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# Investment Strategy 2025 Market Outlook



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## 2025 Market Outlook

### Bull Market Is Alive and Well in 2025, Despite Likelihood of More Mooted Returns

Our overarching investment strategy that has been in place since 2009 remains resolutely bullish—US stocks are in the midst a 20–25-year secular bull market. Spawned from the ashes of the great financial crisis, this secular bull has exhibited several different spurts (cyclical bulls), not to mention its fair share of bumps and bruises (two cyclical bears: 2020 and 2022, and close to a third: 2011). In fact, we are hard pressed to count on one hand how many people we have interacted with since 2009 who truly believe in, let alone “buy in” to, our secular bull market call. While our work is routinely labeled as being “perma-bullish,” we will gladly accept that moniker. After all, US stocks have averaged an annual return of 14% since 2009. Moreover, the “up” cycles have decidedly skewed not only returns, but also duration relative to negative periods since 2009. For instance, when looking at all rolling monthly one-year periods since 2009, positive returns were achieved nearly 85% of the time with an average gain of more than 16%. By contrast, the 15% of negative periods had an average loss of roughly 6%. Thus, it has been correct to own stocks. After all, we are investors – not market timers and as such not infatuated or fixated on making market calls. Unfortunately, much of the herd and many clients we interact with seem more obsessed with creating headlines by prognosticating the end of this bull market or downright emphatically attempting to nullify periods of stock strength. We prefer, a common sense, and yes more humble, approach to investing versus trying to prove that our narrative is always correct. Yes, the stock market has defied even our bullish forecasts, especially in 2023 and 2024. However, it now appears to be a time for some common sense and prudence, and yes – humility. Given that 2023 successfully reversed an oversold cyclical bear market from 2022, while 2024 rewarded easing inflation, steady economic growth, a resilient employment backdrop, and a US Federal Reserve that is entering an accommodative phase – it is clearly time for markets to take somewhat of a breather. Bull markets can, will, and should slow their pace from time to time, a period of digestion that in turn only accentuates the health of the underlying secular bull. So, we believe 2025 will likely be defined by a more normalized return environment with more balanced performance across sectors, sizes, and styles.

### Path to Normalization Being Stubborn – 2025 Should Be a Kick Start

In our 2023 Year Ahead report, we started to lay the foundation for markets to “return to normalcy.” This proclamation followed a violent and corrective bear market in 2022 that successfully washed out the excesses of 2021, which of course came off the heels of 2020. This epitome of “whipsaw” is not normal, but neither was the backdrop of zero percent interest rates and complete shutdown of the world, for that matter. Admittedly, we were a little early on this call. Why? We believe the three years between 2020 and 2022 generated so much PTSD that investors are now *programmed to look for anxiety and negativity first, and ask questions later*. As such, the gains of 2023 and 2024 cannot possibly continue – right? However, now that inflation, interest rates (zero percent is NOT normal), and employment are showing signs of stabilizing (volatility diminishing), US stock *fundamentals* have their best chance to normalize. According to our work, an environment of high single-digit annual price gains coupled with at, or near, double-digit earnings growth and price to earnings ratios in the high teens to low twenties over the next few years would be a good start on the path to normalization.

### If It Is Not Broke...

Annual financial market forecasts are typically accompanied by shiny new recommendations. However, if you do not have to, why outsmart yourself? Our 2024 Year Ahead endorsed a sector barbell in the US (overweighting Financials and Technology), a similar bent in Canada, while laying out a theme of owning a little bit of everything in terms of size and style in both the US and Canada. Well, if it is working, why rock the boat? From a sector perspective, Technology remains THE growth vehicle in global markets, while Financials are drastically unloved, in our view. In terms of size and style, smaller capitalization companies showed enough periods of fits and starts in 2024 that proved that they could once again be a viable equity allocation. As such, a mostly status quo seems like a prudent approach in 2025. As David Byrne once said, “same as it ever was.”

## **S&P 500 2025 Year End Targets**

### **Price Target 6,700**

We are approaching the upcoming year with slightly more caution compared to our market outlook from last year given the degree of market gains and valuation expansion that has occurred over the past two years. But despite this stance, it is important to remember that this is a bull market that is now in its third year with all bull markets over the past 50 years lasting roughly six years. In fact, all but one lasted at least three years – the pandemic rebound of 2020-22. In other words, we still see stocks continuing their upward trend for years to come, but the nearer-term path is likely to become more challenging if history is any sort of guide. For instance, the third year of bull markets has historically been the weakest with single-digit average gains while a much larger percentage of index stocks suffer declines. More important, we believe the slight 2H24 rotation out of technology+ mega cap stocks is a trend that will likely continue and if so, the sheer size of the stocks within the index will make big market gains more difficult (but not impossible) to achieve as the rest of the S&P 500 plays the catch-up game.

So, what does this mean from an investment perspective? In a simple sense, we continue to believe investors will need to own a little bit of “everything” and not tilt too far in one direction or another from a sector, style, and size perspective. However, this should not be interpreted as a recommendation to be more passive when making decisions – to the contrary, we believe active investment strategies will be even more important next year as many of the largest stocks that drove performance within sectors are unlikely to maintain that momentum in 2025, forcing investors to search for other opportunities further down the market cap spectrum.

### **EPS Target \$275**

We are optimistic once again with regard to our earnings growth expectations. Macro environment resiliency was probably one of the biggest surprises of 2024 and a key contributor to solid S&P 500 earnings growth. Key leading economic indicators (most notably jobless claims) suggest that this trend will likely persist in 2025. In addition, the Fed’s switch to easing mode is likely to provide another tailwind so we find it unlikely that companies cannot at least match 2024’s growth rate next year. Yes, 2024 EPS is tracking at slightly less than our 2024 target – the bottom-up number is at \$245 vs. ours at \$250. But either way, earnings growth is on track to deliver a double-digit gain and we expect much of the same for 2025.

**Exhibit 1: 2025 S&P 500 Target Model Scenarios**

| Scenario | Price | EPS   | Rationale   |
|----------|-------|-------|---|
| Bull     | 7,000 | \$290 | US economic strength surprises to the upside alongside a continued deceleration in inflation. Fed can match optimistic market expectations for rate cuts bringing the target rate below 4%. 10yr Treasury yield trades in a relatively tight range around 4%. This leads to slightly lower risk premiums and support of elevated valuation multiples as well as more upside surprise to earnings growth delivering another year of double-digit gains.  |
| Base     | 6,700 | \$275 | US economic growth remains resilient while inflation continues to trend the Fed's 2% desired target. Earnings growth trends continue their current trajectory and deliver another year of double-digit growth. Fed continues its methodical approach to rate cuts and delivers at least three more cuts with a total of 75 bps of reduction throughout the year; 10yr Treasury yield trades between 4.00% - 4.75%. Mega-cap relative performance continues to wane as the rest of the index slowly picks up the slack, but this will lead to a slightly lower than normal calendar year return.             |
| Bear     | 5,500 | \$260 | Inflation reversing its downtrend is the biggest market risk as this will likely force the Fed to end their easing campaign and possibly start hiking rates again. If this occurs, risk off comes back in full force leading to a jump in risk premiums and the accompanying valuation multiple compression. Fortunately, the macro environment will likely still perform relatively well under these circumstances so the market should be able to avoid a catastrophic calendar year loss (i.e., bear market), but at the same time investors should still be prepared for a sizeable calendar year loss. |

Source: BMO Capital Markets Investment Strategy Group.

**Exhibit 2: 2024 & 2025 S&P 500 Targets**

| Price Target                         |                |              |              |
|--------------------------------------|----------------|--------------|--------------|
| Model                                | Category       | 2024E        | 2025E        |
| Dividend Discount Model              | Fundamental    | 6,200        | 6,800        |
| Fair Value Price-to-Earnings Model   | Valuation      | 6,000        | 6,200        |
| Expected Return*                     |                | 2.5%         | 9.8%         |
| <b>Price Target</b>                  |                | <b>6,100</b> | <b>6,700</b> |
| Earnings Per Share Target            |                |              |              |
| Model                                | Category       | 2024E        | 2025E        |
| Macroeconomic Regression Model       | Macro          | \$240        | \$270        |
| Bottom-Up Mean Consensus Expectation | Fundamental    | \$245        | \$272        |
| Normalized EPS                       | Mean Reversion | \$220        | \$240        |
| Expected EPS Growth                  |                | 13.6%        | 10%          |
| Prior Year S&P 500 EPS**             |                | \$220        | \$250        |
| <b>EPS Target</b>                    |                | <b>\$250</b> | <b>\$275</b> |
| <b>Implied P/E</b>                   |                | <b>24.4x</b> | <b>24.3x</b> |

\*2024 Based on 11/14/2024 closing price; 2025 Based on our 2024 Price Target.

\*\*Based on our prior-year EPS target if EPS is not fully reported for index.

Source: BMO Investment Strategy Group.

### This Is a Bull Market That Is Entering Its Third Year

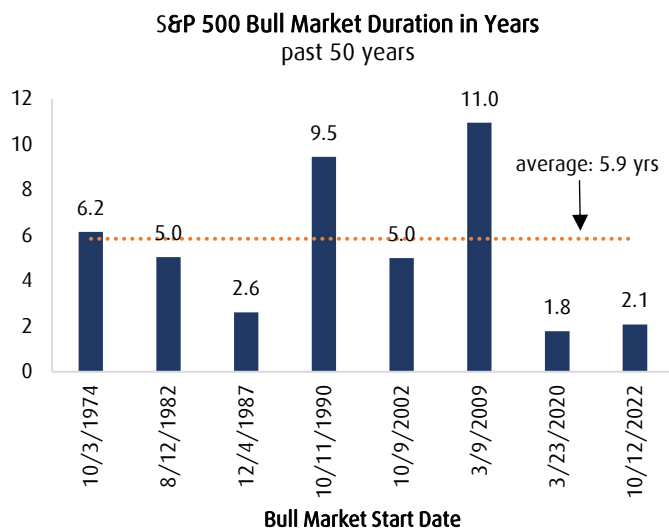
While it is impossible to know exactly how long this bull market will last, we can look at history to give us some guidance. The average S&P 500 bull market over the past 50 years has lasted an average of roughly 6 years, with the longest being 11 years (3/9/2009 - 2/19/2020) and the shortest being 1.9 years (3/23/20 - 1/3/22) according to our analysis (Exhibit 4). In fact, all bull markets except for the pandemic rebound made it to a third year, suggesting there is plenty of room for US stocks to run from current levels considering stocks just hit their two-year bull market mark last month. However, it is also worth noting that even despite our continued optimism, historical data shows that the third year of bull markets has produced the lowest average returns (Exhibit 5). However, two bull markets managed to produce double-digit gains during their third year, and only one saw third-year losses, the 1974 bull market, which was triggered by the fallout from the oil embargo (Exhibit 3). In fact, if the anomalous 1974 period is excluded, our current outlook matches almost perfectly to historical performance patterns.

**Exhibit 3: S&P 500 Performance Comparison by Bull Market Year**

| Bull Start      | Bull End   | Length (yrs) | Year 1       | Year 2       | Year 3      | Year 4       | Year 5       |
|-----------------|------------|--------------|--------------|--------------|-------------|--------------|--------------|
| 10/3/1974       | 11/28/1980 | 6.2          | 38.0%        | 21.2%        | -7.3%       | 6.7%         | 6.4%         |
| 8/12/1982       | 8/25/1987  | 5.0          | 58.3%        | 2.0%         | 13.8%       | 27.8%        | 38.5%        |
| 12/4/1987       | 7/16/1990  | 2.6          | 21.4%        | 29.0%        | 5.2%        |              |              |
| 10/11/1990      | 3/24/2000  | 9.5          | 29.1%        | 5.6%         | 14.3%       | -0.3%        | 25.8%        |
| 10/9/2002       | 10/9/2007  | 5.0          | 33.7%        | 8.0%         | 6.6%        | 12.9%        | 15.0%        |
| 3/9/2009        | 2/19/2020  | 11.0         | 68.6%        | 15.7%        | 3.5%        | 13.6%        | 21.1%        |
| 3/23/2020       | 1/3/2022   | 1.8          | 74.8%        | 14.0%        |             |              |              |
| 10/12/2022      | ?          | ?            | 21.6%        | 33.7%        |             |              |              |
| <b>Average:</b> |            | <b>5.9</b>   | <b>43.2%</b> | <b>16.1%</b> | <b>6.0%</b> | <b>12.1%</b> | <b>21.4%</b> |

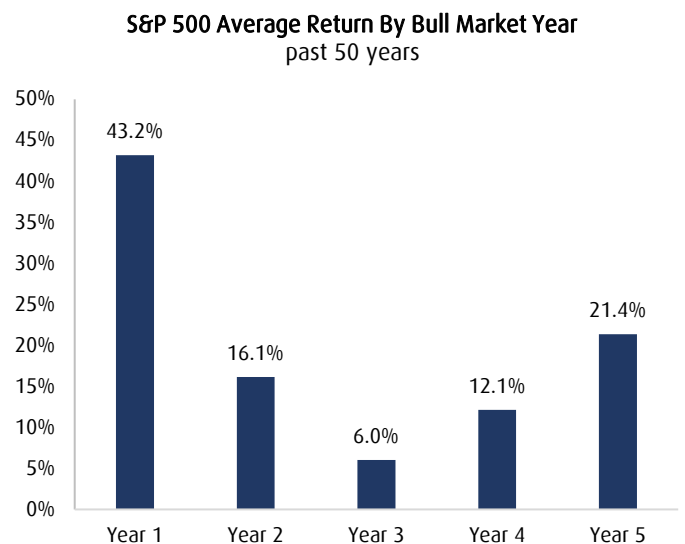
Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 4: It Is Rare for Bull Markets to Last for Less Than Three Years**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 5: Bull Market Third-Year Returns Have Been the Lowest**



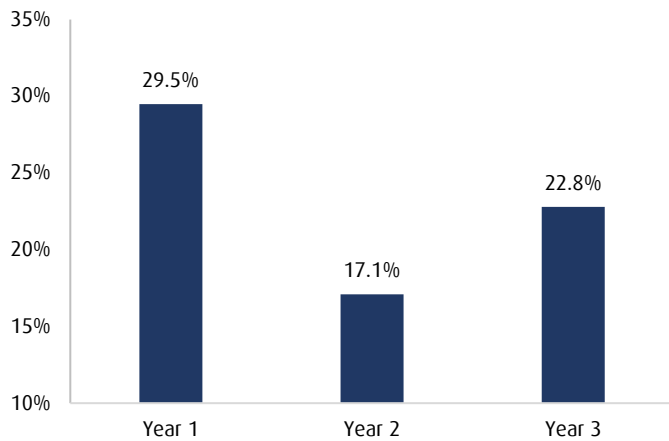
Source: BMO Capital Markets Investment Strategy Group, FactSet.

### Wide Ranging Sector and Individual Stock Returns Typically Characterize Year Three

The range between sector and individual stock returns increases quite substantially during the third year of bull markets, on average. For instance, we found that the difference between the outperforming and underperforming S&P 500 sectors is roughly 23% in year three compared to 17% in year two (Exhibit 5). In addition, the divide between stocks delivering significant gains vs. losses narrows quite considerably. As Exhibit 7 shows, the percentage of stocks gaining 10% or more dips below the 50% mark and is only slightly higher than the percentage of stocks losing 10% or more for the third year of bull markets on average. By comparison, this figure has been well above the 50% mark for the first and second years of bull markets. More important, the ratio of stocks with significant gains to losses is more than triple during the second year of bull markets and roughly 14x during the first year of bull markets. From our perspective, these historical trends suggest that investors with a more active investing approach will be at an advantage relative to more passive investors in the upcoming year should these patterns prevail yet again as we expect.

**Exhibit 6: Sector Performance Dispersion Increases Quite a Bit**

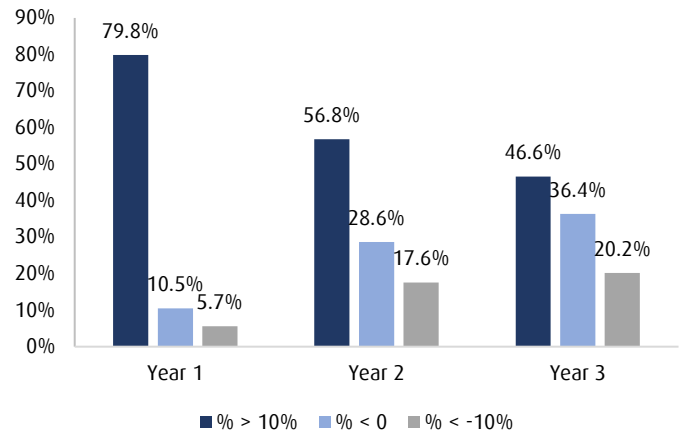
**Average Relative Performance Spread By Bull Market Year: Outperforming vs. Underperforming Sectors**  
all bull markets lasting more than 2 years since 1974



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 7: Many More Stocks Exhibit Losses**

**Average % of S&P 500 Stocks By Return Range Based on Bull Market Year**  
all bull markets lasting more than 2 years since 1974

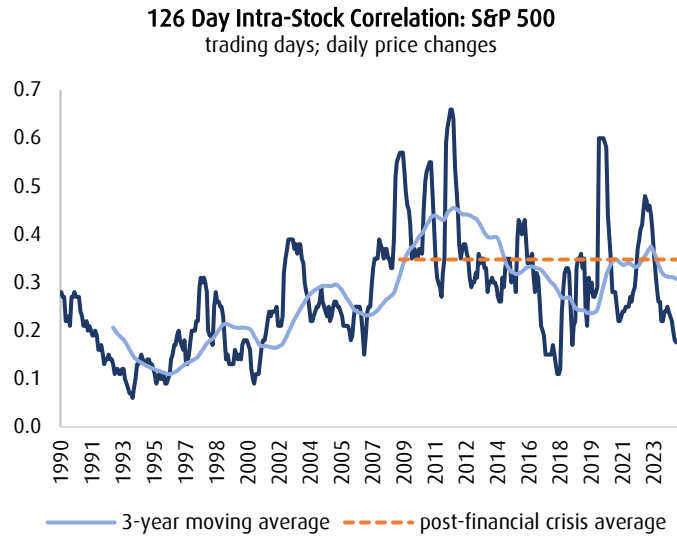


Source: BMO Capital Markets Investment Strategy Group, FactSet.

### Correlation and Fundamental Dispersion Trends Warrant an Active Approach

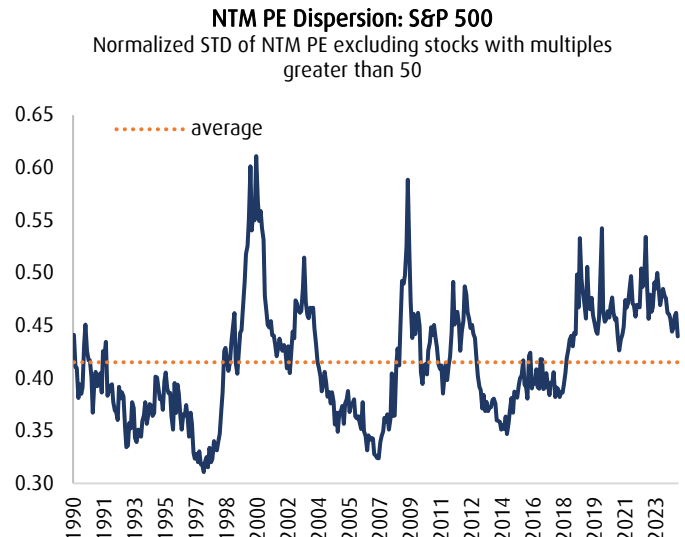
Although broader market momentum has been quite strong in recent months, the movement among US stocks has become much less synchronized with individual stock prices moving much more independently of one another from a directional standpoint. For instance, the 126-day intra-stock correlation has been significantly dropping for most of the past 18 months, with the latest level considerably below both its post-financial crisis average and its three-year moving average (Exhibit 8). We expect low levels of correlation to continue since the fundamental backdrop appears to support a more active vs. passive investment approach. For instance, NTM P/E dispersion for the S&P 500 remains elevated compared to historical norms despite declining for much of the past year (Exhibit 9). This signals to us that there continues to be distinct index winners and losers based on earnings outlooks. From an anecdotal standpoint this is not too surprising since companies have responded quite differently to the evolving global macro landscape based on their individual operating positions. Therefore, with where correlation and dispersion levels are at and likely to stay for the foreseeable future, we believe investors will need to practice active stock selection in order to take advantage of the investment opportunities that are out there, especially those names with attractive growth and valuation profiles.

**Exhibit 8: Performance Correlation Has Plummeted**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 9: Valuation Dispersion Remains Elevated**

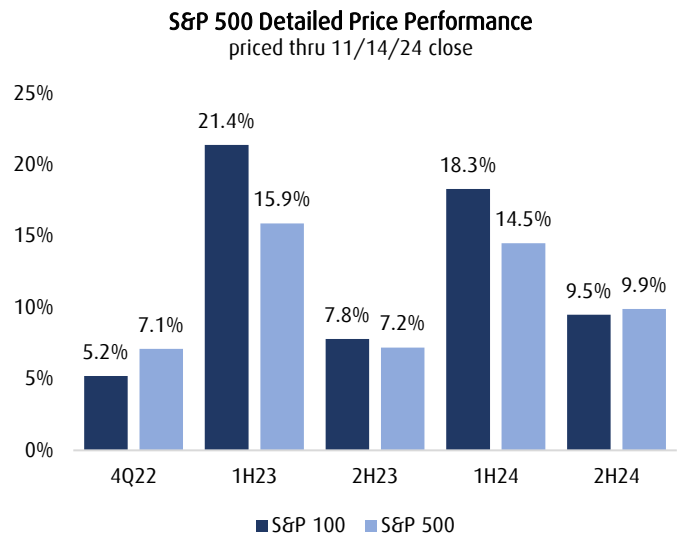


Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Improved Market Participation Also Brings Stock Picking Opportunities Back to Forefront**

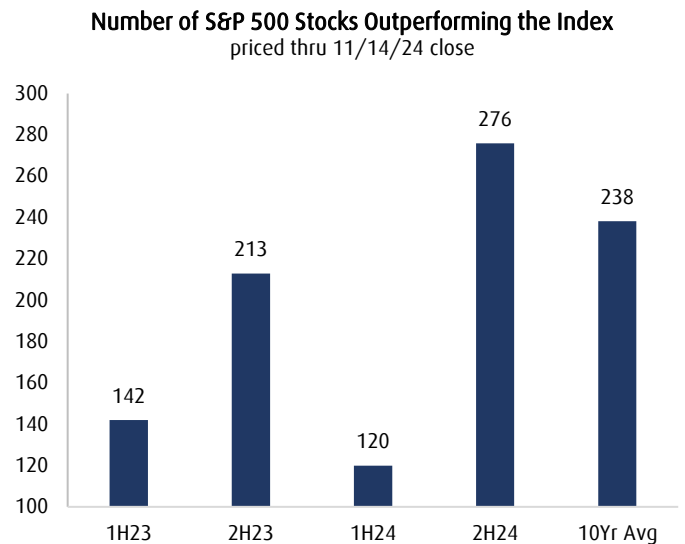
It is no secret that some of the largest stocks have been the driving force behind market gains for much of the past two years and this has led to concentration worries amongst investors given the bloated valuations of some of these stocks. However, an interesting development has occurred during 2H. The S&P 100 index (or the largest 100 S&P 500 stocks) has underperformed the rest of the index for the first time since late 2022 when the bull market began (Exhibit 10) and is something we find reassuring since the S&P 500 has hit a series of new records without this segment of the market leading the way. Similarly, participation levels have also improved dramatically since 2H started as 276 S&P 500 stocks have outperformed the broader index – by far the highest semi-annual level of this bull market and more than 15% above its 10-year average (Exhibit 11). We believe these trends, should they continue as we expect, represent an ideal environment for stock pickers.

**Exhibit 10: More Stocks Have Contributed to Recent Gains**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 11: Many Stocks Are Outperforming the Index**

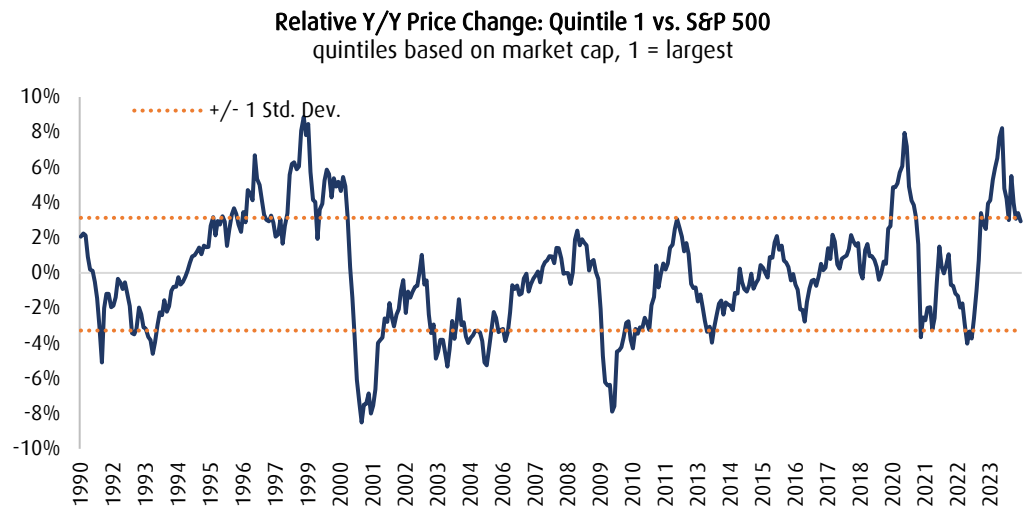


Source: BMO Capital Markets Investment Strategy Group, FactSet.

### ‘Smaller’ to Remain a Key 2025 Theme

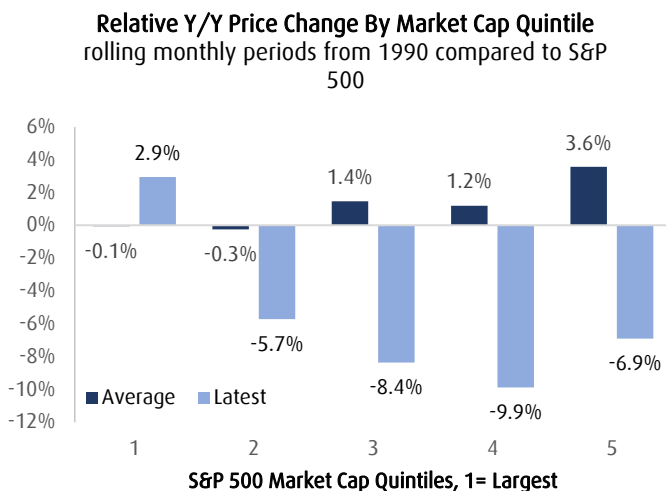
Although trends have changed in recent months, one of the most striking characteristics throughout this bull market has been the exceptional performance of the largest stocks and their effect on total S&P 500 performance. However, the relative performance for these stocks appears to have peaked recently (Exhibit 12) and given their sheer size within the index, some investors are worried that market momentum cannot persist without these stocks leading the way. Our analysis suggests otherwise. First, it may come as a surprise to some that the largest S&P 500 stocks have typically lagged overall index returns based on historical data with the best average relative performance coming from the bottom 60% of stocks based on market cap (Exhibit 13). Second, there is little historical evidence that market performance collapses without mega-cap leadership. Yes, the S&P 500 performs better when these stocks are outperforming, but average year-over-year returns have also been quite reasonable when this group underperforms (Exhibit 14). Therefore, we continue to believe that the “rest of the index” is more than capable of picking up the slack from their mega-cap counterparts should recent trends persist as we expect, and particularly considering their recent year-over-year underperformance.

**Exhibit 12: Relative Performance of Largest Stocks Has Decelerated During 2024**



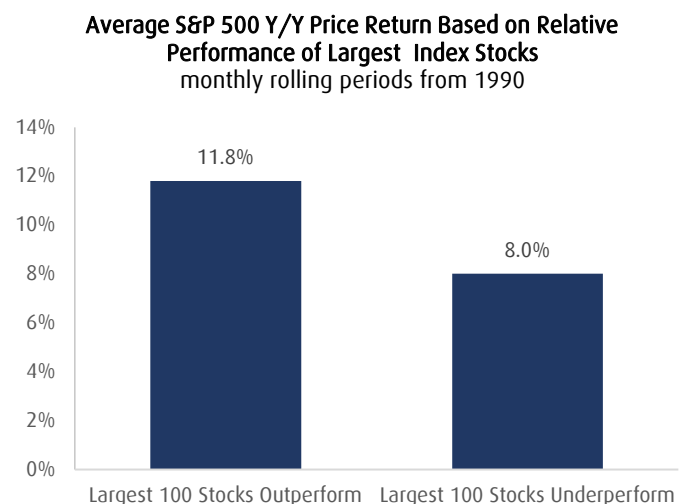
Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 13: Smallest S&P 500 Stocks Typically Perform the Best**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

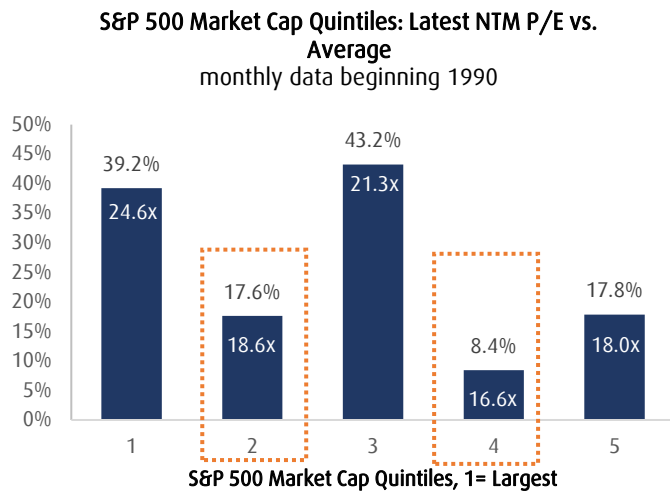
**Exhibit 14: Market Performs Just Fine Without Mega-Cap Leadership**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

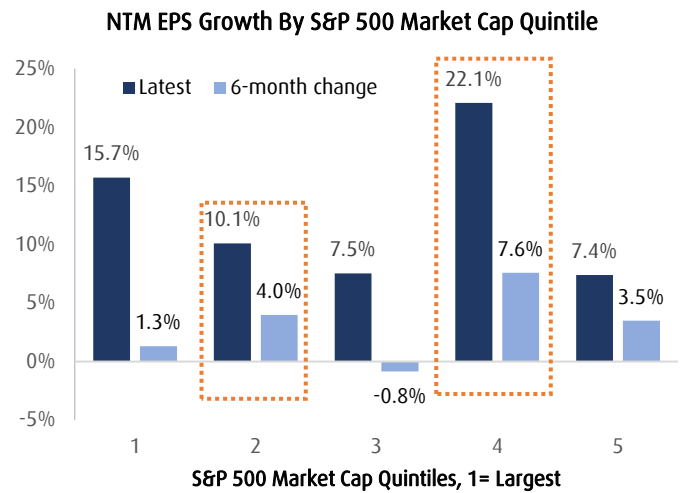
The fundamental backdrop is another reason that we expect smaller areas within the index to begin performing better in the coming year. Valuation for the 100 largest S&P 500 stocks is quite stretched relative to historical norms. For instance, the NTM P/E of these stocks is roughly 25x now, the highest among all market cap quintiles and more than a 39% premium to its longer-term average (Exhibit 15). In addition, earnings growth expectations have appeared to cool in recent months. While the absolute level for these stocks remains the second highest, the six-month change has only improved by 1.3% (Exhibit 16). So, from our perspective, these valuation and earnings growth characteristics put these stocks at a disadvantage relative to the smaller market cap quintiles. We believe the best opportunities are likely to reside within the second and fourth market cap quintiles. Based on earnings growth expectations, the fourth quintile has the highest absolute level and best six-month change, while the second quintile has the second best six-month change, which pushed the absolute level into double-digit territory. These two areas also appear reasonably valued compared to their historical averages. Therefore, we believe the degree of year-over-year underperformance coupled with these fundamental characteristics makes a compelling case for adding exposure to these stocks. In addition, the diverse sector composition of each suggests that ample stock opportunities exist (Exhibit 17).

**Exhibit 15: Smaller Stocks Have More Reasonable Valuation**



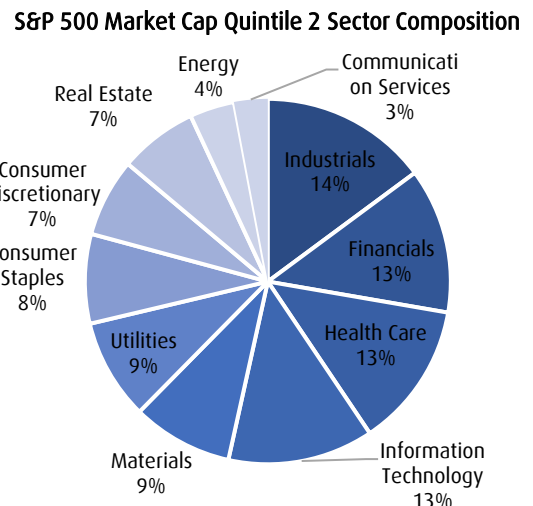
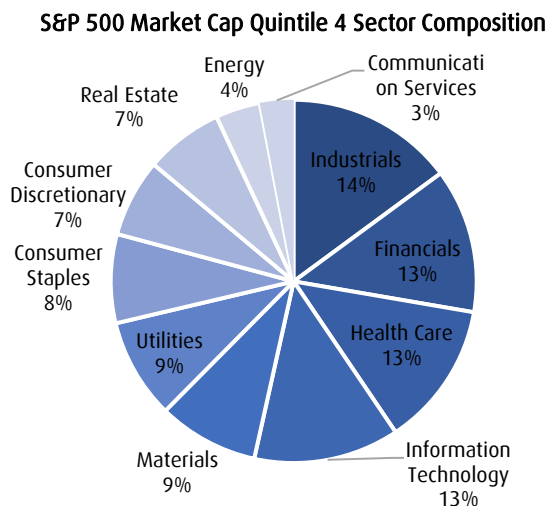
Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 16: Earnings Expectations Improving Faster for Smaller Stocks**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 17: Quintiles 2 & 4 Have Diverse Sector Composition Suggesting Ample Stock Picking Opportunities**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

## Sectors, Size, and Style Recommendations

### US Sector Opinions

Exhibit 18: US Sector Opinion Summary

| Sector                 | Opinion   | Index Weight | Target Weight | BMO Investment Strategy Group Theme   |
|------------------------|-----------|--------------|---------------|---|
| Communication Services | MW        | 9.1          | 9             | The Three C's = Cash + Content + Consolidation  |
| Consumer Discretionary | <b>OW</b> | 10           | 11            | Be selective around the two behemoths   |
| Consumer Staples       | UW        | 5.8          | 4.5           | Classic Staples are expensive and vulnerable  |
| Energy                 | <b>MW</b> | 3.4          | 3.5           | "Drill baby, drill" is not enough to OW   |
| Financials             | OW        | 13.4         | 14.5          | Less regulation and consolation are on the way  |
| Health Care            | <b>UW</b> | 11.2         | 9.5           | Regulation and noise risk increasing – from vaccines to processes                               |
| Industrials            | MW        | 8.5          | 8.5           | Onshoring, reshoring and domestic growth  |
| Information Technology | OW        | 31.7         | 33            | Not just about The Magnificent 7 – own the core "Consumer Staples Tech" and sharpen selectivity |
| Materials              | <b>MW</b> | 2.2          | 2             | Global growth stabilizing; stay defensive   |
| Real Estate            | MW        | 2.3          | 2.5           | Contrarian play, focus on consistent payouts  |
| Utilities              | MW        | 2.5          | 2             | Power grid mania has made them expensive again  |

Source: BMO Capital Markets Investment Strategy Group; Key: OW: Overweight, MW: Market Weight, UW: Underweight

Exhibit 19: S&P 500 Annual Sector Performance

| Year | COMSV  | COND   | CONS   | ENRS   | FINL   | HLTH   | INDU   | INFT   | MATR   | RELS   | UTIL   | SPX    |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 1990 | -17.7% | -14.9% | 12.4%  | -1.4%  | -42.1% | 14.1%  | -10.2% | 0.3%   | -13.9% |        | -7.3%  | -6.6%  |
| 1991 | 7.9%   | 38.3%  | 38.4%  | 2.4%   | 43.8%  | 50.2%  | 26.0%  | 6.6%   | 21.5%  |        | 16.0%  | 26.3%  |
| 1992 | 11.0%  | 17.5%  | 3.0%   | -2.3%  | 19.8%  | -18.1% | 6.8%   | 0.6%   | 7.2%   |        | 0.3%   | 4.5%   |
| 1993 | 10.8%  | 12.8%  | -6.3%  | 11.2%  | 7.8%   | -11.0% | 15.8%  | 20.5%  | 10.5%  |        | 7.8%   | 7.1%   |
| 1994 | -8.4%  | -9.9%  | 6.8%   | -0.4%  | -6.4%  | 10.2%  | -4.8%  | 19.1%  | 3.3%   |        | -17.2% | -1.5%  |
| 1995 | 37.3%  | 18.2%  | 36.2%  | 26.0%  | 49.6%  | 54.5%  | 35.9%  | 38.8%  | 17.3%  |        | 25.2%  | 34.1%  |
| 1996 | -2.2%  | 10.5%  | 23.2%  | 21.7%  | 31.9%  | 18.8%  | 22.7%  | 43.3%  | 13.4%  |        | 0.2%   | 20.3%  |
| 1997 | 37.1%  | 32.3%  | 30.5%  | 22.0%  | 45.4%  | 41.7%  | 25.0%  | 28.1%  | 6.3%   |        | 18.4%  | 31.0%  |
| 1998 | 49.3%  | 39.6%  | 13.9%  | -2.0%  | 9.6%   | 42.3%  | 9.3%   | 77.6%  | -8.0%  |        | 10.0%  | 26.7%  |
| 1999 | 17.4%  | 24.1%  | -16.6% | 16.0%  | 2.3%   | -11.6% | 19.9%  | 78.4%  | 23.0%  |        | -12.8% | 19.5%  |
| 2000 | -39.7% | -20.7% | 14.5%  | 13.2%  | 23.4%  | 35.5%  | 4.5%   | -41.0% | -17.7% |        | 51.7%  | -10.1% |
| 2001 | -13.7% | 1.9%   | -8.3%  | -12.3% | -10.5% | -12.9% | -7.0%  | -26.0% | 1.0%   |        | -32.5% | -13.0% |
| 2002 | -35.9% | -24.4% | -6.3%  | -13.3% | -16.4% | -20.0% | -27.6% | -37.6% | -7.7%  | -15.1% | -33.0% | -23.4% |
| 2003 | 3.3%   | 36.1%  | 9.2%   | 22.4%  | 27.9%  | 13.3%  | 29.7%  | 46.5%  | 34.8%  | 20.8%  | 21.1%  | 26.4%  |
| 2004 | 16.0%  | 12.1%  | 6.0%   | 28.8%  | 8.2%   | 0.2%   | 16.0%  | 2.1%   | 10.8%  | 21.9%  | 19.6%  | 9.0%   |
| 2005 | -9.0%  | -7.4%  | 1.3%   | 29.1%  | 3.7%   | 4.9%   | 0.4%   | 0.4%   | 2.2%   | 7.4%   | 12.8%  | 3.0%   |
| 2006 | 32.1%  | 17.2%  | 11.8%  | 22.2%  | 16.2%  | 5.8%   | 11.0%  | 7.7%   | 15.7%  | 36.8%  | 16.9%  | 13.6%  |
| 2007 | 8.5%   | -14.3% | 11.6%  | 32.4%  | -20.8% | 5.4%   | 9.8%   | 15.5%  | 20.0%  | -20.5% | 15.8%  | 3.5%   |
| 2008 | -33.6% | -34.7% | -17.7% | -35.9% | -56.9% | -24.5% | -41.5% | -43.7% | -47.0% | -45.0% | -31.5% | -38.5% |
| 2009 | 2.6%   | 38.8%  | 11.2%  | 11.3%  | 14.8%  | 17.1%  | 17.3%  | 59.9%  | 45.2%  | 20.8%  | 6.8%   | 23.5%  |
| 2010 | 12.3%  | 25.7%  | 10.7%  | 17.9%  | 10.8%  | 0.7%   | 23.9%  | 9.1%   | 19.9%  | 28.0%  | 0.9%   | 12.8%  |
| 2011 | 0.8%   | 4.4%   | 10.5%  | 2.8%   | -18.4% | 10.2%  | -2.9%  | 1.3%   | -11.6% | 7.9%   | 14.8%  | 0.0%   |
| 2012 | 12.5%  | 21.9%  | 7.5%   | 2.3%   | 26.3%  | 15.2%  | 12.5%  | 13.1%  | 12.2%  | 16.2%  | -2.9%  | 13.4%  |
| 2013 | 6.5%   | 41.0%  | 22.7%  | 22.3%  | 33.2%  | 38.7%  | 37.6%  | 26.2%  | 22.7%  | -1.5%  | 8.8%   | 29.6%  |
| 2014 | -1.9%  | 8.0%   | 12.9%  | -10.0% | 13.1%  | 23.3%  | 7.5%   | 18.2%  | 4.7%   | 26.1%  | 24.3%  | 11.4%  |
| 2015 | -1.7%  | 8.4%   | 3.8%   | -23.6% | -3.5%  | 5.2%   | -4.7%  | 4.3%   | -10.4% | 1.2%   | -8.4%  | -0.7%  |
| 2016 | 17.8%  | 4.3%   | 2.6%   | 23.7%  | 20.1%  | -4.4%  | 16.1%  | 12.0%  | 14.1%  | 0.0%   | 12.2%  | 9.5%   |
| 2017 | -6.0%  | 21.2%  | 10.5%  | -3.8%  | 20.0%  | 20.0%  | 18.5%  | 36.9%  | 21.4%  | 7.2%   | 8.3%   | 19.4%  |
| 2018 | -16.4% | -0.5%  | -11.2% | -20.5% | -14.7% | 4.7%   | -15.0% | -1.6%  | -16.4% | -5.6%  | 0.5%   | -6.2%  |
| 2019 | 30.9%  | 26.2%  | 24.0%  | 7.6%   | 29.2%  | 18.7%  | 26.8%  | 48.0%  | 21.9%  | 24.9%  | 22.2%  | 28.9%  |
| 2020 | 22.2%  | 32.1%  | 7.6%   | -37.3% | -4.1%  | 11.4%  | 9.0%   | 42.2%  | 18.1%  | -5.2%  | -2.8%  | 16.3%  |
| 2021 | 20.5%  | 23.7%  | 15.6%  | 47.7%  | 32.5%  | 24.2%  | 19.4%  | 33.4%  | 25.0%  | 42.5%  | 14.0%  | 26.9%  |
| 2022 | -40.4% | -37.6% | -3.2%  | 59.0%  | -12.4% | -3.6%  | -7.1%  | -28.9% | -14.1% | -28.4% | -1.4%  | -19.4% |
| 2023 | 54.4%  | 41.0%  | -2.2%  | -4.8%  | 9.9%   | 0.3%   | 16.0%  | 56.4%  | 10.2%  | 8.3%   | -10.2% | 24.2%  |
| 2024 | 34.6%  | 23.1%  | 13.9%  | 13.2%  | 31.6%  | 5.9%   | 22.5%  | 35.2%  | 7.2%   | 6.8%   | 22.9%  | 24.7%  |

Source: BMO Capital Markets Investment Strategy Group. Performance calculated through 11/14/24. REITs are used as a historical proxy for the Real Estate sector, which was officially established in Sept. 2016.

## US Sectors

### Overview = Own the Winners (Tech for Growth) and Be Contrarian (Financials for Value)

We are maintaining our Overweight sector opinions for Financials and Technology. Indeed, these have been two of the best performers in 2024 and based on the fundamental underpinnings for both, we would expect these trends to continue during 2025. Yes, Technology is probably the poster child for concentration risk, but it is important to remember that the sector includes 69 stocks across seven industries and a deeper dive shows there are plenty of areas within the sector apart from the highest-profile names expected to deliver significant earnings growth and at much more reasonable valuations. However, performance correlation and fundamental dispersion also suggest a highly selective approach is warranted for Technology. For Financials, despite its outperformance the sector has had the second-lowest valuation behind Energy throughout 2024 based on sector NTM P/E. In addition, both EPS and DPS growth expectations for Financials have improved significantly since the start of the year while overall market levels have declined. Therefore, we expect a continuation of recent outperformance based on these trends and especially since we believe that many investors remain underexposed to the sector. Nonetheless, we continue to believe the theme of owning scale within Financials remains key, thereby benefitting money center banks, brokerages, and asset managers. We also believe stabilizing bond yields over the next few years will only help regional banks (M&A remains a major theme, to combat competition with money center banks) as well as select private equity companies.

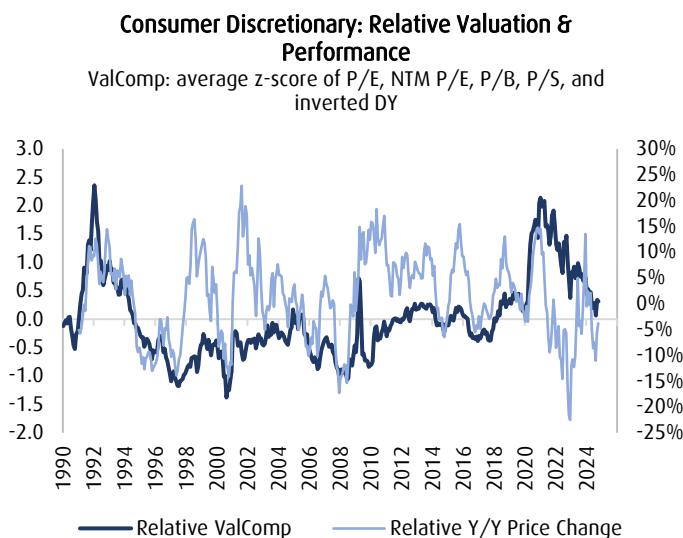
### Sector Changes

See latest [US Chartbook](#) for model details used in Exhibits 20-27

#### Upgrading Consumer Discretionary to Overweight Market Weight From Market Weight

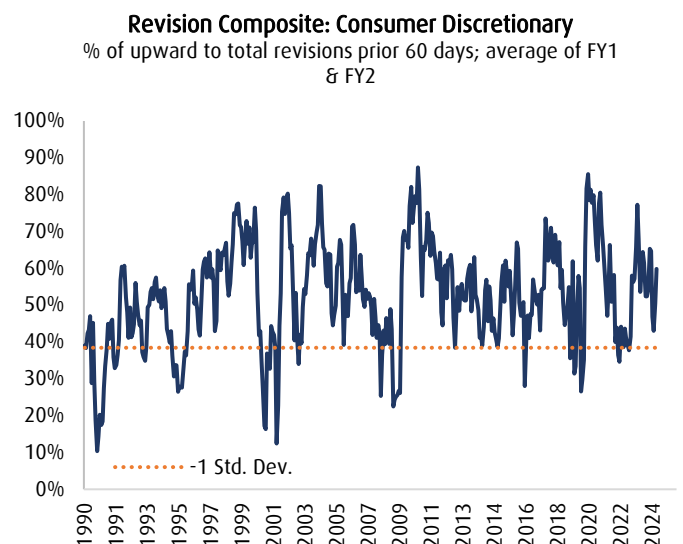
- Declining relative earnings growth has been the biggest challenge for the sector and relative performance trends have certainly reflected this reality. However, revisions appeared to have bottomed from an abnormally low level based on our models and this has typically proven a relative performance inflection point historically and one of the main reasons for our upgrade.
- Significant underperformance, a sharp decline in relative valuation and greatly improved operating measures are other inputs we used to make this change.
- Selectivity remains key – focus on best in brand retailers given finicky consumer spending habits to barbell with the two sector behemoths (AMZN and TSLA).

**Exhibit 20: Relative Performance and Valuation Have Declined Sharply**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 21: Revision Trends Suggest a Turnaround**

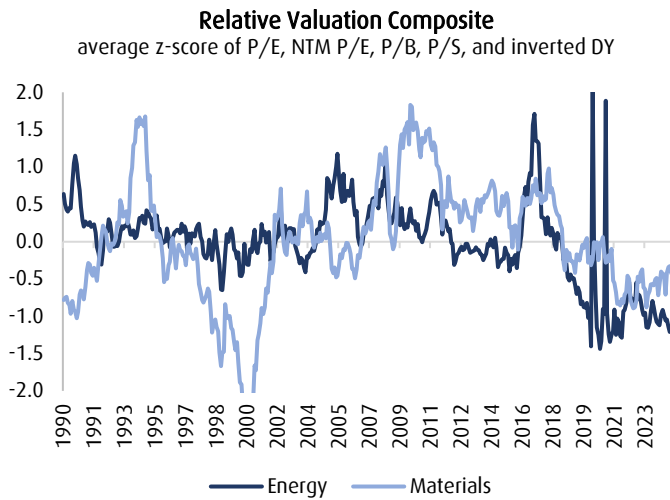


Source: BMO Capital Markets Investment Strategy Group, FactSet.

### Upgrading Energy and Materials to Market Weight From Underweight

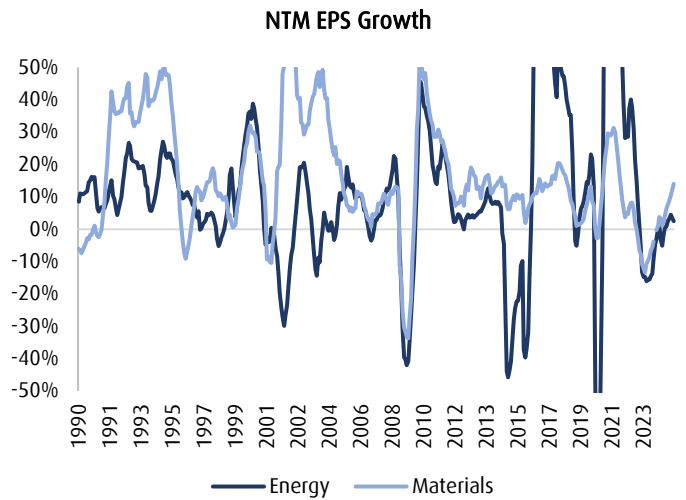
- Energy and Materials were the two sectors we downgraded to Underweight in our 2024 Market Outlook as we suspected that declining inflation and weaker global economic growth would weigh on both. YTD performance trends have seemingly supported our caution. However, trends in valuation, earnings growth, and revisions have prompted our upgrade: both sectors are now at sizeable relative discounts while earnings growth has rebounded with forward expectations now firmly in positive territory and revisions appear to be forming a bottom at abnormally low levels (i.e., contrarian positive signal).
- Focus on integrated oil companies with steady dividend yields within Energy and paper/forest products and gold in Materials.

**Exhibit 22: Energy and Materials Trade at Hefty Relative Discounts**



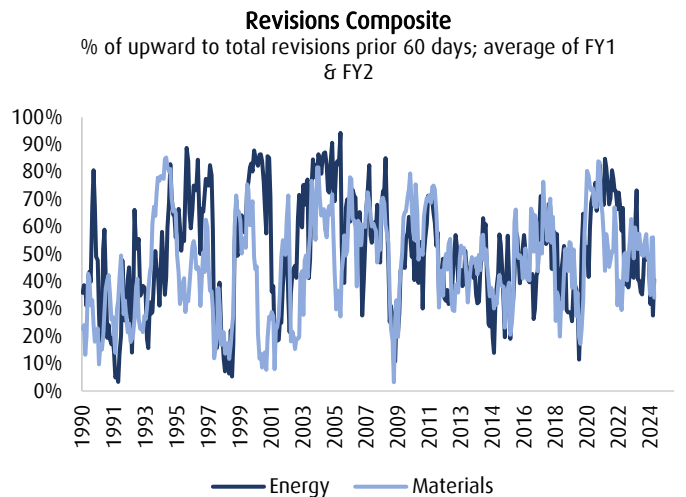
Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 23: Earnings Growth Has Rebounded Into Positive Territory**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 24: Revision Trends Are a Contrarian Positive Signal**

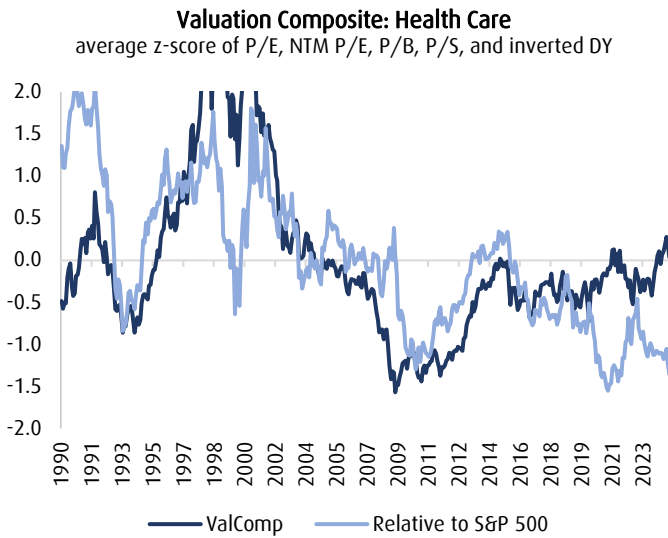


Source: BMO Capital Markets Investment Strategy Group, FactSet, CRB.

### Downgrading Health Care to Underweight From Market

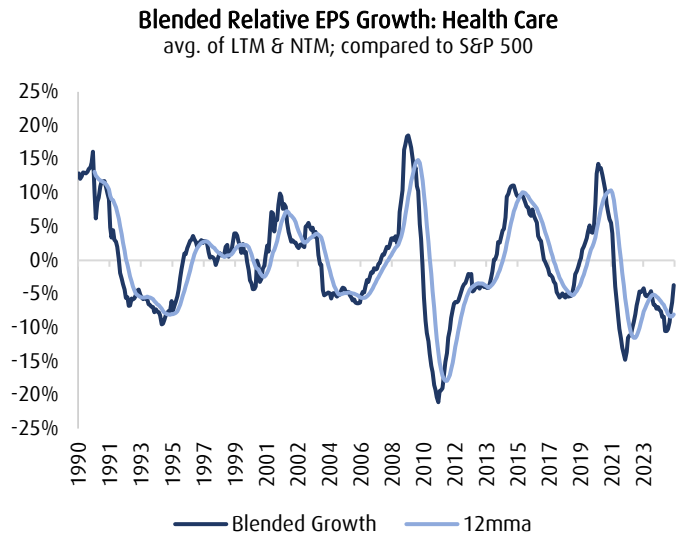
- We believe Health Care is the sector with the most at risk when it comes to the potential regulatory changes that President-Elect Trump has proposed – specifically relating to vaccines and overall healthcare processes. Yes, valuation appears to reflect plenty of bad news, but the nascent rebound in earnings growth is likely in jeopardy following the Inauguration as noise from potential changes becomes too loud to ignore. Analysts appear to have gotten ahead of all this as revision trends have declined sharply in recent months.
- Focus on defensive areas within the sector such as Healthcare Providers for value, be highly selective within Biotechnology for growth.

**Exhibit 25: Valuation Reflects a Lot of Bad News**



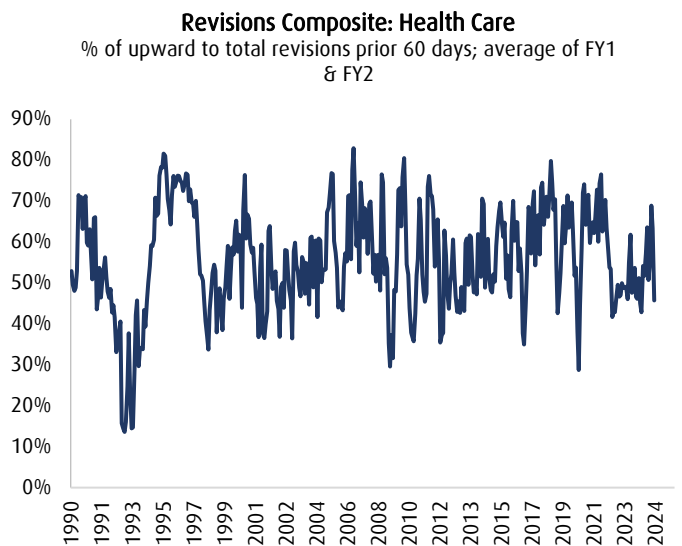
Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 26: EPS Growth Remains Very Weak Despite Slight Rebound**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 27: Revision Trends Have Taken a Turn for the Worse**



Source: BMO Capital Markets Investment Strategy Group, FactSet, CRB.

## US Size and Style – Own a Bit of Everything

### Exhibit 28: US Size and Style Opinions

| Sector         | Opinion | Comments   |
|----------------|---------|--|
| Large cap (LC) | MW      | Outsized moves in 2023-24 was a combo platter of unwinding oversold status and seeking liquidity; tough to underweight |
| Mid cap (MC)   | MW      | Multiples have expanded more on a relative basis compared to small cap; slight underweight                             |
| Small cap (SC) | MW      | Valuation at all-time lows relative to large and mid; earnings are improving faster than mid; slight tilt over mid cap |
| Value          | MW      | Traditional value sectors with yield should drive performance  |
| Growth         | MW      | Perception of lower bond yields, let alone stabilization will maintain the Growth bid                                  |

Source: BMO Capital Markets Investment Strategy Group; Key: OW: Overweight, MW: Market Weight, UW: Underweight

### Exhibit 29: S&P 500 Style and Size Annual Performance

| Year | SPX    | SGX    | SVX    | MID    | SML    |
|------|--------|--------|--------|--------|--------|
| 1995 | 34.1%  | 35.6%  | 32.5%  | 28.6%  | 28.6%  |
| 1996 | 20.3%  | 21.9%  | 18.7%  | 17.3%  | 20.1%  |
| 1997 | 31.0%  | 34.7%  | 27.1%  | 30.4%  | 24.5%  |
| 1998 | 26.7%  | 40.6%  | 12.5%  | 17.7%  | -2.1%  |
| 1999 | 19.5%  | 27.3%  | 10.7%  | 13.3%  | 11.5%  |
| 2000 | -10.1% | -22.5% | 4.2%   | 16.2%  | 11.0%  |
| 2001 | -13.0% | -13.5% | -13.2% | -1.6%  | 5.7%   |
| 2002 | -23.4% | -24.5% | -22.5% | -15.4% | -15.3% |
| 2003 | 26.4%  | 23.9%  | 29.0%  | 34.0%  | 37.5%  |
| 2004 | 9.0%   | 4.7%   | 13.3%  | 15.2%  | 21.6%  |
| 2005 | 3.0%   | 2.5%   | 3.5%   | 11.3%  | 6.7%   |
| 2006 | 13.6%  | 9.4%   | 18.0%  | 9.0%   | 14.1%  |
| 2007 | 3.5%   | 7.7%   | -0.4%  | 6.7%   | -1.2%  |
| 2008 | -38.5% | -35.9% | -41.2% | -37.3% | -32.0% |
| 2009 | 23.5%  | 29.3%  | 17.4%  | 35.0%  | 23.8%  |
| 2010 | 12.8%  | 13.2%  | 12.4%  | 24.9%  | 25.0%  |
| 2011 | 0.0%   | 2.8%   | -2.9%  | -3.1%  | -0.2%  |
| 2012 | 13.4%  | 12.4%  | 14.7%  | 16.1%  | 14.8%  |
| 2013 | 29.6%  | 30.4%  | 28.8%  | 31.6%  | 39.7%  |
| 2014 | 11.4%  | 13.0%  | 9.6%   | 8.2%   | 4.4%   |
| 2015 | -0.7%  | 3.8%   | -5.6%  | -3.7%  | -3.4%  |
| 2016 | 9.5%   | 5.1%   | 14.3%  | 18.7%  | 24.7%  |
| 2017 | 19.4%  | 25.4%  | 12.6%  | 14.5%  | 11.7%  |
| 2018 | -6.2%  | -1.4%  | -11.3% | -12.5% | -9.8%  |
| 2019 | 28.9%  | 29.1%  | 28.6%  | 24.1%  | 20.9%  |
| 2020 | 16.3%  | 32.0%  | -1.4%  | 11.8%  | 9.6%   |
| 2021 | 26.9%  | 31.0%  | 22.2%  | 23.2%  | 25.3%  |
| 2022 | -19.4% | -30.1% | -7.4%  | -14.5% | -17.4% |
| 2023 | 24.2%  | 28.3%  | 19.8%  | 14.4%  | 13.9%  |
| 2024 | 24.7%  | 34.3%  | 15.6%  | 16.6%  | 12.0%  |

Source: BMO Capital Markets Investment Strategy Group. Performance calculated through 11/14/24.

### Owning Both Growth and Value Can Be a Successful Strategy

Owning a little bit of everything and not tilting too far in one direction or another remains a key part of our recommendation for 2025 US stock positioning. Yes, investor focus remains squarely on the large-cap growth space and the performance of these stocks has been quite impressive. However, the run has also pushed valuation levels to extremes making them more susceptible to a downturn in the coming months, in our view. Fortunately, we believe the macro and fundamental underpinnings remain supportive of stock prices overall and as such, we expect continuation of the recent broadening participation trend. Therefore, we continue to recommend that investors own both growth and value within portfolios. We acknowledge that one style is likely to outperform the other, but that misses our point – we believe that the significant outperformance of the high-profile names is likely to subside in the coming months leaving it up to other parts of the market to pick up that slack. So, from an investment perspective, we continue to recommend that investors focus on smaller stocks within the growth space, while applying a growth-at-a-reasonable-price (GARP) approach within the value space.

### Smaller Growth Underperformance at Odds With Historical Norms

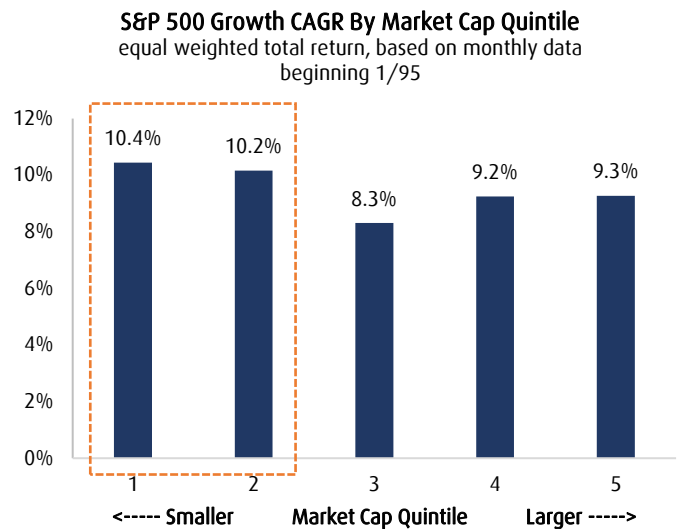
Many of the best YTD performers within the S&P 500 remain the same mega-cap growth names that dominated performance last year and this is probably why these stocks continue to garner so much investor attention. As Exhibit 30 shows, growth stocks in the largest market cap quintile have significantly outperformed all other market cap quintiles YTD. Again, these trends are something we view as unsustainable longer-term given they are at odds with historical norms. For instance, historical performance trends show that the smallest market cap quintiles of growth stocks have had the highest average returns (Exhibit 31), and this is a big part of the reason we have been advocating a “smaller is better” approach given recent performance trends.

**Exhibit 30: Largest Growth Stocks Significantly Outperformed**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 31: Smaller Growth Stocks Have Typically Performed Best**

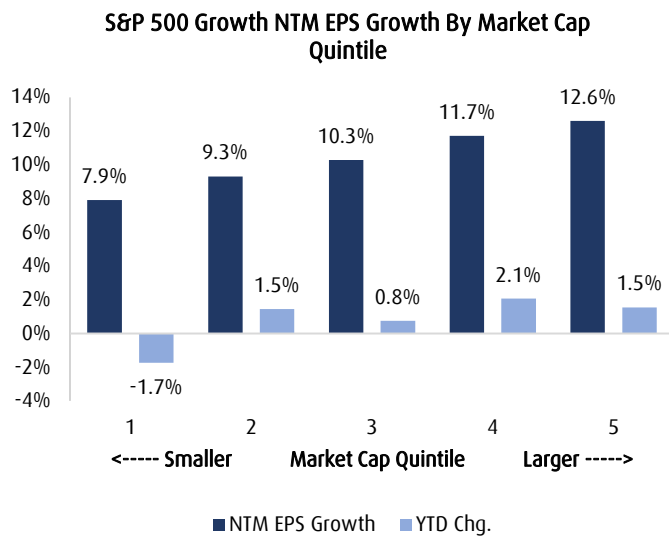


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

### Fundamentals Appear Attractive for Smaller Growth

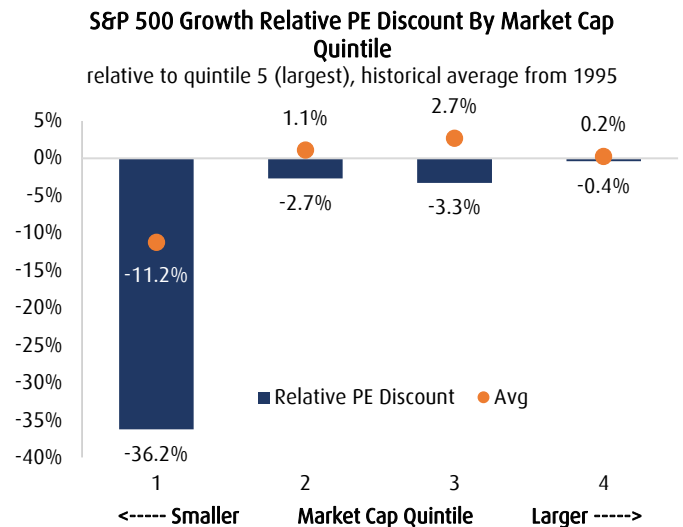
Our analysis suggests that the most attractive opportunities may lie within the “middle” market cap quintiles of growth stocks. For instance, these stocks have an expected NTM EPS growth rates around 10% and trailing only the largest by a slight margin (Exhibit 32). More important, this group has also seen about the same YTD increase in earnings growth expectations as the largest and best performing quintile. So, we believe these stocks offer ample opportunity from purely a growth perspective. However, we also believe the valuation backdrop makes this group even more attractive as the strong performance of the largest growth stocks and accompanying price multiple expansion has resulted in across-the-board discounts for the rest of the index (Exhibit 33).

Exhibit 32: Smaller Growth Stocks Have Attractive EPS Growth



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Exhibit 33: Smaller Growth Stocks Trade at Discounts

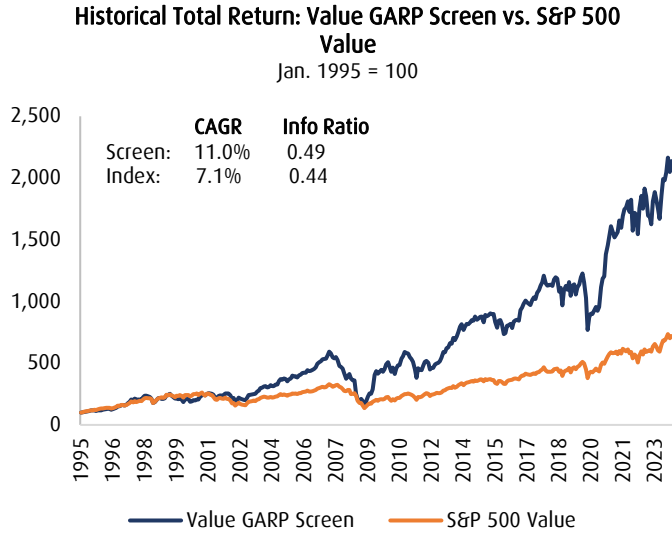


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

### Applying a GARP Approach to Value Investing Can Be Beneficial

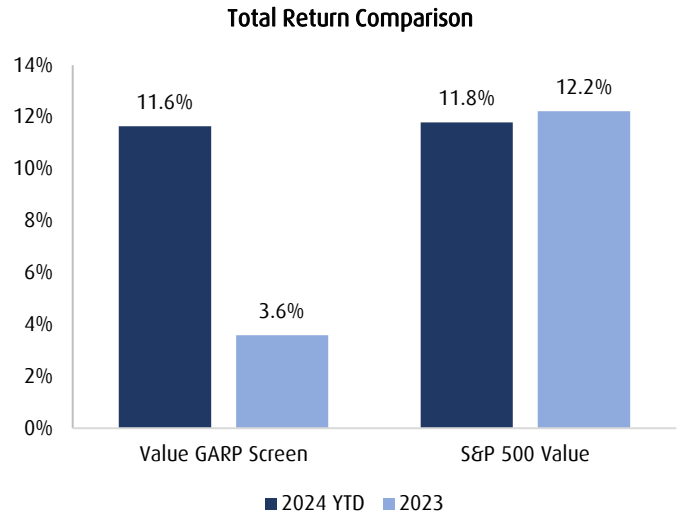
GARP has always played an integral role in our investment strategy, and we have found that this sort of approach works particularly well when applied to value stocks. For instance, using a simplistic GARP screen of all S&P 500 value stocks that have NTM P/E lower than and NTM EPS growth higher than the index has yielded impressive performance results historically. As Exhibit 34 shows, this strategy has produced a CAGR (total return) of 11% compared to 7.1% for the index since 1995. In addition, it has done so with superior risk-adjusted returns judging by its higher information ratio. Unfortunately, given the equal-weighted nature of this screen performance trends for it have lagged throughout this bull market since larger names even in the value space have contributed most to the index gains. However, these stocks have substantially closed the gap in 2024 (Exhibit 35) and given the fundamental underpinnings that we discuss below, we believe the strategy is well on its way to performing closer its historical outperformance norms.

**Exhibit 34: GARP Approach Has Worked Well for Value Stocks**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 35: GARP Value Stocks Have Closed Underperformance Gap**

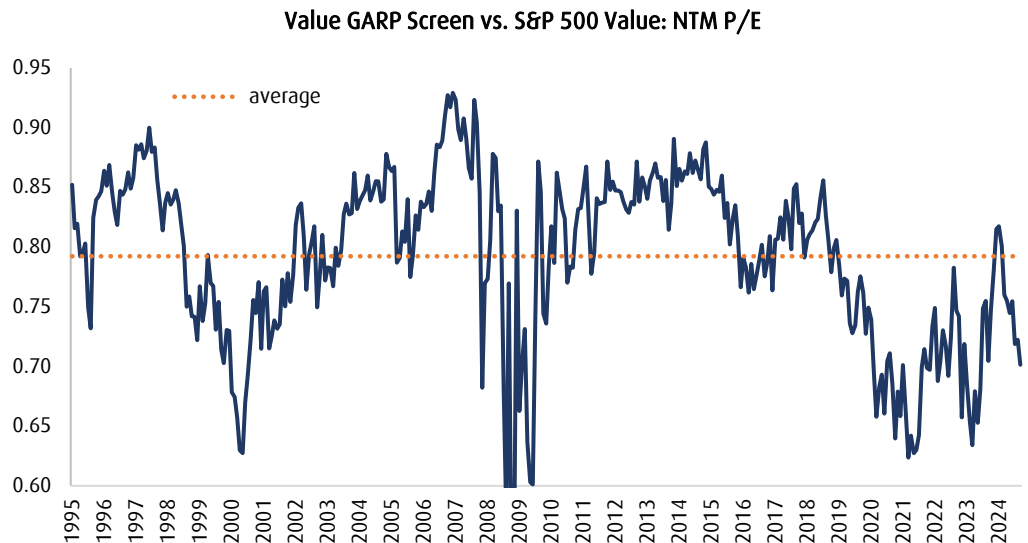


Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Value GARP Fundamentals Remain Another Layer of Support**

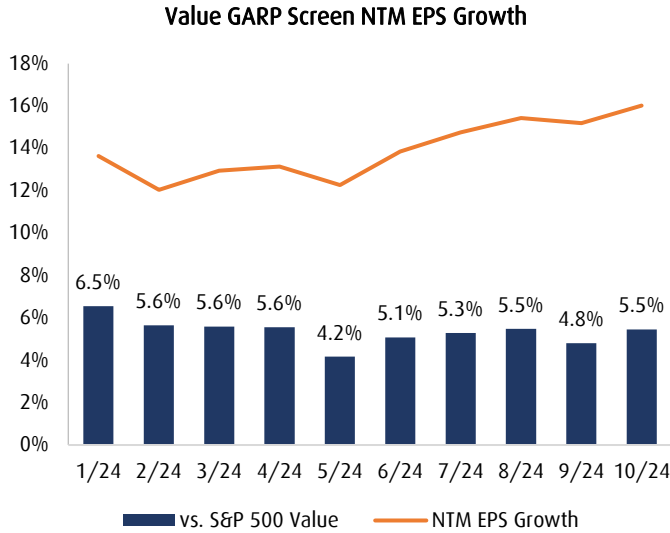
The fundamental underpinnings of the value GARP screen is another reason we believe these stocks represent an attractive opportunity currently. For instance, the relative NTM P/E of these stocks has dropped sharply in recent months with the latest level at a sizeable discount to its longer-term average (Exhibit 36). In addition, relative NTM EPS growth has been remarkably stable in recent months with the levels representing a decent cushion compared to the index and consistently above 10% in absolute terms (Exhibit 37). Finally, dividends are typically another characteristic that value investors search for when looking for opportunities. This is another area that we believe benefits a value GARP approach. As Exhibit 38 shows, the dividend growth expectations for appears quite attractive for 2024 and 2025, which are much higher than index levels for each year.

**Exhibit 36: Value GARP Stocks Are at a Substantial Relative Valuation Discount**



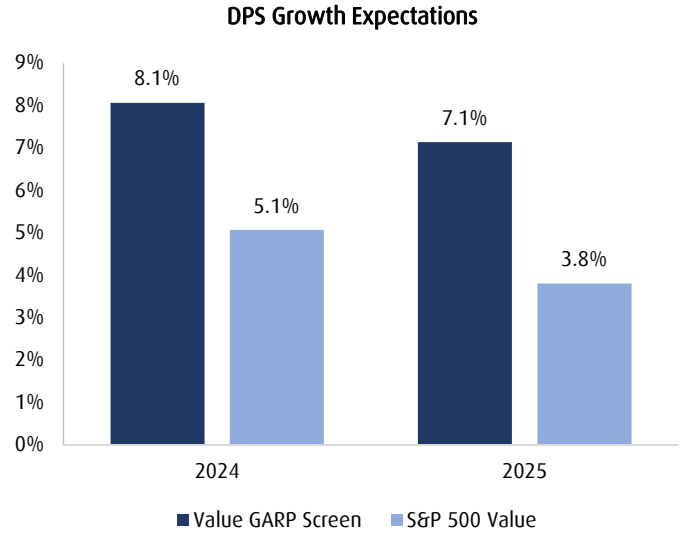
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 37: EPS Growth Has Remained Solid



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Exhibit 38: DPS Growth Expectations Are Attractive

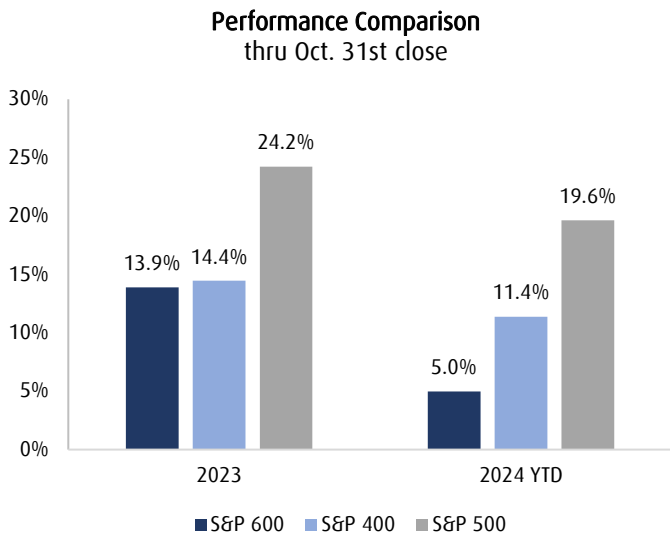


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

### Struggling SMID-Caps Overdue for a Rebound

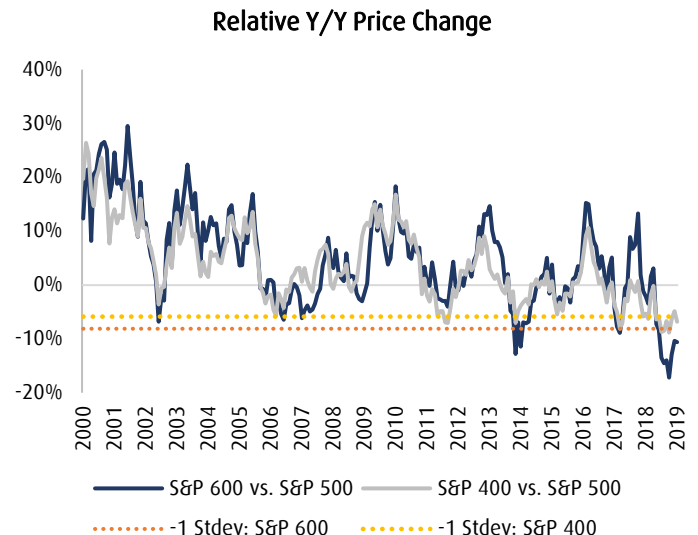
SMID-cap stocks have been struggling on a relative basis ever since the collapse of several smaller regional banks in Mar'23 reignited investor fears of a potential smaller-bank crisis since the SMID-cap space is more heavily weighted towards financials. And despite the fact that these worries never materialized, investors have continued to shun these stocks compared to large-cap since then (Exhibit 39). As a result, relative performance trends had deteriorated sharply over the past 18+ months, pushing both groups into what we consider deeply oversold levels, although both have rebounded slightly in recent months. From our perspective, it is only a matter of time before the relative performance of both groups improves even more since our work shows that SMID-caps have tended to rebound sharply in the months following similar relative oversold conditions over the past 20 years (Exhibit 40).

Exhibit 39: SMID-Cap Has Significantly Underperformed



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 40: Relative Performance Appears Deeply Oversold

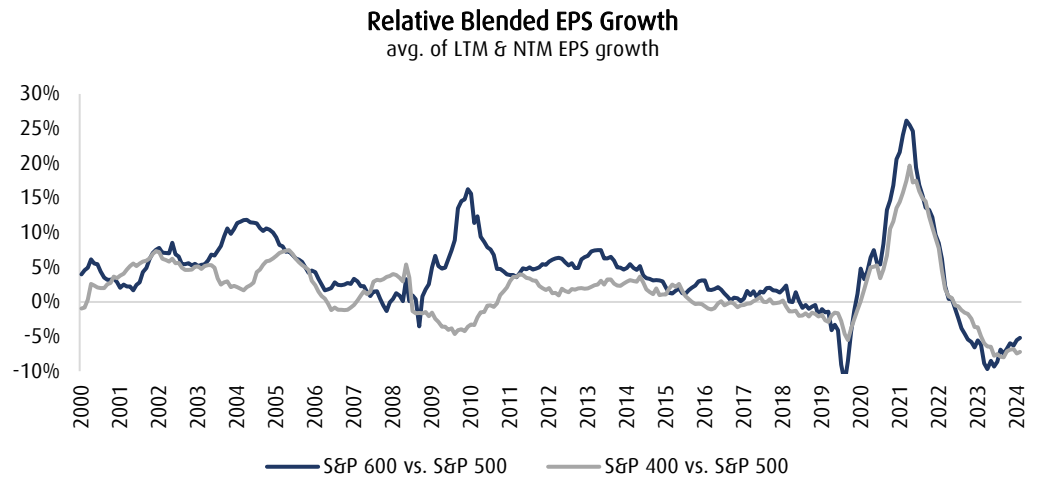


Source: BMO Capital Markets Investment Strategy Group, FactSet.

### SMID Earnings Growth Struggles May Be Turning the Corner

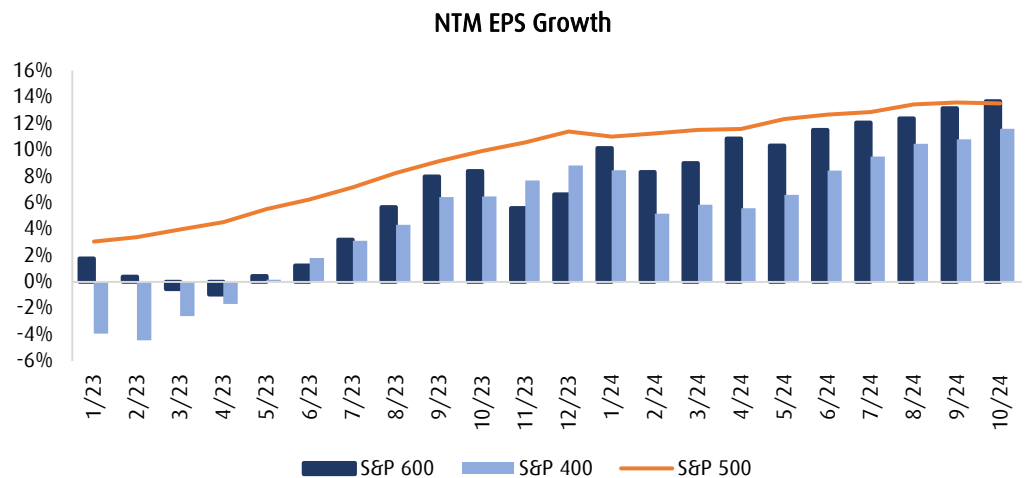
The earnings environment has been a significant headwind for SMID. After seemingly benefiting from the pandemic-fueled stimulus, relative blended growth rates accelerated sharply from 2021-22, reaching peak growth rates of 26.1% and 19.7%, for small and mid-cap, respectively. Unfortunately, the descent has been as swift as the ascent, with SMID relative blended growth rates plummeting into negative territory over the past year, although levels have slightly improved in recent months, especially for small-caps (Exhibit 41). While this degree of negative growth could be cause for concern, we point out that earnings growth has typically rebounded following similar levels historically. In fact, the most recent trough levels were about as low as they were during the height of the pandemic. Thus, we believe more than enough pessimism is reflected in relative performance and valuation, making a rebound even more likely. Analysts appear to share our view. For instance, SMID NTM earnings growth expectations have improved all throughout 2024 with double-digit growth now expected for both groups, while small-cap has slightly exceeded large-cap expectations (Exhibit 42).

**Exhibit 41: Earnings Growth Has Been a Sore Spot for SMID**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 42: SMID NTM Growth Expectations Continued to Improve**

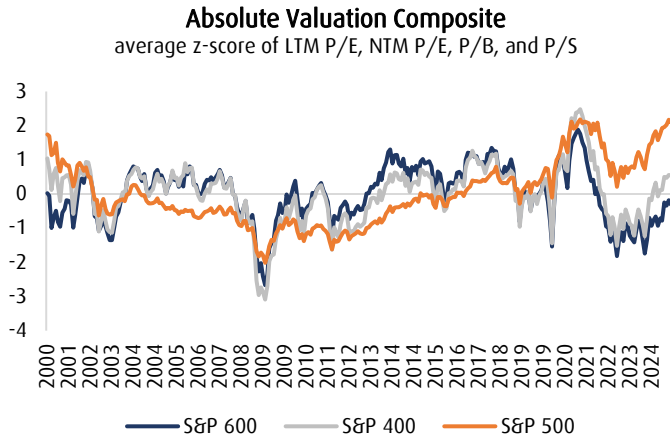


Source: BMO Capital Markets Investment Strategy Group, FactSet.

### SMID Valuation Extremely Attractive

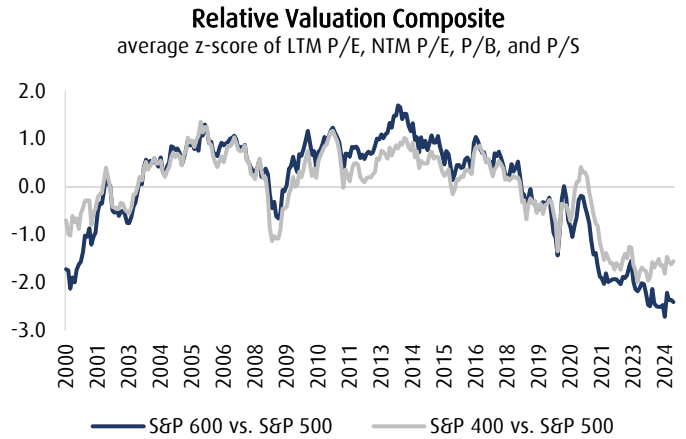
The SMID valuation backdrop is a main reason for our optimism. As Exhibit 43 shows, small-caps trade at a considerable discount relative to their 20-year average while mid-cap valuation is only slightly above average according to our valuation composite model. By contrast, the S&P 500 remains at a significant premium for the same measure. In other words, relative valuation for SMID is at abnormally low levels for both groups with the latest readings at roughly minus two standard deviations compared to the 20-year average (Exhibit 44). Therefore, we believe these abnormal discounts more than reflect the group's earnings struggles and believe they offer compelling value for investors looking to add exposure.

**Exhibit 43: SMID Is Much Cheaper Than Large-Cap**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 44: SMID Relative Valuation Is Abnormally Low**

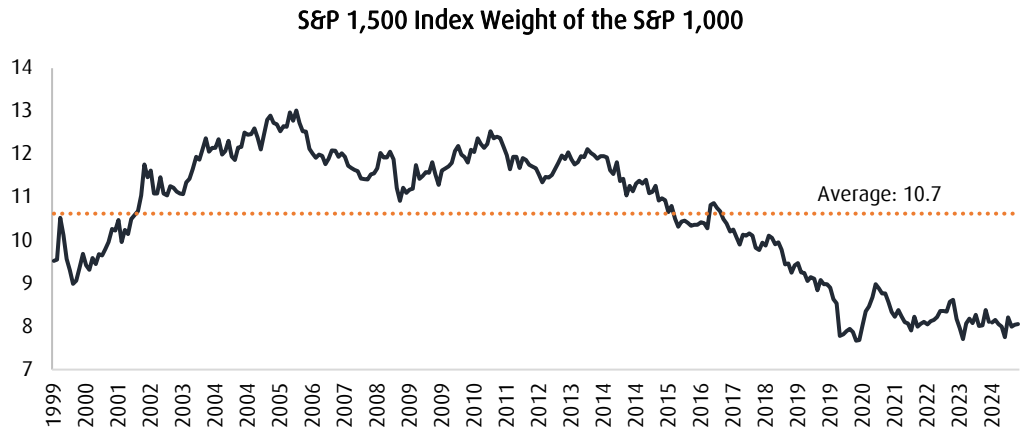


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

### Historically Small SMID Index Weight Makes It an Easier Overweight

It is no secret that some of the largest S&P stocks have been driving performance throughout this bull market, which consequently has significantly skewed index compositions. From our perspective, the SMID-cap space has been a main casualty of this trend as investors have seemingly been comfortable chasing the momentum while ignoring plenty of other areas in their pursuit. For instance, the S&P 1,000 (which combines the S&P 600 and S&P 400) currently represents only about 8% of the broader S&P 1,500 and roughly 25% lower than the historical average (Exhibit 45). For comparative purposes, Apple and NVIDIA (the two largest S&P stocks) represent more than 12% of the S&P 1,500. In other words, these two stocks carry more than 50% of the index weight than 1,000 others. Given this dynamic, we believe it is much easier for investors to “overweight” SMID stocks because we believe index composition will likely begin to revert to more “normal” levels in the coming months.

**Exhibit 45: SMID Index Weight at a Historically Low Level**



Source: BMO Capital Markets Investment Strategy Group, FactSet.

## 2025 Market Outlook – Canada

### And the Beat Goes On...Another Year of New Highs for the TSX

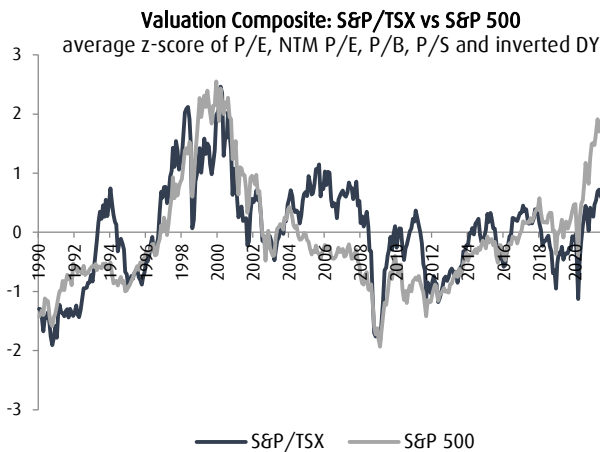
Our 2024 Market Outlook for Canada was titled “The Return of ‘Tigger’” as we believed AND still believe Canada is well positioned to shift from a more timid/defensive “Eeyore” environment to an offensive “Tigger” market. Indeed, after over a year of depressed valuations and sluggish relative performance, Canadian equities finally caught a bid in the second half of 2024, with the TSX hitting new all-time highs for the first time since early 2022. Overall, we believe that the Canadian recovery trade remains in its early stages, with Canada set to hit new all-time highs throughout 2025. In our opinion, the core drivers and fundamental underpinnings behind Canada’s stock market recovery in 2024 are likely to continue to define 2025 Canadian equity performance. As such, as monetary policy continues to ease, equity flows broaden out and earnings growth converges with the US, we believe the TSX can, and will, attain higher prices with a 2025 year-end price target of 28,500 on earnings of \$1,600. This represents an over 10% annual return based on current price and a multiple improvement to an above average 17.8x from the current 17x. Yes, we believe the S&P/TSX 2025 price return will be driven by both high single-digit earnings rebound and continued incremental improvement in valuations as analysts and investors become increasingly confident in the longer-term outlook for Canadian equities.

FIVE key performance drivers of the TSX over the last six months that will follow through into 2025:

#### 1. 2025 = Continued Valuation Expansion With a Dose of Downside Protection

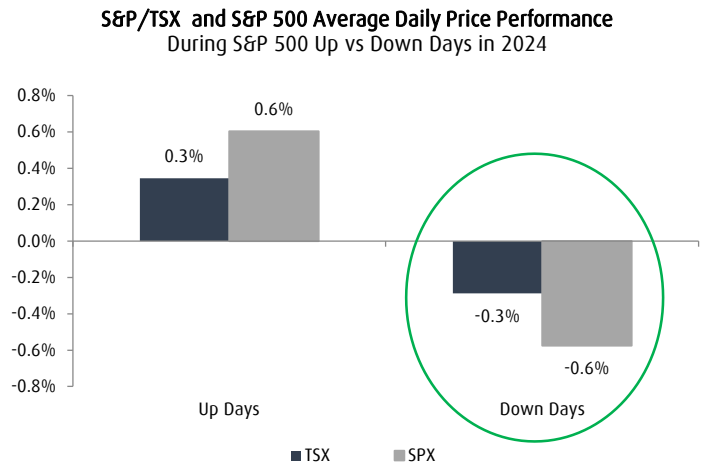
Yes, Canada continues to offer asymmetric upside, in our opinion. As we have written about extensively, valuation normalization favors Canada longer term, a process that should also add downside protection during periods of heightened volatility. While valuations have started to NORMALIZE and have now passed their long-term historical averages, we believe there remains significant breadth of absolute and relative value in Canada. In fact, our work shows that almost all TSX sectors have valuations below their US peers, with many sectors still at, or below, historical valuation levels. As such, while we do not expect Canadian valuations to reach the AI-driven heights of the US, Canada is likely to continue to see valuation expansion above historical averages throughout 2025 with a narrowing of valuation spread versus the US. *YES, Valuation Remains a Key Advantage for the TSX in 2025.*

**Exhibit 46: 2025 == Narrowing Valuation Spread**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 47: 2025 == Downside Protection**

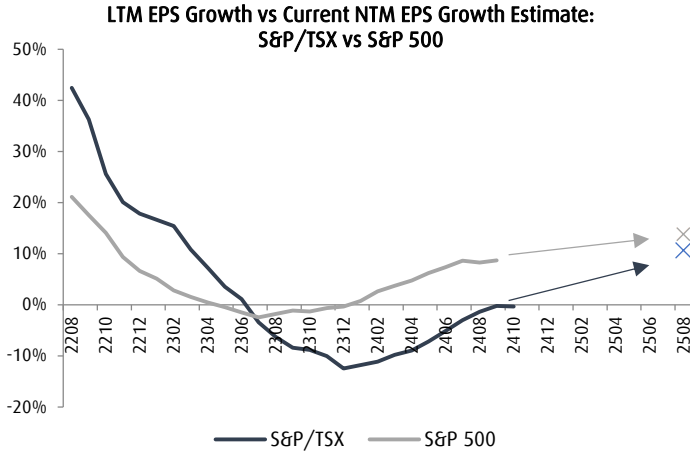


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

### 2. 2025 = Earnings Rebound and Converging Growth Profile

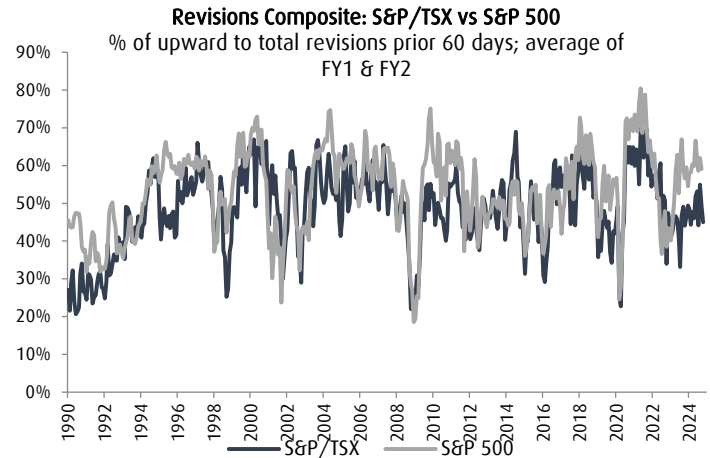
From our perspective, while the bulk of the earnings recovery we expected in 2024 was pushed out to 2025, this improving growth profile and increasing analyst confidence will remain a key fundamental support to drive the TSX higher in 2025. As such, as the reality of a more resilient economy, lower interest rates, and rebounding earnings growth continue throughout 2025, we believe valuations will continue to expand with the TSX attaining successively higher prices. Furthermore, as part of the normalization process, we believe the Canadian growth profile will converge with the US in 2025, thereby being a key catalyst for valuation convergence with the US as well. *YES, Rebounding Earnings Growth Will Be the MAIN Driver of TSX Stock Returns in 2025.*

**Exhibit 48: 2025 == Growth Convergence**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 49: 2025 == Positive Revision Momentum**

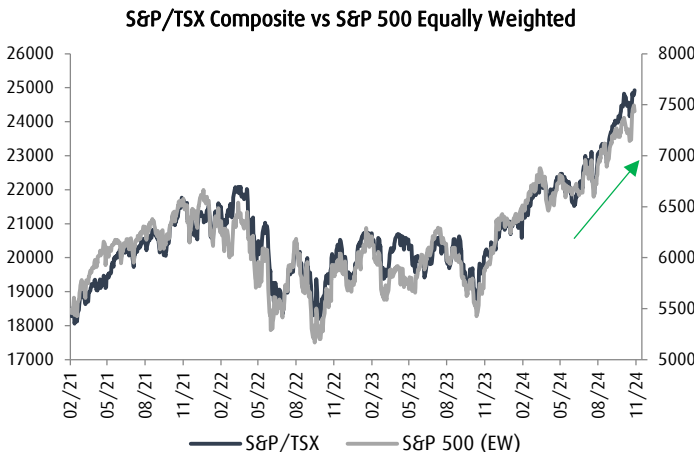


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

### 3. 2025 = Broadening Performance Will Continue to Benefit Canada

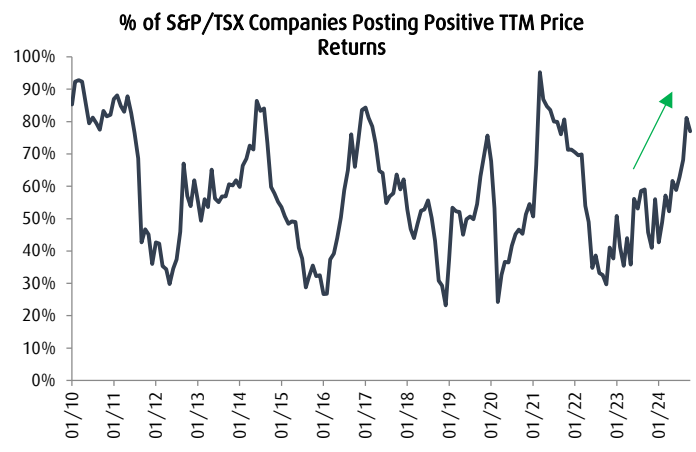
The broadening out of equity performance that we saw in the second half of 2024 will continue to benefit Canadian equities heading into and in 2025, in our opinion. While there will certainly remain ebbs and flows of performance concentration within the US mega caps, ultimately, we believe performance will broaden, which will remain a key tailwind for Canadian equities. In fact, the TSX has been highly correlated to both the S&P 500 equally weighted index and US SMID Cap names. As such, as US performance broadens away from the mega caps into smaller and lesser-known names, Canada will likely continue to participate.

**Exhibit 50: US Equity Broadening = Own Canada**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 51: Improvement in Breadth of Performance**

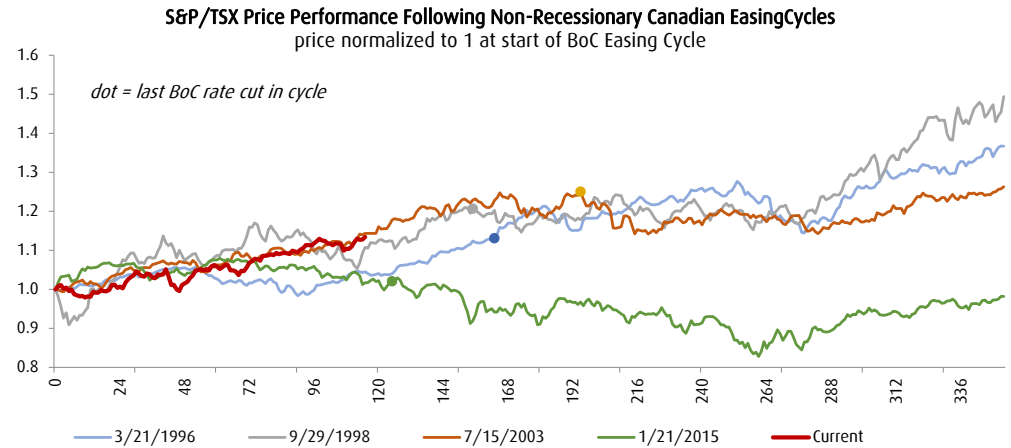


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

#### 4. 2025 = Easing Environment to Remain Tailwind Throughout 2025

With inflationary trends continuing to ease, the Bank of Canada clearly remains in an easing cycle. As we have highlighted many times, we believe this is a “proactive” non-recessionary easing cycle that is likely to remain a strong positive catalyst for TSX performance right until the end of the easing cycle and possibly beyond. According to our work, based on these more proactive easing cycles, the TSX has historically rallied right to the end of the cycle, only pausing briefly after the last rate cut as markets adjust to shifting rate expectations. Overall, even though rate cuts expectations will likely shift over the course of the year, we believe the trend is for lower policy rates well into 2025. As such, the easing cycle will likely remain a key tailwind for the TSX in 2025 and is likely to propel strong performance throughout the year.

**Exhibit 52: The TSX Typically Rallies Right to the End of These Type of Easing Cycles**

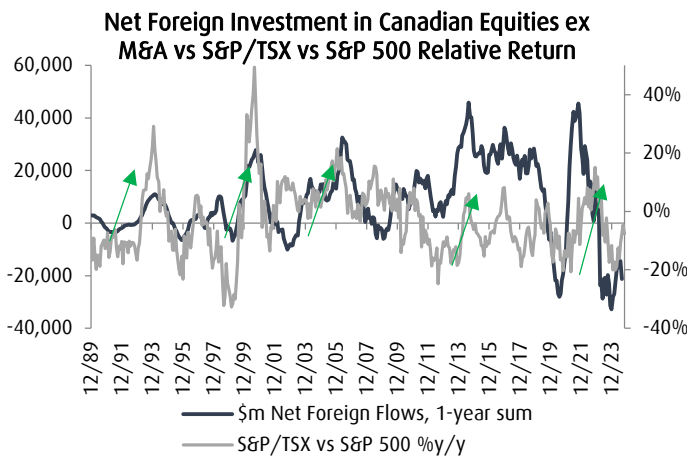


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

#### 5. 2025 Wild Card = Positive Equity Flow Potential

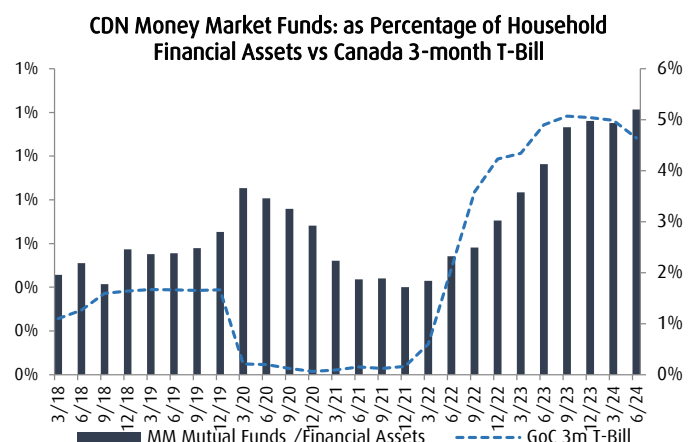
While this is certainly a much slower moving variable and a wild card for 2025, our work shows significant “pent-up” demand for positive equity flows. Indeed, foreigners have been clear net sellers of Canadian equities for two consecutive years; however, the pace of selling has started to slow and could reverse to net buyers in 2025, in our opinion. In fact, our work shows rebounds in foreign flows are highly correlated with TSX relative performance (Exhibit 53). Additionally, domestic investors have seen a sharp increase in money market and cash investments as GIC rates increased. However, as rates continue to trend lower, we believe investors will begin to redeploy these elevated cash positions into Canada equities, particularly into the more income intensive areas of the market. Overall, we believe increasing positive equity flows, both foreign and domestic, is a key positive wild card for 2025.

**Exhibit 53: Foreign Flows Have Remained Weak in 2024**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 54: Domestic Cash Investments Are Elevated**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

### S&P/TSX Price Target 28,500

The rally seen in late 2024 was better late than never, as the TSX saw a sharp rebound in equity flows with valuations rebounding back to historical averages. Indeed, many of the economic and market fears that plagued Canadian stocks for the past two years have dissipated as the Bank of Canada became increasingly aggressive “normalizing” interest rates. With this overhang now removed from the market, 2025 is likely to be a more normalized market, driven primarily by fundamentals and rebounding earnings growth. Overall, we believe 2025 will be a continuation of the second half of 2024, particularly as confidence in the earnings outlook continues to improve and flows return to Canadian equities. Our base case assumes stable commodity prices, a growth profile that will converge to the US and continued improvement in the earnings multiple above its long-term historical average. As such, we believe the TSX will continue to hit new all-time highs, reaching 28,500 by year end. This represents an over 10% annual return based on our 2024 price target and a multiple improvement to 17.8x from the current 17x. Additionally, we believe active investment strategies will remain a key pillar for 2025. In other words, investors will need to be nimble throughout the year rotating in and out of areas to take advantage of what we think will be constantly evolving market conditions to deliver outperformance.

### S&P/TSX EPS Target \$1,600

As expected, the TSX experienced only modest earnings growth this year with S&P/TSX EPS gaining around 2% in 2024. However, earnings revision trends turned clearly positive mid-year, with the bulk of positive revisions occurring in 2025 outlooks. As such, we believe 2025 will see a much stronger earnings recovery, helping to propel the TSX to new all-time highs. Overall, we expect growth to normalize back to the high single-digit and even double-digit range by the end of the year and into 2026. This should also be supportive of continued valuation expansion through 2025. We expect the 12-month trailing PE to expand to 17.8x by the end of 2025 from the current 16.5x implied LTM PE.

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#### Exhibit 55: 2025 S&P/TSX Composite Target Scenarios

| Scenario | Price  | EPS     | Rationale   |
|----------|--------|---------|---|
| Bull     | 32,000 | \$1,700 | <p>A very bullish melt-up scenario as central banks continue to ease despite accelerated growth expectations. Valuation pushes well above historical averages.</p> <ul style="list-style-type: none"> <li>• Valuations approach decade highs.</li> <li>• Earnings surprise to the upside, and growth expectations improve drastically.</li> </ul> |
| Base     | 28,500 | \$1,600 | <p>Normalization process continues, rates continue to trend lower, BoC continues to ease at a measured pro-active pace, performance broadens out, outlooks trend positive.</p> <ul style="list-style-type: none"> <li>• Valuations normalize.</li> <li>• Earnings growth returns to high single digit historical averages.</li> </ul>             |
| Bear     | 20,000 | \$1,300 | <p>Policy makers get behind the curve and are forced to cut rates more aggressively. Growth outlooks begin to be cut.</p> <ul style="list-style-type: none"> <li>• Multiples contract back to recessionary levels.</li> <li>• Earnings follow typical “recession” decline (-20-30%).</li> </ul>   |

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Source: BMO Capital Markets Investment Strategy Group, Bloomberg.

**Exhibit 56: 2024 & 2025 S&P/TSX Targets**

| <b>Price Target</b>                |                |                |               |
|------------------------------------|----------------|----------------|---------------|
| Model                              | Category       | 2024E          | 2025E         |
| Dividend Discount Model            | Fundamental    | 22,925         | 26,475        |
| Fair Value Price-to-Earnings Model | Valuation      | 25,444         | 29,037        |
| EPS Revision Model                 | Mean Reversion | 23,100         | 29,500        |
| Macroeconomic Regression Model     | Macro          | 22,156         | 26,699        |
| Expected Return*                   |                | 1.8%           | 11.8%         |
| <b>Price Target</b>                |                | <b>25,500</b>  | <b>28,500</b> |
| <b>Earnings Per Share Target</b>   |                |                |               |
| Model                              | Category       | 2024E          | 2025E         |
| Macroeconomic Regression Model     | Macro          | 1,443          | 1,619         |
| Mean Consensus Regression Model    | Fundamental    | Nm             | 1,599         |
| Mean Consensus                     | Fundamental    | 1,460          | 1,650         |
| Expected EPS Growth                |                | 3.5%           | 9.6%          |
| Prior Year S&P/TSX EPS**           |                | \$1,410        | 1,460         |
| <b>EPS Target</b>                  |                | <b>\$1,460</b> | <b>1,600</b>  |
| <b>Implied P/E</b>                 |                | <b>17.0x</b>   | <b>17.8x</b>  |

\*2024 Based on 11/14/2024 closing price; 2025 Based on our 2024 Price Target.

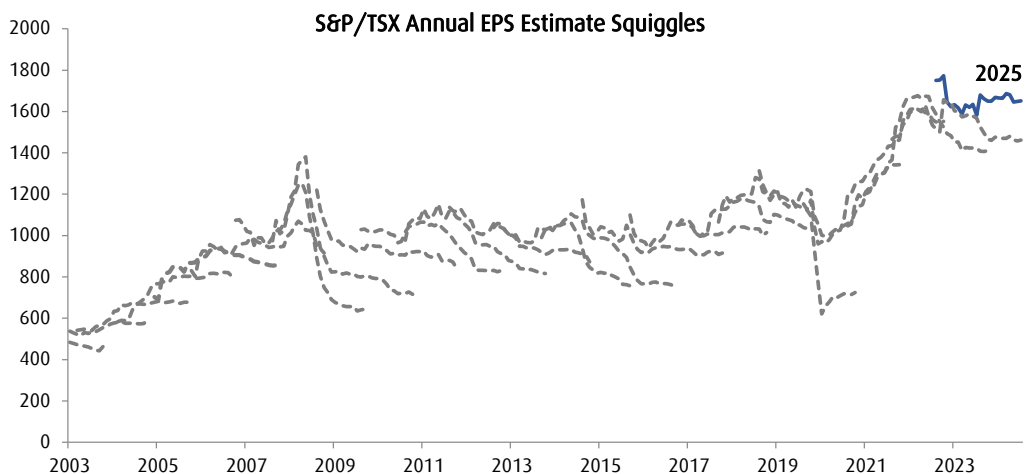
\*\*Based on our prior year EPS target if EPS is not fully reported for index.

Source: BMO Investment Strategy Group.

**Key Notes on Our Models and Underlying Assumptions**

Our models were built on BMO Economics outlook for GDP growth and interest rates, and consensus outlook for commodity prices. The models assume inflation trends back to target while interest rates trend lower, and commodity prices remain soft through 2025. As such, the core driver of returns in 2025 will be from earnings growth, which we expect will be around 10%. In our opinion, the risk to earnings growth is likely to the upside. We expect the Bank of Canada to continue its proactive easing cycle well into 2025 and if the global economy finds stability, commodities could surprise to the upside given the modest price expectations for oil prices. Additionally, we have already seen 2025 EPS estimates trend higher over the last few quarters, which is a clear break from historical patterns.

**Exhibit 57: Risk to Our EPS Target Is to the Upside**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

## Sectors, Size, and Style Recommendations

### Canadian Sector Opinions

Exhibit 58: Canadian Sector Opinion Summary

| Sector                 | Opinion | Index Weight | Target Weight | BMO Investment Strategy Group Headline   |
|------------------------|---------|--------------|---------------|--|
| Communication Services | MW      | 2.7%         | 3.0%          | Remains excessively oversold; but operational and growth headwinds likely to persist for some time.  |
| Consumer Discretionary | OW      | 3.4%         | 4.5%          | Cyclical tailwinds in 2025 to persist as easing cycle continues.   |
| Consumer Staples       | UW      | 4.1%         | 2.5%          | Easing inflationary pressure remain a key headwind within an expensive sector.   |
| Energy                 | MW      | 17.4%        | 17.0%         | Fundamentally sound = deep value, strong cash generation; potential oil price weakness will continue to provide resistance. Government headwinds are key wildcard.               |
| Financials             | OW      | 32.6%        | 33.5%         | Our only contrarian overweight, lower rates are positive, troughing growth, plus a great way to add yield to a portfolio.  |
| Health Care            | UW      | 0.3%         | 0%            | Prefer U.S for diversification.  |
| Industrials            | MW      | 12.8%        | 12.5%         | Neutralized to Market Weight on cyclical rotation but remain highly selective.   |
| Information Technology | OW      | 8.7%         | 9.5%          | Strong momentum and double-digit earnings growth, would move down market cap.  |
| Materials              | MW      | 12.3%        | 12.0%         | Global growth headwinds, gold strength in 2024 will be hard to match in 2025.  |
| Real Estate            | OW      | 2.1%         | 3.0%          | While the least interest sensitive of the yield sectors, is our preferred yield play given the quality versus communication services and strong relative value versus Utilities. |
| Utilities              | UW      | 3.8%         | 2.5%          | Valuations have normalized, this is a defensive sector that performs the best when entire yield curve shifts lower, not just the short end.                                      |

Source: BMO Capital Markets Investment Strategy Group. Key: OW: Overweight, MW: Market Weight, UW: Underweight

Exhibit 59: S&P/TSX Annual Sector Performance

| Year | COMSV  | COND   | CONS   | ENRS   | FINL   | HLTH   | INDU   | INFT   | MATR   | RELS   | UTIL   | S&P/TSX |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| 1990 | -12.6% | -25.1% | -11.4% | -10.5% | -21.7% | -21.3% | -24.3% | 2.8%   | -19.3% |        | -2.4%  | -18.0%  |
| 1991 | 21.5%  | 14.0%  | 21.4%  | -19.0% | 21.1%  | 61.5%  | -10.5% | 55.9%  | -3.6%  |        | 1.3%   | 7.8%    |
| 1992 | -11.2% | -1.2%  | 0.9%   | 3.5%   | -11.9% | -14.2% | -11.1% | 20.0%  | -1.5%  |        | -4.4%  | -4.6%   |
| 1993 | 16.4%  | 21.0%  | 4.0%   | 33.1%  | 27.8%  | 5.6%   | 27.6%  | 18.6%  | 56.8%  |        | 19.1%  | 29.0%   |
| 1994 | -1.8%  | -11.6% | -1.8%  | -7.1%  | -6.1%  | 13.4%  | 3.0%   | -7.2%  | 4.1%   |        | -9.6%  | -2.5%   |
| 1995 | 2.7%   | 0.6%   | 19.4%  | 15.2%  | 14.1%  | 62.3%  | 13.7%  | 34.0%  | 7.6%   |        | 6.3%   | 11.9%   |
| 1996 | 30.9%  | 25.4%  | 15.2%  | 36.8%  | 49.9%  | 30.1%  | 30.4%  | 21.7%  | 9.7%   |        | 22.4%  | 25.7%   |
| 1997 | 39.2%  | 28.4%  | 16.2%  | 3.1%   | 49.8%  | -11.1% | 19.2%  | 40.1%  | -26.2% |        | 38.2%  | 13.0%   |
| 1998 | 21.1%  | 6.7%   | 23.6%  | -30.4% | 0.6%   | -0.3%  | -11.2% | 7.6%   | -12.3% |        | -4.0%  | -3.2%   |
| 1999 | 85.0%  | -0.5%  | 13.3%  | 26.2%  | -13.0% | 13.1%  | 4.1%   | 188.8% | 12.4%  |        | -30.6% | 29.7%   |
| 2000 | 22.5%  | 9.5%   | 38.1%  | 46.3%  | 45.6%  | 3.8%   | 28.2%  | -31.1% | -8.9%  |        | 42.6%  | 6.2%    |
| 2001 | -29.6% | 1.7%   | 27.4%  | 6.1%   | 1.3%   | 15.2%  | 5.5%   | -62.1% | 8.9%   |        | 6.4%   | -13.9%  |
| 2002 | -21.9% | -21.3% | 0.9%   | 12.7%  | -5.0%  | -42.8% | -31.3% | -64.8% | 5.5%   |        | 2.1%   | -14.0%  |
| 2003 | 12.6%  | 19.5%  | 18.9%  | 23.6%  | 24.4%  | 1.3%   | 21.1%  | 67.0%  | 26.0%  |        | 19.9%  | 24.3%   |
| 2004 | 8.2%   | 8.3%   | 9.3%   | 28.7%  | 16.5%  | -17.4% | 0.2%   | 11.5%  | 5.7%   | 11.2%  | 5.0%   | 12.5%   |
| 2005 | 9.7%   | 8.6%   | -2.2%  | 61.3%  | 20.5%  | -3.5%  | 16.5%  | -15.8% | 13.9%  | 20.0%  | 33.1%  | 21.9%   |
| 2006 | 16.4%  | 13.2%  | 3.9%   | 3.2%   | 15.9%  | -0.7%  | 12.7%  | 27.3%  | 38.0%  | 23.5%  | 2.1%   | 14.5%   |
| 2007 | 16.2%  | 1.8%   | -6.8%  | 5.0%   | -4.6%  | -27.1% | 8.6%   | 48.1%  | 29.1%  | -11.6% | 6.9%   | 7.2%    |
| 2008 | -27.4% | -37.5% | -7.8%  | -36.3% | -39.0% | -34.4% | -26.9% | -54.3% | -27.1% | -45.2% | -24.0% | -35.0%  |
| 2009 | 0.7%   | 11.1%  | 6.1%   | 35.0%  | 38.3%  | 28.6%  | 23.7%  | 44.3%  | 33.4%  | 35.0%  | 12.7%  | 30.7%   |
| 2010 | 16.2%  | 21.8%  | 8.3%   | 10.0%  | 6.3%   | 50.3%  | 14.4%  | -11.6% | 35.8%  | 26.4%  | 12.6%  | 14.4%   |
| 2011 | 19.0%  | -17.9% | 4.8%   | -12.3% | -6.6%  | 49.6%  | 2.0%   | -52.6% | -21.8% | 1.1%   | 1.6%   | -11.1%  |
| 2012 | 6.4%   | 18.7%  | 20.4%  | -3.6%  | 12.8%  | 24.1%  | 12.7%  | -3.2%  | -6.9%  | 16.2%  | -0.8%  | 4.0%    |
| 2013 | 8.1%   | 39.5%  | 21.4%  | 9.9%   | 19.1%  | 71.7%  | 34.9%  | 36.2%  | -30.6% | 0.5%   | -8.6%  | 9.6%    |
| 2014 | 10.5%  | 26.4%  | 46.9%  | -7.8%  | 9.8%   | 30.2%  | 20.0%  | 34.0%  | -4.5%  | 18.0%  | 11.3%  | 7.4%    |
| 2015 | -1.0%  | -3.5%  | 11.0%  | -25.7% | -5.5%  | -15.8% | -12.5% | 14.8%  | -22.8% | 3.1%   | -7.8%  | -11.1%  |
| 2016 | 9.9%   | 8.2%   | 6.1%   | 31.2%  | 19.3%  | -78.6% | 20.7%  | 4.4%   | 39.0%  | 4.1%   | 12.7%  | 17.5%   |
| 2017 | 9.9%   | 20.4%  | 6.4%   | -10.0% | 9.4%   | 32.7%  | 17.9%  | 16.2%  | 6.3%   | 5.8%   | 6.2%   | 6.0%    |
| 2018 | -5.3%  | -17.7% | 0.6%   | -21.5% | -12.6% | -16.6% | -3.9%  | 12.5%  | -10.6% | -2.8%  | -13.4% | -11.6%  |
| 2019 | 8.2%   | 13.1%  | 12.8%  | 16.2%  | 16.9%  | -11.4% | 23.6%  | 63.5%  | 22.1%  | 17.4%  | 31.6%  | 19.1%   |
| 2020 | -8.3%  | 14.4%  | 2.8%   | -30.8% | -2.9%  | -23.6% | 15.3%  | 80.3%  | 19.5%  | -13.0% | 10.6%  | 2.2%    |
| 2021 | 19.1%  | 16.3%  | 20.6%  | 41.8%  | 31.6%  | -20.1% | 15.1%  | 18.3%  | 2.3%   | 33.1%  | 7.5%   | 21.7%   |
| 2022 | -7.0%  | -8.1%  | 8.5%   | 24.4%  | -12.7% | -62.2% | 0.2%   | -52.2% | -0.2%  | -24.3% | -14.0% | -8.7%   |
| 2023 | -9.2%  | 8.5%   | 10.5%  | 1.0%   | 9.1%   | 15.6%  | 10.5%  | 68.8%  | -3.3%  | 2.9%   | -4.3%  | 8.1%    |
| 2024 | -18.1% | 11.9%  | 17.1%  | 22.8%  | 24.7%  | 10.8%  | 10.2%  | 36.3%  | 20.8%  | 6.5%   | 9.5%   | 19.5%   |

REITs are used as a historical proxy for the Real Estate sector which was officially established in Sept. 2016.

Source: BMO Capital Markets Investment Strategy Group. Performance calculated through 11/14/24.

## Canadian Sectors

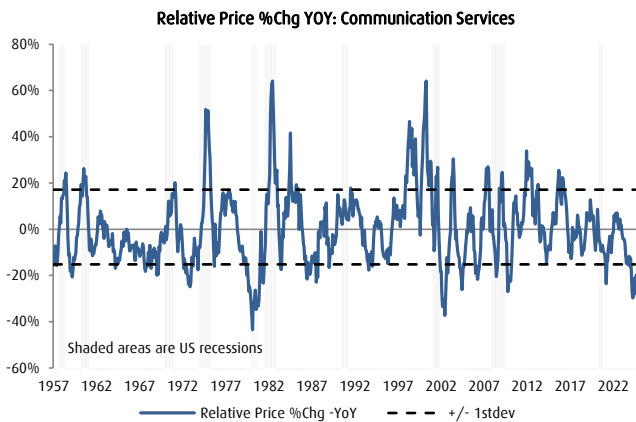
### Overview = Less Contrarian, More Cyclical With an Income Tilt

From our perspective, 2025 will once again be characterized by broadening equity performance that will be sector agnostic for the most part. As such, our sector weightings in 2025 will remain modest like in 2024. However, we believe investors should still tilt their allocation effect toward more cyclical areas and areas with improving momentum. Yes, this means a little less contrarian from last year when we saw performance inflection toward yield names as the Bank of Canada started cutting interest rates. As such, we are downgrading our contrarian call, Communication Services to Market Weight from Overweight and Upgrading Real Estate to Overweight from Market Weight. We are also downgrading Utilities to Underweight from Market Weight and Upgrading Industrials to Market Weight from Underweight. Financials is once again our largest Overweight. This sector remains our only contrarian Overweight, which has seen improving performance momentum in the second half of 2024 and has strong income characteristics.

### Sector Changes

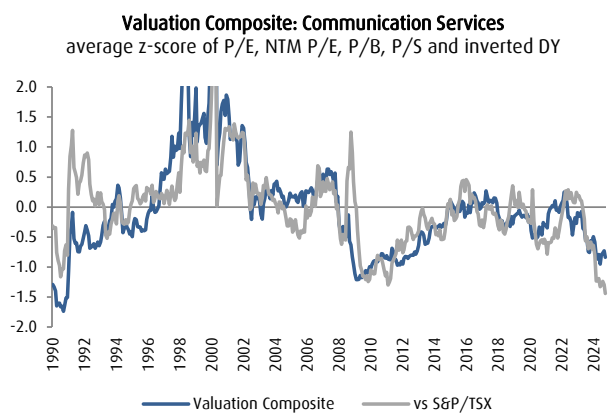
- Downgrade Communication Services to Market Weight From Overweight**
  - ✓ While we still believe Communication Services is a core contrarian play in Canada, particularly given the sharp underperformance over the last year and valuations that are at decade lows. However, we were “premature” in our Overweight in 2024, given the lack of diversification of the sector. Unfortunately, the sector still likely has too many growth challenges stemming from increased competition to slowing population growth. As such, we are trimming our weight by 1% to Market Weight from Overweight in 2024.

**Exhibit 60: Contrarian = Underperformance Is at an Extreme**



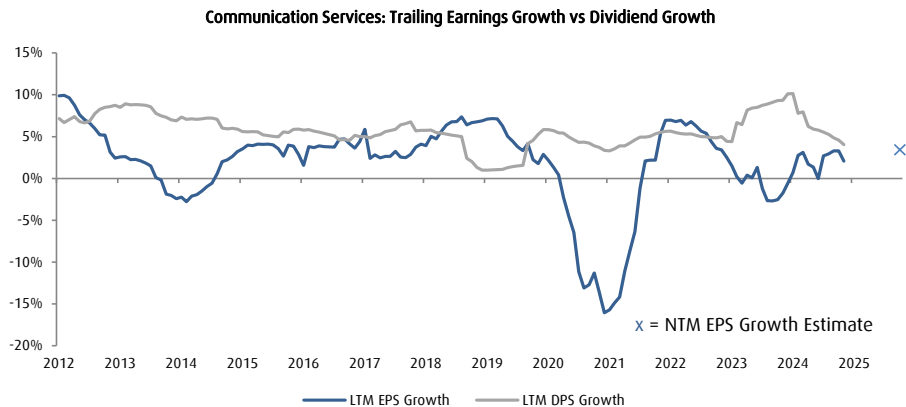
Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 61: Contrarian = Valuations Are at an Extreme Low**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 62: Clearly Growth Issues Are Too Great = Low Single-Digit EPS and DPS Growth at Best**

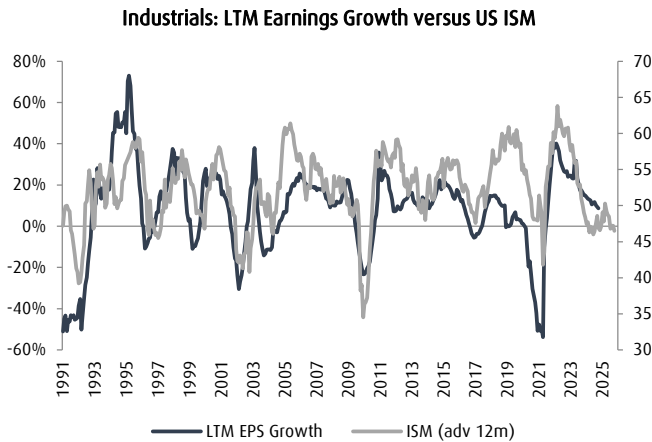


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

- **Upgrading Industrials to Market Weight From Underweight**

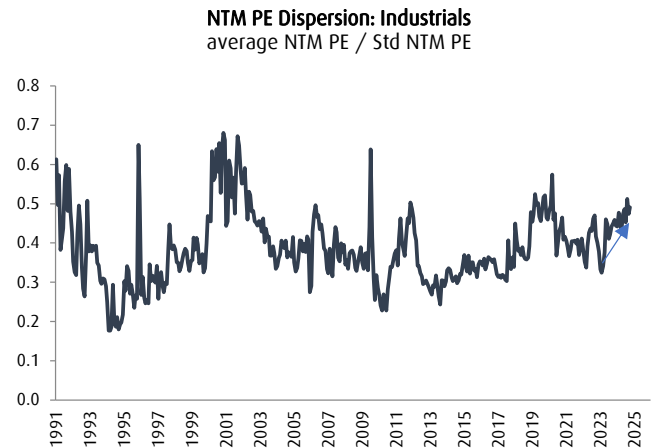
- ✓ We are neutralizing our Industrials position heading into 2025, upgrading the sector to Market Weight from Underweight. Admittedly, this is likely early for a shift to outperformance given earnings momentum continues to slow. However, we believe 2025 will see improving market and economic sentiment, which will ultimately benefit these types of cyclical areas.
- ✓ With that said, investors should remain highly selective and focus down the market cap curve to smaller and mid-cap areas of Industrials where there remains more value.

**Exhibit 63: Earnings Momentum to Remain Challenged Heading Into 2025, but Likely to Turn Positive as Year Progresses**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 64: Elevated Fundamental Dispersion = Be Selective**

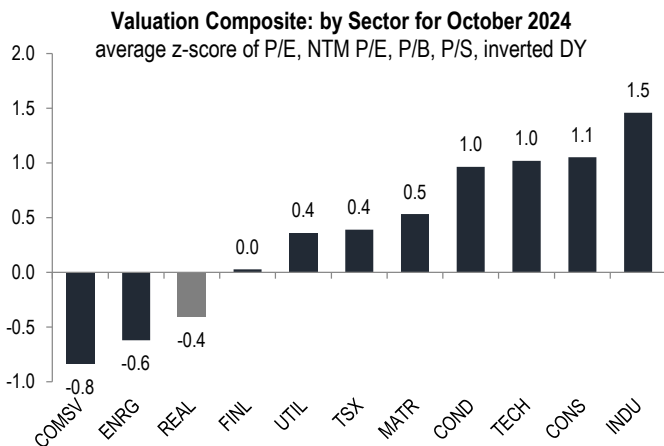


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

- **Upgrading Real Estate to Overweight From Market Weight**

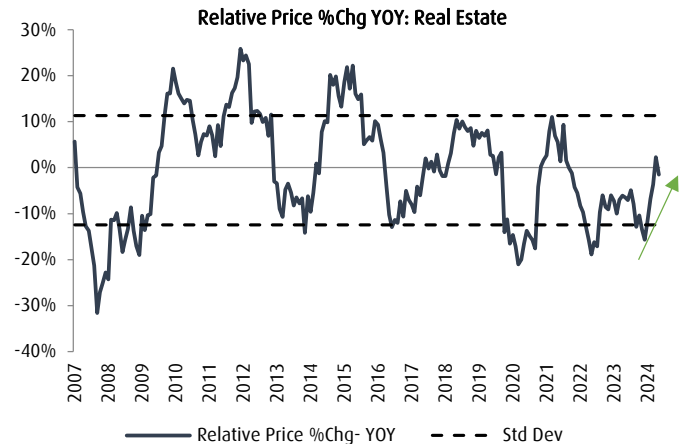
- ✓ We have been tactically favourable to Real Estate for several quarters now, but given the increasingly aggressive Bank of Canada that is likely to cut rates well into 2025, still strong relative value, improving broad market outlook, and improving price momentum, we are upgrading Real Estate to Overweight from Market Weight. Indeed, we believe there is significant momentum left in the Real Estate sector to warrant a longer-term Overweight position in 2025.

**Exhibit 65: Real Estate Is Among the Best Value Areas of the Market**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 66: Real Estate Price Momentum Has Shifted Positive**

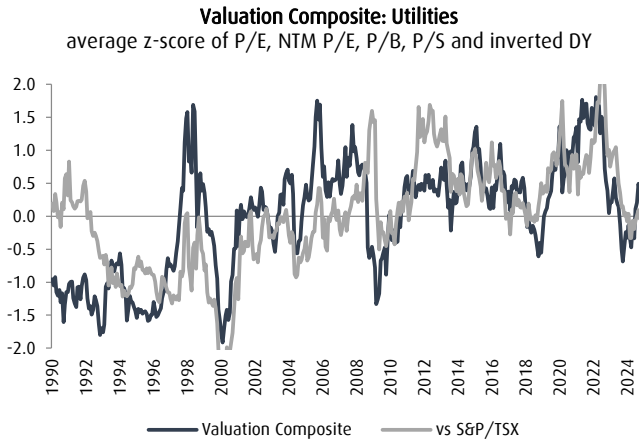


Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

- **Downgrading Utilities to Underweight From Market Weight**

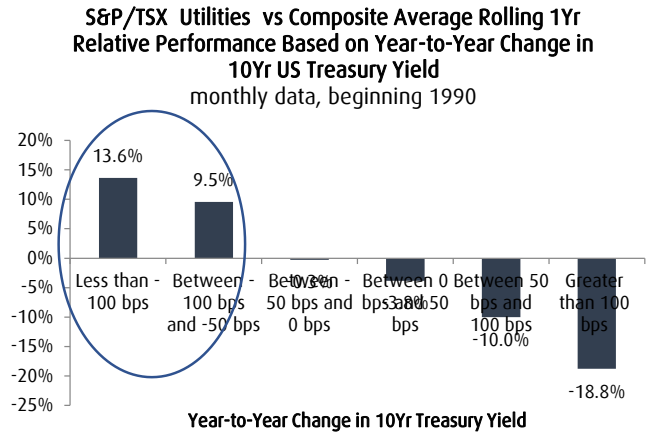
- ✓ Although we believe income can still outperform throughout the current easing cycle, our works suggests Utilities tend to do better during more aggressive easing cycles, when the entire yield curve is declining, not just the short end. Furthermore, much of the yield “catch-up” trade that we have been calling for has played out with Utilities’ valuations now back above their long-term historical averages.

**Exhibit 67: Utilities Valuations Have Rebounded**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

**Exhibit 68: Utilities Do Best When Entire Yield Curve Is Shifting Lower**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

### Canadian Size Opinions

**Exhibit 69: Canadian Size Opinions**

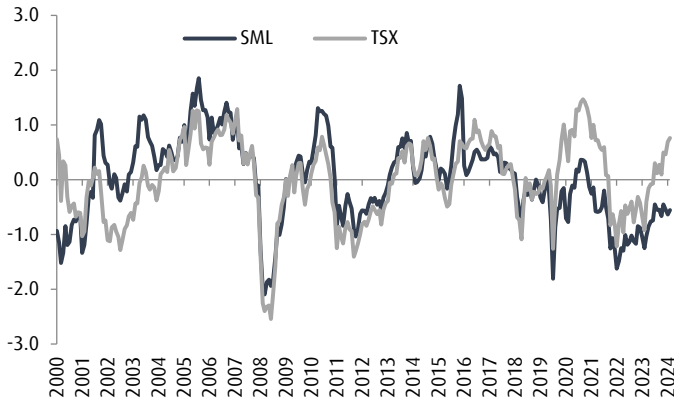
| Sector    | Opinion | Comments   |
|-----------|---------|--|
| Large Cap | MW      | Canadian Large Cap remains well positioned for the broad normalization process and should benefit from continued broadening out of performance. Indeed, we would view Canadian Large Cap performance to mirror US Small Cap performance over the next 12 months. |
| Small Cap | MW      | Small Cap is value within Canada, additional earnings growth and profitability have trough before their large cap peers. Canadian Small Cap is well positioned for the broad normalization process but remain highly selective.                                  |

Key: OW: Overweight, MW: Market Weight, UW: Underweight; Source: BMO Capital Markets Investment Strategy Group.

**Bottom Line:** From our perspective, there remains a lot of opportunity to outperform in Canada broadly. As such, we are keeping a balanced weighting within the market cap spectrum and believe investors should remain highly selective. However, we believe there are many areas where investors should be looking down the market cap spectrum for value and growth opportunities. This is particularly true within Canadian Technology and Industrials, which has seen a lot of smaller market cap names being ignored. Overall, we continue to believe Canadian SmallCap stocks are undervalued, underinvested and ripe with opportunity, even relative to their large cap peers. In fact, our work shows Canadian small cap valuations remain well below historical averages and earnings growth has accelerated ahead of their large cap peers.

**Exhibit 70: Canadian Small Cap Is Value**

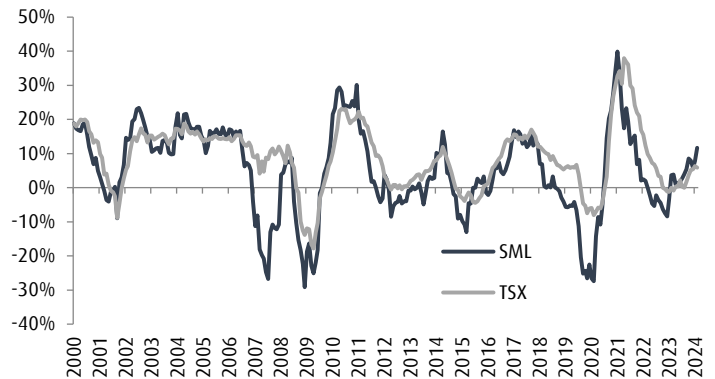
**Valuation Composite: Small Caps and Large Caps**  
average z-score of LTM P/E, NTM P/E, P/B/ and P/S



Source: BMO Capital Markets Investment Strategy Group, FactSet.

**Exhibit 71: Small Cap Growth Rebound Is Well Underway**

**LTM Median EPS Growth: Small Caps vs Large Caps**



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

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|-----------------|----------------|--------------------|-----------------------|------------------------|--------------------|-----------------------|--------------------|
| Buy             | Outperform     | 52.3 %             | 24.8 %                | 60.0 %                 | 56.6 %             | 65.8 %                | 57.7%              |
| Hold            | Market Perform | 45.4 %             | 18.1 %                | 38.0 %                 | 42.1 %             | 33.3 %                | 37.5%              |
| Sell            | Underperform   | 2.2 %              | 20.0 %                | 2.0 %                  | 1.2 %              | 0.8 %                 | 4.8%               |

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