in Q1. Second, there is a clear front-loading of the tariffs response, the clearest indication being imports and new inventory orders. The goods trade deficit hit a new record in January, reflecting very large order increases in consumer goods and industrial supplies, which is likely to be a significant drag on gross domestic product (GDP). Third, consumer spending has pulled back but this is mainly a retracement from exceptional growth in Q4.[1] Overall, growth will still likely be positive in the first quarter, but now closer to 1% (annualized) rather than 2–3%. Further out, there's also growing concern that federal layoffs at the hands of DOGE (Department of Government Efficiency) will significantly weigh on the labour market. Our expectation is that they will not. There is an historical playbook for this: in 1994, the Clinton administration undertook a similar effort that resulted in significant government layoffs. In the same period, we saw private sector job growth accelerate.

Against this softer growth backdrop, even if it proves temporary, we now have a full-blown trade war. As a result, U.S. 2025 growth expectations have likely peaked. Tariffs currently in place as well as those threatened are unlikely to cause a recession in the U.S., but odds will increase on a retrenchment in business and consumer sentiment and a more significant accumulation of federal layoffs and tariffs. It is still possible that the second half of this year will be more constructive if priorities turn to tax cuts and deregulation and away from tariffs. On the Fed, we still think officials will react more to the growth-negative impacts of tariffs than the inflation risk, meaning more cuts than currently priced.



Canada outlook

The Canadian economy continues to hum along—for now—with growth registering a 2.6% (annualized) in Q4, reflecting higher consumer spending and a rebound in business and residential investment. It was a nice little bump brought about by a combination of 1) lower rates (the BoC has cut rates much more aggressively compared to the Fed), 2) strong

ECONOMIC OUTLOOK

U.S. growth in general, with Canada on the receiving end of that through trade linkages, and 3) a temporary tax holiday. We're very careful, however, not to extrapolate that momentum forward given the tax holiday is over, and Canada continues to face a worst-case scenario in its trade standoff with the U.S. Business investment remains quite dismal, meaning even if we don't get full-blown, economy-wide tariffs, the backdrop is still not great. The growth outlook remains below trend for 2025 (sub-2%), exacerbated by another leg of mortgage renewals on homeowners. From a policy rate standpoint, we continue to expect the BoC to lower rates closer to 2% out of the need for 'insurance' against tariff uncertainty, which we do expect the Canadian central bank to react quite swiftly to as events evolve. Fiscal supports are also likely to be generous in the event of a material trade war with the United States. Overall, we expect stimulus, both fiscal and monetary, to provide a meaningful offset to the trade-induced hit to growth.

International outlook

Good news continues to build in Europe, with rising odds of a peace deal in Ukraine which in general, would lower energy costs for the region. The second optimistic development is the outcome of the German elections, which has almost certainly guaranteed more fiscal stimulus. At the very least, defense spending is going to rise meaningfully. Lastly, rate cuts are beginning to show some positive effects and should continue to; credit growth rates are rising, while the European Central Bank (ECB) just cut another 25 basis points. Overall growth is still very weak, but these recent developments do suggest a meaningful boost to growth. The tariff threats still linger for the region; negotiations are certainly going to be contentious. In Emerging Markets (EM), we see some similarly good news for China, as well; the data continues to show signs of an economic bottoming. The latest PMI (Purchasing Managers' Index) manufacturing numbers are levelling, while there is potential for even more fiscal stimulus from Beijing. After years of tepid growth, China is looking more attractive in the near term in spite of its tariff conflict with the U.S.

Key risks	BMO GAM house view
Recession	• Low (but rising) odds in the U.S. for the next six to 12 months • Rate cuts required in Canada; but should avoid recession
Inflation	• Not a threat, though stickier than expected in the U.S. • Tariffs are an upside risk, but their impact is likely to be modest at best
Interest rates	• Fed calculus is perhaps shifting to more cuts amid weakening backdrop and trade uncertainty • The BoC still requires many cuts to alleviate pressure on households
Trade policy	• Tariffs on China have been implemented, and there's room for more • Broad tariffs on Canada and Mexico are on pause, but increasingly rocky trade relations are a risk
Consumer	• Trade uncertainty weighing increasingly on sentiment, spending • U.S. federal government layoffs likewise hurting confidence
Housing	• Prevalence of elevated long-term U.S. mortgages means market stagnation until lower rates arrive • Canadian buying slowing amid lower rate expectations, and macro uncertainty
Geopolitics	• Withdrawal of U.S. support for Ukraine poses new downside risk • Rising European defense spending cushioning security concerns
Energy	• Trump is seeking cheaper oil and gas prices for U.S. households, but oil tariffs are a risk • Lid on geopolitical risks (i.e., a potential deal with Russia) may tamp prices further

Asset classes

Caution is the watchword as investors awaken to the reality of material economic threats facing markets. Allocate accordingly.

Steven Shepherd, CFA
Director,
Portfolio Manager

After napping through much of the first quarter, markets awoke to a sharp re-pricing in the face of tariff risks. It took less than a week to go from: "They're messing around," to "Oh, they're serious," to full-on scare of a protracted trade war that may surpass even a pessimist's expectations. Before the March 4 import duties deadline, Equities were drifting broadly higher, credit spreads were asleep at the wheel and the percentage of U.S. stock exposure relative to net worth among all Americans was at all-time highs (which you'd expect after back-to-back years of 20%-plus returns). Positioning had grown very tight—and very vulnerable. Equity ETF flows have slowed significantly from late 2024 levels and we're seeing a rotation into other areas away from North America. Europe is the biggest beneficiary. The rising interest in U.S. Small Caps through the third and fourth quarters of last year is evaporating, as investors take some risk off the table, and question whether the so-called 'U.S. exceptionalism' trade is over. Our take? We've downgraded Equities to neutral (0).

With respect to bonds, we have moved from neutral (0) to slightly bullish (+1), driven by rising risk aversion. If investors are selling Equities, it is likely that they will buy bonds in anticipation of less hawkish central bank policy to compensate for any economic malaise. In addition, U.S. policy rates remain biased toward the downside, reflecting the growth scare. The futures market is pricing in three cuts, or 75 basis points lower by the end of the year, with the first move from the Fed moved up to June. Canadian rates are headed directionally lower, as well.

On net, we're not overly bearish (yet) but are cautious.

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

CIO strategy note

Economic outlook

Portfolio positioning

• Asset classes

• Equity

• Fixed Income

• Style & factor (tactical)

• Implementation

Disclosures

Equity

It is too soon to revise the U.S. outlook to recessionary. It is not too soon, however, to tilt toward higher margin service-oriented names, or firms with domestic revenues. The same holds true for Canadian stock-picking.

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

We have downgraded the U.S. market to neutral (0) from slightly bullish (+1). We've been in the camp that tariffs in some form or fashion would be implemented, spurring volatility,[2] but we're also in the camp that believes they're not going to be on for a prolonged length of time. The market however is less convinced, with a reaction that suggests it may be more than a short-term issue and rather something akin to an increased recession risk. This would seem premature given recent consensus odds of 15–20% as indicated by Bloomberg,[3] and we do not see the U.S. falling into negative growth territory for the current quarter or next. If tariffs hold through the end of the summer, a U.S. downturn scenario becomes much more likely, but that will be more a function of non-U.S. countries' reciprocal tariffs impacting domestic consumption. It is prudent to be allocating or at least considering positions in services-based companies over goods-producing ones, and companies with more domestic versus foreign sources of revenue—that's where there's some opportunities. This view applies to Canadian stocks, too.

On Canada, it should be noted that the Canadian economy is far from being a one-to-one mirror of the TSX, the differentiation is worth pointing out. One example is auto manufacturing and components, which is far more important to the economy than stock market. Energy meanwhile is overrepresented in the market. The economic impact of tariffs won't directly overlap with the market response. Knock-on effects and reverberations are of course expected, causing broad negative sentiment—a real risk that has resulted in a reduction in our Canadian score (-1, slightly bearish).

Internationally, we've moved our score for EAFE (Europe, Australasia and Far East) up to neutral (0) from slightly bearish (-1) in February. Our view on EM is now also slightly bullish (+1), up from neutral (0). Each region was heavily under-owned coming into the year, and have since started to perform quite well. With the German elections out of the way, Europe seems to be readying policy that will support the economy as well as its security—both positive developments for Equities. On China, sentiment is improving as Beijing looks to ramp up support for key domestic companies—a pro-growth pivot and a positive for stocks.

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

Fixed Income

We see bonds outperforming in the near term as the sudden unwinding of the ‘U.S. exceptionalism’ trade benefits credit. We are constructive on Duration and have upgraded our view on IG credit.

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

The market is more concerned about slowing growth than rising inflation. The 10-year Treasury yield is down on the year, which underscores that slowdown fears are trumping the inflation threat. There is a tug-of-war going on between expectations for pro-growth and anti-growth policies from the U.S. administration. The market is struggling to decipher what will win out. For the year as a whole, we still believe stocks should outperform bonds, but in the short term we’re moving tactically overweight Fixed Income, positioning for a slowdown, as well as a pick-up in volatility. We are perhaps witnessing the end of ‘U.S. exceptionalism’—above trend growth and earnings—but the silver lining is that it is good for bonds.

We split our scoring on Duration[4] last month to differentiate our view on Canadian and U.S. long bonds, and we remain more constructive on Canadian Duration (+1, slightly bullish) versus U.S. government debt securities (0, neutral). We’re still coming out of a bout of very restrictive interest rates, creating the opportunity for central banks to cut back to a more neutral level in both markets, which makes us supportive overall on longer-dated bonds. And if tariffs go on, and/or persist, there is even more upside, particularly in Canada.

We have upgraded our IG Credit scoring to slightly bullish (+1) while cutting High Yield (-1), reflecting our desire to add some more defensiveness in the portfolios.

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

PORTFOLIO POSITIONING

Style & factor (tactical)

A measured rotation into assets that can deliver secure yields is warranted, making Value a factor to favour. That said, we still like a tilt toward Small Caps for its diversification and even defensive benefits.

Steven Shepherd, CFA
Director,
Portfolio Manager

Our scoring for the month put both Value and Yield back to +1 (slightly bullish), which is reflective of the team's overall risk-down view as we shift towards relying on defensive factors. There are any number of ways to play defense—geographic, sectoral, equal weight versus cap-weighted etc.—but from a factor lens, we are prioritizing security against overvaluation. One of the best ways to stay invested but play defense is to target Value stocks, it's just a safer bet at present. If the market sells off, secure yields are a good thing, particularly if we expect interest rates to continue to drop, a view we are expressing through the Fixed Income lens (see above). Companies with good dividend yields also tend to have cash on hand for buybacks, which are supportive of valuation through a downturn. That said, we are not undertaking a massive rotation. Our scoring on Growth stocks remains neutral (0).

Our Size tilt similarly reflects our view that caution rather than outright bearishness is what's required. We're not dismissing the possibility that Trump may in fact thread the needle in terms of tax cuts turbo-charging the U.S. economy with increased corporate investment and more foreign-direct investment. The outlook could look pretty good after Trump's first year, which is a reason why we are maintaining our positioning in Small Caps. Our Size factor scoring remains -1 on the month, indicating a slight bias away from larger caps. It offers diversification, and can be viewed as defensive: large caps tend to rely on international revenue to a much higher degree, which would be pressured by both a strong USD and retaliatory international tariffs.

VALUE
Very Bearish · Bearish · Slightly Bearish · Neutral · **Slightly Bullish** · Bullish · Very Bullish

QUALITY
Very Bearish · Bearish · Slightly Bearish · Neutral · **Slightly Bullish** · Bullish · Very Bullish

GROWTH
Very Bearish · Bearish · Slightly Bearish · **Neutral** · Slightly Bullish · Bullish · Very Bullish

YIELD
Very Bearish · Bearish · Slightly Bearish · Neutral · **Slightly Bullish** · Bullish · Very Bullish

SIZE
Very Bearish · Bearish · **Slightly Bearish** · Neutral · Slightly Bullish · Bullish · Very Bullish

PORTFOLIO POSITIONING

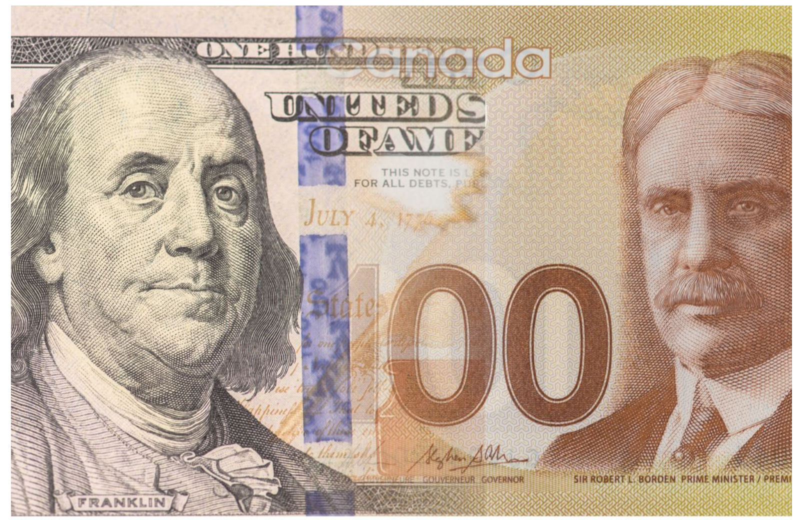
Implementation

We continue to hedge U.S. dollar (USD) risk through the use of Gold, while rolling out-of-the-money puts higher as a means to provide portfolio insurance against potential drawdowns.

Steven Shepherd, CFA
Director,
Portfolio Manager

We remain neutral (0) on the Canadian dollar (CAD), which is another instructive example where markets are not pricing in full tariff risk. The CAD has been more volatile compared to the Mexican peso, with the latter's government seemingly keeping the U.S. administration happier with it than the Canadian counterpart. When you stop to think about how bad it could be (or get), CAD sure isn't reflecting it right now. However, with our reduction of the prior U.S. equity overweight, we have closed our modest hedge of USD back to CAD. We have other ways of hedging our USD risk, including through the use of Gold. The precious metal is a great hedge against a falling USD, as well as against overall financial market risk. We are likely in a period of consolidation as we near that $3,000/oz. (U.S.). We've been rolling our put spreads higher as Gold prices have gone higher, and have recently added a covered call to generate additional income.

We continue to roll out-of-the-money S&P 500 puts higher, giving us comfort to stay invested. Downside puts aren't absolute insulation from drawdowns, but they can be viewed as something like a parachute. It doesn't stop us falling, but it gives us time to aim where we land.



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

DISCLAIMERS

[1] Retracement: A temporary pullback or price movement against the prevailing trend, distinct from a reversal which signifies a more significant change in direction.

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

[3] Bloomberg, as of February 28, 2025.

[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).

The viewpoints expressed by the Portfolio Manager represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time without any kind of notice. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. This communication is intended for informational purposes only.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

BMO Global Asset Management is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate.