Investment Strategy

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Trump 2.0: Shaking Canada and Europe Out of Their Lethargy

Reducing Equity Allocation to Market Weight – Still Slightly OW Canada, now UW the U.S. and Market Weight Europe and EM

It is becoming clearer that Trump's tariffs and trade wars are less a means to an end than an end in themselves. The implications are profound. The macroeconomic impact is doubly negative as it increases inflation – which has not yet been tamed in North America based on recent U.S. and Canadian data – while lowering economic growth. We are not ready to call this a recipe for "stagflation", but it is certainly a step in that direction. While the Trump administration is damaging its long-term credibility (it will be hard for allies to trust them on trade, aid, defense for years to come), the silver lining is that this is already shaking Canada and Europe out of their complacency and dependence on America. The upshot is that, despite near-term pain, we now have a better longer-term chance of boosting our own infrastructure spending, productivity, domestic manufacturing and defense capabilities, which have been a chronic area of weakness.

As summarized in the table below: **today, the team is taking advantage of the very recent U.S. market rebound to make our biggest asset allocation change in over a decade. We are reducing our general equity recommendation to market weight and taking our U.S. stock allocation to underweight for the first time ever.** This is due to: 1) deteriorating trends in inflation, growth, and budget deficit (especially with massive IRS job cuts and possible incremental tax cuts); 2) clouds on the employment horizon; and 3) very high concentration in the S&P 500 where the "Magnificent 7" still account for a third of the market and expensive valuations with little margin of safety. We also note that earnings momentum (S&P 500 EPS estimates) is quickly deteriorating and that consumer/corporate sentiment surveys are plummeting as they currently sit at multi-year lows.

We are maintaining a slight preference for Canadian stocks given a more economically focused government is coming one way or another. The prospects for accelerated stimulus measures including infrastructure/defense spending, upcoming significant reduction of Provincial trade barriers, and much lower equity valuations are also positives. We recommend a market weight position in Europe (due to stimulus, increasing economic momentum, and cheap valuations) and Emerging Markets (due to stimulus from China, better relative economic momentum, and generally low valuations). Simultaneously, we are increasing our allocation to: 1) cash, to be more defensive and have greater flexibility to take advantage of stock and bond opportunities as they arise in 2025/2026; and 2) fixed income, due to interest rates not fully pricing in economic risks which may prove positive for bond portfolios. Upside surprises to inflation could ultimately put a floor on how low government yields drop, supporting a cash position.

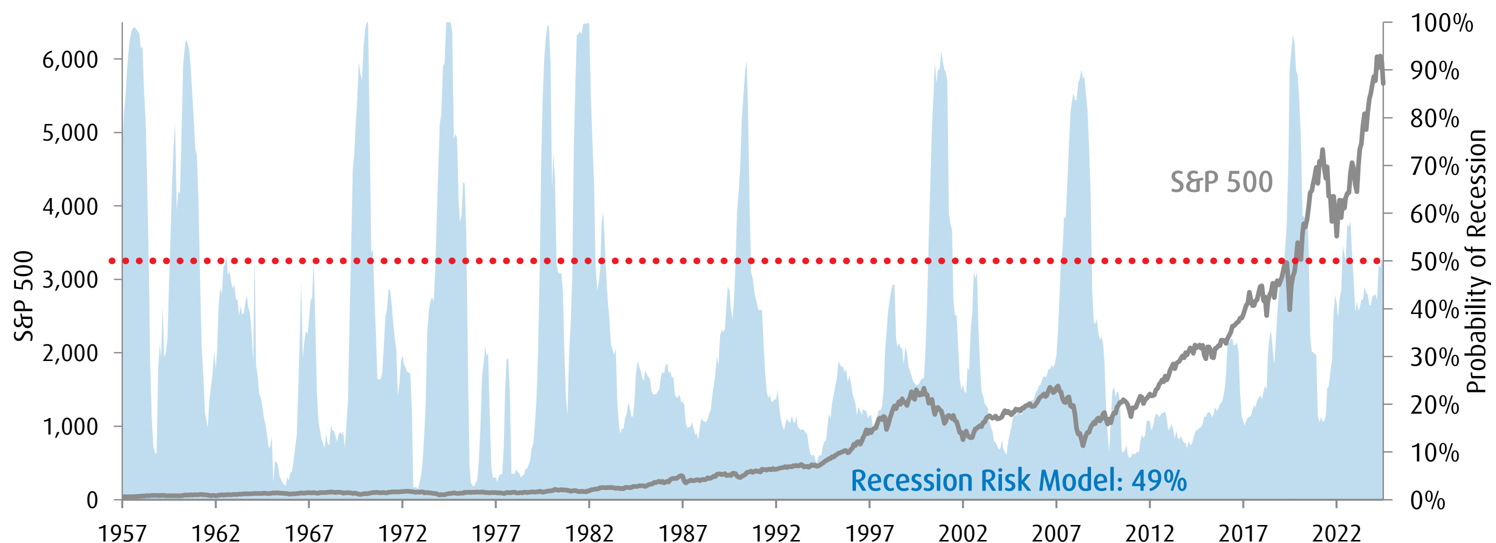
Figure 1: BMO Nesbitt Burns Investment Strategy Committee's Recommended Asset Allocation (%)

	Income			Balanced			Growth			Aggressive Growth		
	Recommended Asset Mix		Benchmark Weights	Recommended Asset Mix		Benchmark Weights	Recommended Asset Mix		Benchmark Weights	Recommended Asset Mix		Benchmark Weights
Cash	0		5	5	↑ (+5)	5	5	↑ (+5)	5	5	↑ (+5)	5
Fixed Income	75	↑ (+5)	70	45	↑ (+5)	45	25	↑ (+5)	25	0		0
Equity	25	↓ (-5)	25	50	↓ (-10)	50	70	↓ (-10)	70	95	↓ (-5)	95
Canadian Equity	17	↓ (-8)	15	28	↓ (-7)	25	38	↓ (-7)	35	45	↓ (-5)	40
U.S. Equity	3	↓ (-2)	5	12	↓ (-8)	15	17	↓ (-3)	20	30		35*
EAFE Equity	5	↑ (+5)	5	5	↑ (+5)	5	5		5*	10		10*
Emerging Equity	0		0	5		5	10		10*	10		10

*Benchmark values have been updated as of April 2025 for the Growth and Aggressive Growth benchmarks. The Growth benchmark moved 5% from EAFE equities to emerging equities. The Aggressive Growth benchmark moved 5% from EAFE equities to U.S. equities.
Source: BMO Nesbitt Burns Private Client Strategy Committee

A key concern is that our proprietary recession probability model[1] has been trending higher since the middle of last year, now sitting at a 49% probability of recession in the next 12 months, and this is before reciprocal tariffs are implemented on April 2. As an aside, even if Trump decides to delay/postpone/reduce/amend (pick your descriptor) tariffs, we believe that the sheer uncertainty he has introduced will have a deleterious impact on future corporate investment decisions. On that point, a very recent CNBC survey shows that 95% of CFOs now expect a recession in the second half of 2025. We understand the argument that sentiment surveys at extremes can be a good contrarian signal, but this is not the recipe for major corporate capital expenditure growth.

Figure 2: S&P 500 Recession Probability Model



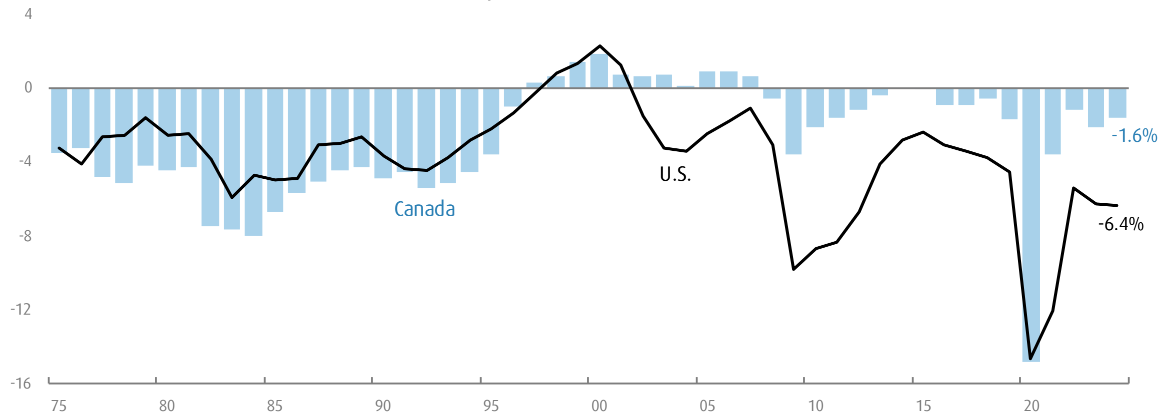
Source: BMO Private Wealth Portfolio Advisory Team, Bloomberg

Our view is that Trump appears entirely too focused on the trade deficit (which he views as the rest of the world "ripping off" America) and not nearly enough on the budget deficit. In a nutshell, the trade deficit is explained by U.S. consumers being the richest cohort humanity has ever seen with a high propensity for buying "stuff". In fact, U.S. household net worth just hit a record $169 trillion in Q4 of 2024 (the comparable figure for Canada is $17.5 trillion, also a record). Conversely, the rest of the world does not have the financial means to buy as many goods and services from the U.S., creating a deficit in the U.S. and a surplus for trading partners. The other important aspect of global trade is that a large proportion of other countries' trade surpluses – with China having the largest by far – have historically been recycled into U.S. Treasury bonds, boosting the U.S. dollar and helping keep U.S. interest rates lower.

The budget deficit is a far greater risk in our view. Yes, the U.S. has been at it for a long time, but the current 6% deficit to GDP is too high given the fact that we are in an economic expansion. Economic orthodoxy would suggest that running a surplus in good times is prudent to keep some dry powder to stimulate the economy when a recession or exogenous shock eventually hits. Were they still alive, legendary economists John Maynard Keynes and Milton Friedman would not give them a gold star for that performance. Having the world's reserve currency offers a country exceptional flexibility, but given the current U.S. foreign policy and potential long-term loss of trust in trade, defense, and aid from developed country allies, it is possible there will be less demand for American debt. Yes, there will still be a "clearing price" for U.S. bonds, but that cost to sell may be higher, meaning higher interest rates, which are also harmful to growth.

[1] Our Recession Probability Model has been running for over 7 years and was extensively back tested. It is a composite of key variables including Yield Spreads (double weight), ISM New Orders, Real Manuf. And Trade Sales, Manufacturing Employment, Chicago Fed National Activity Index and Economic Policy Uncertainty.

Figure 3: U.S. Budget Constraints: The U.S. Has a Sizable Budget Deficit Compared to Canada
This Gives The Great White North Some Flexibility to Offset Tariffs with Stimulus Measures



Fiscal years: % of GDP; Canada FY24/25 - Estimate
Source: Source: BMO Economics, Haver Analytics

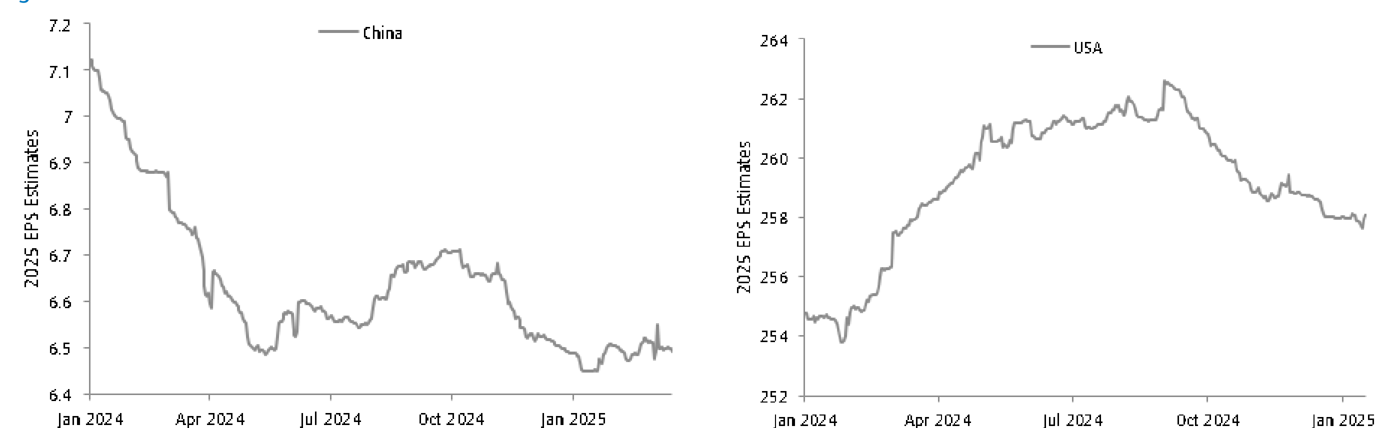
Trump's rapprochement with Russia and his Putin-style rhetoric has also surprised several observers. We submit that Vladimir Putin may not be a good example to follow, at least as far as financial markets go. Russian stocks are all but uninvestable at this point, and the Russian Ruble has depreciated by 240% vs. the USD since 2000 when Putin came to power, even accounting for the recent rally.

Figure 4: U.S. Dollar Per Ruble Since 2000 – Putin May Not be a Great Example to Follow

Source: BMO Private Wealth Portfolio Advisory Team, Factset

2025 Earnings Trends are Stabilizing in China and Deteriorating in the U.S.

Figure 5: China vs. USA 2025 EPS Estimates



Source: BMO Private Wealth Portfolio Advisory Team, Factset

S&P/TSX and S&P 500 Fair Value Estimates

We lowered our fair value estimates for the benchmark S&P/TSX and S&P 500 indices to 27,000 and 5,700 (from 29,000 and 6,500, respectively). Earnings estimates in Canada and the U.S. have been moving lower and we are moderating EPS growth expectations given the clearer risks of recession in North America. We have also increased our discount rate by 50 basis points to account for the growing economic/policy uncertainty for both markets (now at a reasonable 9%).

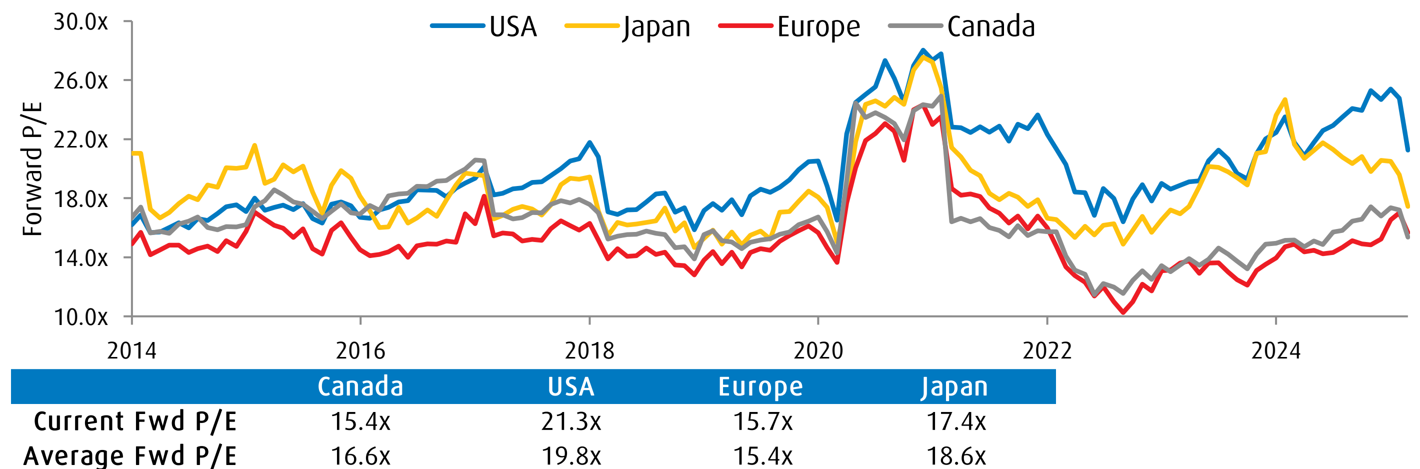
Figure 6: Fair Value Estimates

TSX Fair Value	Present value	% of value	Earnings per share growth	Discount rate	
Period 1 (2025-2029)	7,152.64	26.4%	6%	9.0%	
Period 2 (2030 -2034)	4,719.80	17.4%	4%	9.0%	
Period 3 (2035 -)	15,194.27	56.1%	2%	9.0%	
Rounded Fair Value	**27,000**	100.0%	Next 12 month consensus		1,630
			Implied terminal mult.		13.1 X
Current Price	**25,400**		Long Bond		3.5%
			Historical Equity Risk Premium		4.5%
Upside Potential	**6%**		Additional Risk Premium		1.0%
			Total discount rate		9.0%

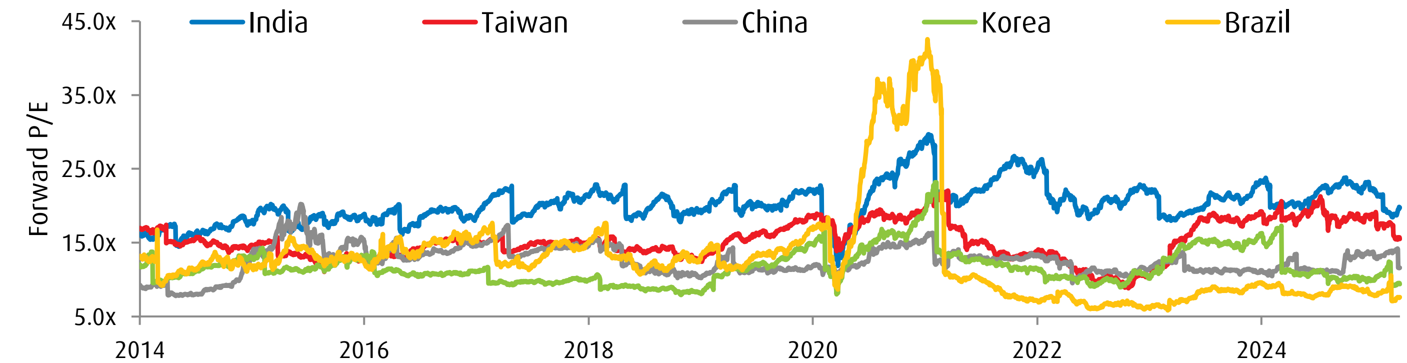
SPX Fair Value	Present value	% of value	Earnings per share growth	Discount rate	
Period 1 (2025-2029)	1,252.17	22.1%	8%	9.0%	
Period 2 (2030-2034)	903.83	16.0%	6%	9.0%	
Period 3 (2035 -)	3,498.88	61.9%	3%	9.0%	
Rounded Fair Value	**5,700**	100.0%	Consensus 2025 EPS		270
			Implied terminal mult.		15.7 X
Current Price	**5,775**		Long Bond		3.5%
			Historical Equity Risk Premium		4.5%
Upside Potential	**-1%**		Additional Risk Premium		1.0%
			Total discount rate		9.0%

Source: BMO Private Wealth Portfolio Advisory Team, Bloomberg

Figure 7: Valuations Are Relatively Inexpensive in Canada, EM and Europe; Very Expensive in the U.S.



	Canada	USA	Europe	Japan
Current Fwd P/E	15.4x	21.3x	15.7x	17.4x
Average Fwd P/E	16.6x	19.8x	15.4x	18.6x



	China	India	Taiwan	Korea	Brazil
Current Fwd P/E	11.6x	19.8x	15.5x	9.4x	7.6x
Average Fwd P/E	12.5x	20.3x	15.3x	11.7x	12.8x

The developed market indices used are as follows: 1) Canada - S&P/TSX; 2) USA - S&P 500; 3) Europe - EUROSTOXX 50; and 4) Japan - Nikkei 225.
The emerging market indices used are as follows: 1) China - Shanghai Composite; 2) India - NIFTY 50; 3) Taiwan - TWSE Index; 4) Korea - KOSPI Index; and 5) Brazil – Bovespa
Source: BMO Private Wealth Portfolio Advisory Team, Factset (Developed), Bloomberg (Emerging)

BMO Economics Macro Update on Europe and Largest Emerging Markets

Europe:

The ECB has cut rates a combined 150 bps so far this cycle, with the most recent 25 bp drop on March 6 to 2.50% widely expected. The central bank still sees the disinflation process being "*well on track*" and that "*monetary policy is becoming meaningfully less restrictive*". That line itself points to fewer rate cuts although there is a potential for more given the trade war has yet to truly ramp up. But now, the Governing Council can take a step back and see how these upcoming tariffs impact inflation and growth and be comforted in knowing that it is not dealing with this alone. There is support coming from Germany and its plan to unleash a 10- or 12-year €500 billion defense and infrastructure spending fund, outside of the constitutional debt brake. In the words of incoming Chancellor Friedrich Merz, he will do "*whatever it takes*" and this massive fund will have a multiplier effect of, by some estimates, 1-2x. That suggests the economy could grow about 1.5% on the back of this spending, which would be welcomed after Germany's economy contracted for two years in a row. So, this fund, along with the European Commission's €150 billion loan-for-weapons fund, will help the ECB do its job.

China:

The Middle Kingdom's economy finished 2024 on a positive note, which is not too surprising given the late-September policy blitz. Headline real GDP rose a better-than expected 5.4% year-over-year in Q4.

Thus, the Chinese economy once again met the government's original full-year target of "around 5.0%". The good news is that China's economy gained some momentum to begin the new year, especially when compared to the struggles in the summer. This places it in a much better position to cope with an intensifying trade war with the U.S. or broader rise in global protectionism. The bad news is that some key economic improvements witnessed of late may prove to be temporary. Of prominence, the big pickups in industrial production and merchandise exports, which grew 6.2% year-over-year and 10.7% year-over-year in December, may have been mainly driven by a desire of overseas companies to front run potential Trump tariffs. Meanwhile, the (modest) improvement in retail sales, up 3.7% year-over-year, is being largely supported by consumer trade-in policies for household appliances and electric vehicles. It bears mentioning that the government recently expanded the list of products that can benefit from the scheme (including microwave ovens, dishwashers, etc.) and there are reports that digital goods, such as tablets and smartwatches, could also receive subsidies. We view these subsidies as Beijing's equivalent to giving cash handouts.

India:

Political and Social Stability

The domestic political landscape remains stable. Prime Minister Narendra Modi of the conservative Bharatiya Janata Party (BJP) secured a third five-year term in the 2024 general elections. The unexpectedly tight results saw the BJP lose its absolute majority, winning only 240/543 seats—a loss of 63—in the Lok Sabha (lower house). Nevertheless, the BJP retained a firm grip on power through the broader NDA coalition, which secured 293 seats overall against the opposition INDIA alliance's 234. The BJP is regrouping after the setback with wins at the state level, notably including the national capital of Delhi, where it will return to power for the first time in 27 years. The rest of the year is light on the electoral calendar, which bodes well for the reform agenda. Modi is focused on promoting investment and supporting the middle class while also shrinking the fiscal deficit. India's protectionist trade policies are in the spotlight following U.S. threats to impose reciprocal tariffs on trading partners. Following their White House meeting in February, Modi pledged to step up bilateral trade, including increased energy and military purchases from the U.S. Otherwise, relations with the U.S. are expected to remain strong under Trump 2.0 as Modi enjoys a good personal relationship with the president and India is an important strategic ally for the U.S. in Asia. The country's average World Bank governance score was unchanged at the 48th percentile in 2023.

Economic Stability and Performance

India's economy slowed in the current fiscal year (FY24/25, ending March 2025) after a very strong three-year post-pandemic rebound during which growth averaged 8.8%. Private consumption has been the main laggard amid high interest rates and labour market weakness (i.e., tepid job creation and stagnant real incomes). Sizeable income tax relief included in the latest budget plus lower inflation and monetary easing should bolster urban consumption in the coming period, while continued strong agriculture sector performance will underpin rural demand. As such, after slipping to just 5.4% year-over-year in the July-September quarter, real GDP growth is expected to rise to 6.3% for the full year and around 6.5% in FY25/26. However, the outlook is clouded by heightened geopolitical and trade policy uncertainty (namely, reciprocal tariffs on U.S. imports), which could weigh on private investment and exports. Meanwhile, the government's recent approach of boosting growth via infrastructure spending is running up against budgetary constraints and a dearth of shovel-ready projects. The headline CPI stood at 4.3% year-over-year in January while core inflation was just 3.7%, near the midpoint of the Reserve Bank of India's (RBI) 2%-6% target range. The RBI initiated an easing cycle in February (-25bps to 6.25%) and is expected to cut by another 50bps this year. While the statement highlighted a neutral stance, the new governor appears willing to allow further rupee depreciation in order to support growth.

South Korea

Political and Social Stability

South Korea was unexpectedly hit by domestic political turbulence in early December following the quick revocation of President Yoon Seok-youl's declaration of martial law (citing threats of pro-North Korean forces). Yoon and the former acting president Han Duck-soo were subsequently impeached on December 14th and 27th, respectively. However, the outcomes remain highly uncertain as the Constitutional Court has up to six months to decide whether to sustain or reject the impeachment votes. Note that while this is the first time an arrest warrant has been issued for a sitting president, it is not the first time a South Korean president has been impeached, with the court rejecting the impeachment of Roh Moo-hyun in 2004 but accepting that of Park Geun-hye in 2016. If Yoon's impeachment is upheld, a new presidential election must be held within in 60 days. If he avoids impeachment, the next election is not due until May 2027, but it's important to note that Yoon cannot run for another term. Otherwise, the current escalation in political risk is unlikely to have a major impact on economic policymaking, particularly fiscal policy where pressure for consolidation remains strong. Meanwhile, it seems reasonable to believe that South Korea's average ranking in the World Bank's Governance Indicators, which edged up to the 80th percentile in 2023 (previously 79th), may suffer down the road (though most likely in the 2025 result). Unsurprisingly, the metric for Political Stability and Absence of Violence remains a longstanding source of weakness (68th) due to geopolitical tensions with North Korea. Tensions are not going away anytime soon as Pyongyang remains intent on provoking Seoul/Washington.

Economic Stability and Performance

The domestic political turmoil is unlikely to have significant implications for Korea's economy in 2025. Nonetheless, it will dampen both business and consumer sentiment in the near term. On the flip side, the manufacturing sector is likely to continue benefiting from a favourable external environment, notably greater efforts by China (Korea's largest export market at 19.2% of total merchandise shipments) to boost its economy. Meanwhile, it does not appear that Korea is in the direct firing line of President Trump's potential tariff hikes, although that risk cannot be completely discounted since it has a large bilateral trade surplus vis-a-via the U.S. (similar to Canada and Japan). As a result, we are projecting Korea's real GDP growth to slow to 1.5% in 2025, compared to an estimate of 2.1% in 2024. Growth is expected to recover to 2.0% in 2026, which would be in line with the economy's medium-term potential. The job market remains fairly healthy though the seasonally-adjusted unemployment rate jumped to 3.7% in December (vs. 2.7% in November), which is largely being viewed as a temporary spike. Meanwhile, consumer price inflation, at 1.9% year-over-year in December, remains in line with the medium-term inflation target of 2.0%. This will allow the Bank of Korea (BoK) to lower its benchmark policy rate a further 50 bps in 2025 after it cut by 50 bps to 3.0% in 2024.

Brazil

Political and Social Stability

Fears that leftist Luiz Inácio Lula da Silva would engineer a sharp leftward shift from the prior administration's orthodox/pro-business economic policies have not come to pass. A combination of institutional checks and balances and financial market forces has prevented Lula from doing so. Notably, Lula's Workers' Party and allies simply do not have enough seats in both houses of Congress to pass new legislation as they see fit. Nevertheless, whether the Lula Administration will be able to successfully comply with its new fiscal framework/rule remains uncertain, which helps explain why Brazil's real has been among the worst-performing major currencies against the greenback this year. Otherwise, it appears that Lula has reverted back to the decades-old principle of nonalignment, which is intended to serve the country's best interests in an increasingly multipolar world. Or put another way, Brazil now wants to be friends with everyone, including China, which may lead to a more contentious relationship with the U.S. Brazil's polarized political landscape (fragmented Congress with over 20 parties represented) and high income inequality are reflected in the country's relatively low average ranking in the World Bank's six key Governance Indicators, which slipped to the 39th percentile in 2023 (vs. 40th in 2022 and a peak of 57th in 2010).

Economic Stability and Performance

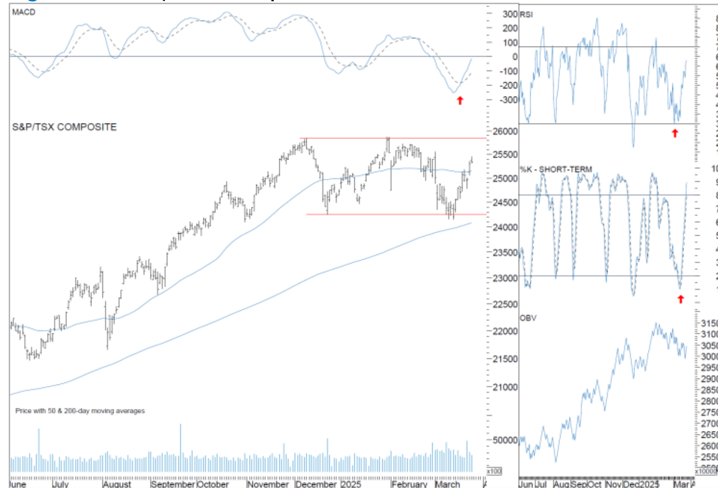
Brazil's economic resilience has been a pleasant surprise, driven mainly by healthy private consumption—aided by fiscal transfers, a hike in the minimum wage and a tight labour market—and rising fixed investment. Notably, the unemployment rate fell to 6.2% in 3-mma terms in October, the lowest since early 2015 thanks in part to jobs created in the gig/new economy and prior labour market reforms. We are forecasting real GDP, up 3.3% year-over-year in the first three quarters of 2024, to post growth of 3.2% for the full year and 2.0% in 2025 (vs. +2.9% in 2023). Moreover, the IMF recently upgraded its medium-term potential growth projection by 0.5 ppts to 2.5% thanks to the efficiency-enhancing value-added tax reform and the acceleration in hydrocarbon production. The strength of the economy helps explain why taming inflation has proven to be more difficult than the central bank (BCB) initially envisioned. Headline CPI rose 4.8% year-over-year in October, up from a recent a low of 3.7% in April and, more critically, is above the BCB's year-end inflation target of 1.50%-to-4.50%. As a result, the BCB has been forced to reverse course on monetary policy this year and raise the Selic rate by a combined 75 bps to 11.25% at its last two meetings. Note prior to September's hike, the BCB had cut by 325 bps to 10.5% over the prior 12 months. Both Brazil watchers and financial market private indicators project the Selic rate to rise another 150-to-250 bps in the coming year.

Technical Analysis

Short-Term Rebound Could Have Legs, But Medium- and Long-Term Indicators are Deteriorating

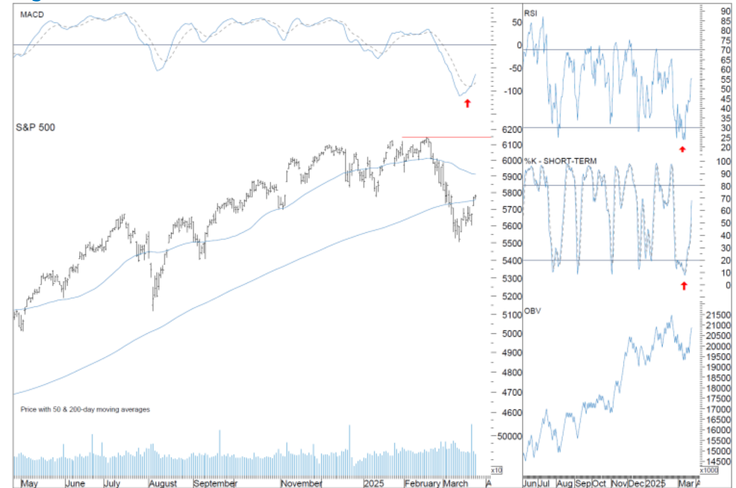
North American equity markets recently completed a textbook medium-term corrective process which played out mostly in line with our expectations as per our recent strategy comments. All the major averages tested their rising 200-day moving averages to some degree and have subsequently reversed back to the upside accompanied by new buy signals in our short-term timing model.

Figure 8: S&P/TSX Composite



Source: BMO Nesbitt Burns Technical Analysis

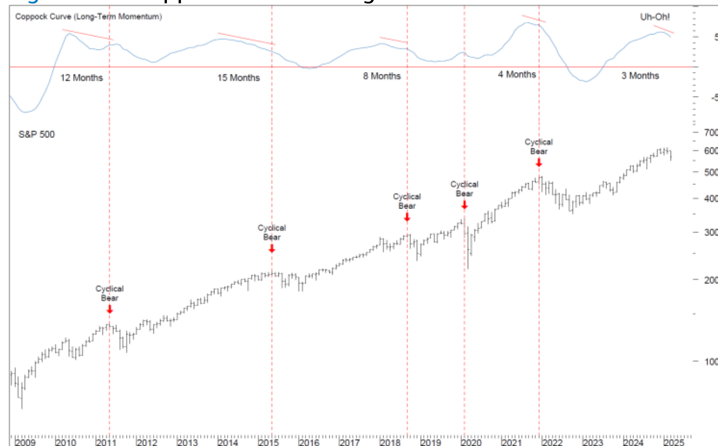
Figure 9: S&P 500



Source: BMO Nesbitt Burns Technical Analysis

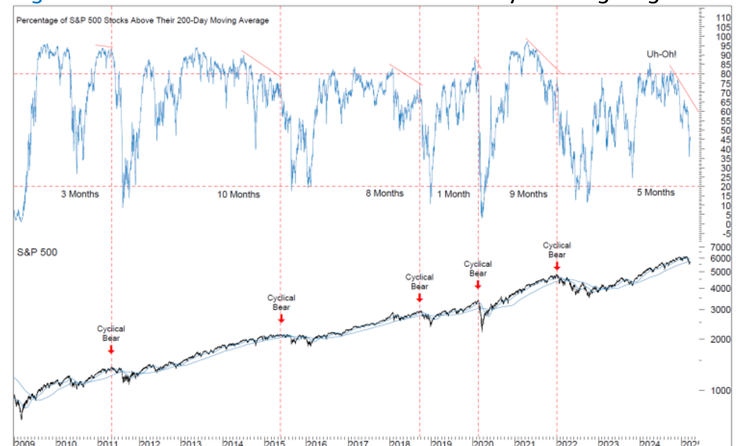
In terms of upside potential, we expect both the S&P/TSX Composite and the S&P 500 to challenge their early 2025 all-time highs (TSX: 25,875, SPX: 6,147). Breakouts there would open new upside targets of 27,605 and 6,790, respectively. That's the good news. The bad news is that target of 6,790 on the S&P 500 seems a bit too ambitious given the signs of deterioration in the indicators we refer to as our "canaries in the coal mine." These are the indicators that typically roll over and go negative 6-12 months ahead of real bear markets (declines of 20% or greater) and what we are seeing now is consistent with prior bull market peaks that have occurred since the credit crisis. For example, long-term momentum gauges have recently rolled over and gone negative, the percentage of S&P 500 stocks trading above their long-term moving averages has also been deteriorating for a few months now and other market-based measures of economic activity have also not confirmed the recent all-time highs in the S&P 500.

Figure 10: Coppock Curve – Long-Term Momentum



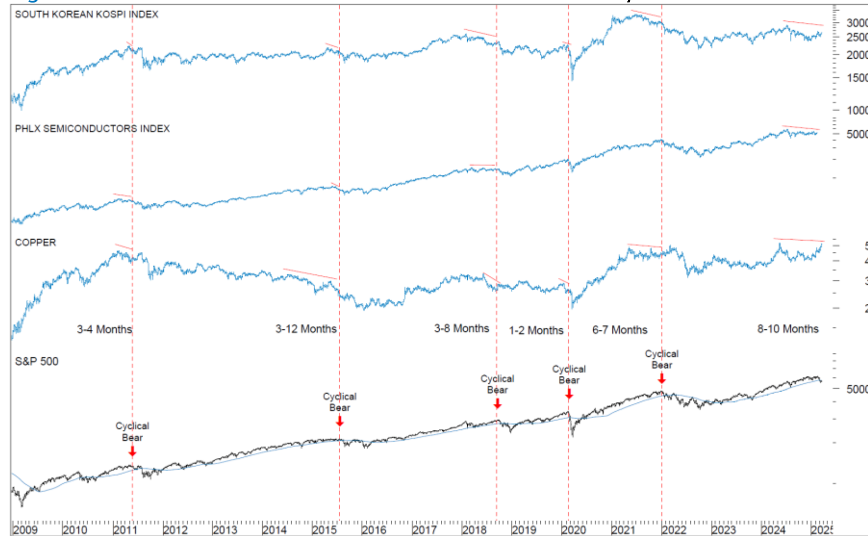
Source: BMO Nesbitt Burns Technical Analysis

Figure 11: % S&P 500 Stocks Above 200-Day Moving Avg.



Source: BMO Nesbitt Burns Technical Analysis

Figure 12: Market-Based Measures of Economic Activity



Source: BMO Nesbitt Burns Technical Analysis

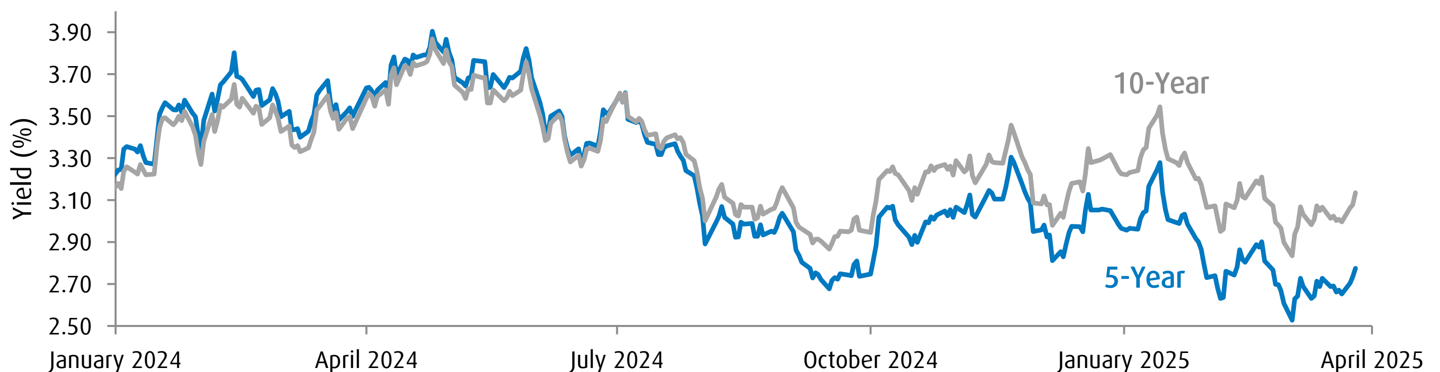
Fixed Income

The primary objective of this asset allocation recommendation is to reduce overall exposure to risk assets, but this is not a strong conviction call for lower interest rates necessarily. This is why we recommend splitting the proceeds from our equity downgrade between cash and fixed income in balanced accounts to raise allocations to benchmark weight. If the decision was to only sell USD-denominated equities, then holding cash would make sense considering the attractive U.S. short-term rates around 4%+. But in Canada, cash rates are no longer as attractive, reflecting the lower growth/inflation path and the significant easing from the Bank of Canada ("BoC") over the last nine months. At the same time, considering the historically wide levels between Canada and U.S. yield curves (lower Canadian rates), it reduces the attractiveness of our bond market, supporting our recommendation not to overweight the fixed income allocation.

While the BoC did lower rates in March and may be forced to do so again if the trade war persists, it has not signaled an interest in cutting rates further. This means that apart from the higher volatility stemming from uncertainty, the current trading range may hold, and the odds are that investors will continue to clip their coupons in the near future until this trade war unfolds, intensifies, or is resolved. Using the short- and mid-term Canadian bond indices as an indication, the coupon rates would be above 3%, which is slightly better than what could be expected to earn on CAD cash.

Objectively, the prospect for a prolonged trade war that would negatively impact risk assets would prompt the BoC, and potentially the Federal Reserve ("Fed"), to further ease policy rates and lead short-term federal bond yields lower. However, this may also come with added inflationary pressure, effectively putting a floor on how low government bond yields can drop, especially longer-term rates.

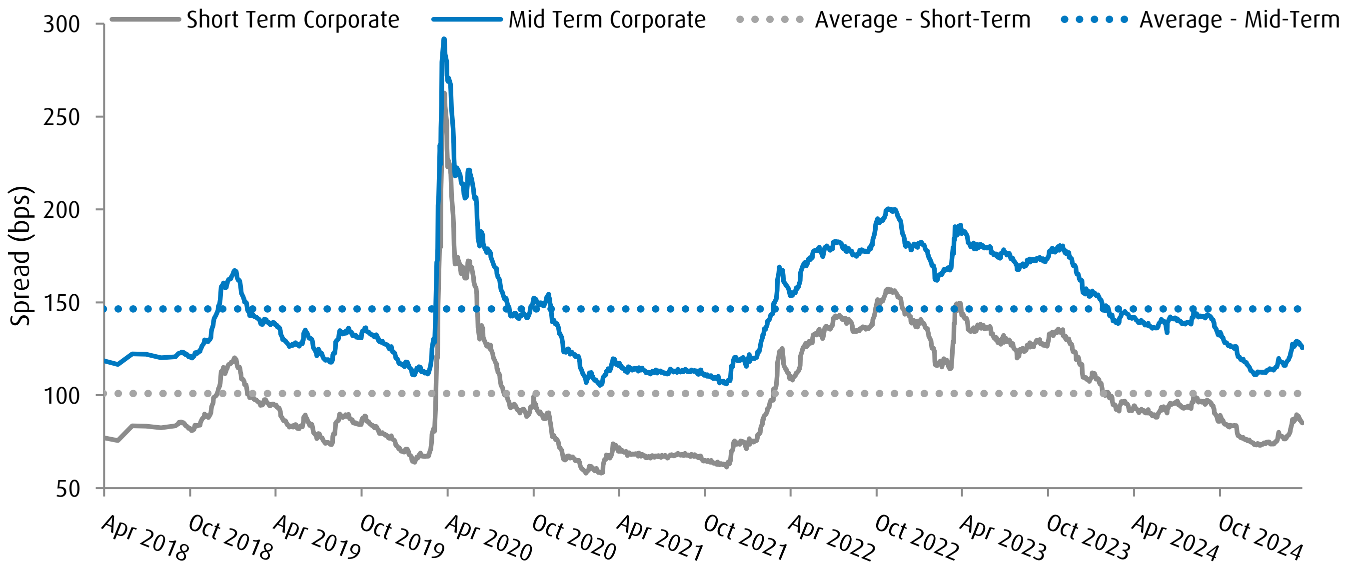
Figure 13: Canada 5- and 10-Year Yields



Source: BMO Private Wealth Portfolio Advisory Team, Bloomberg

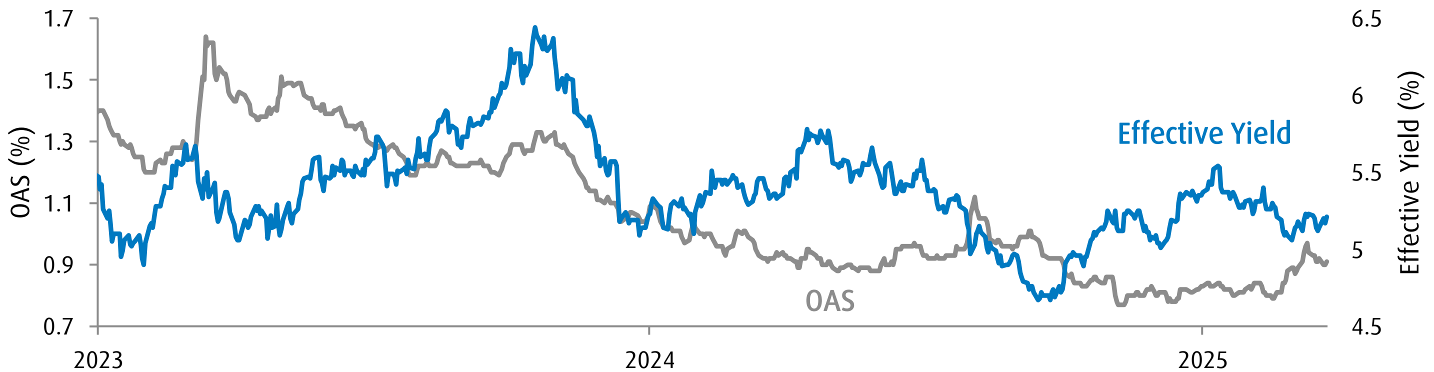
Of note, despite all the uncertainty and potential risks to the economy, Canadian yields – while volatile – have not declined significantly especially in the mid- to long-term sector. Since inauguration day, 5- and 10-year Canada rates are down less than 25 and 15 basis points respectively, while long-term rates are practically unchanged (down 5 bps). Granted, economic risks are rising, but the bond market does not seem willing to price out the potential inflation risk and may not even be positioned for potential upside CPI surprises like we recently had in Canada. In addition to the impact on prices from tariffs and a weaker currency, the prospect for accelerated stimulus measures from our next Federal government could add inflationary pressure. Hence our recommendation to focus bond exposure to the short- to mid-term sectors and underweight exposure to longer, more interest rate-sensitive maturities.

Figure 14: Canada Corporate Short- and Mid-Term Yield Spreads



Source: BMO Private Wealth Portfolio Advisory Team, Bloomberg

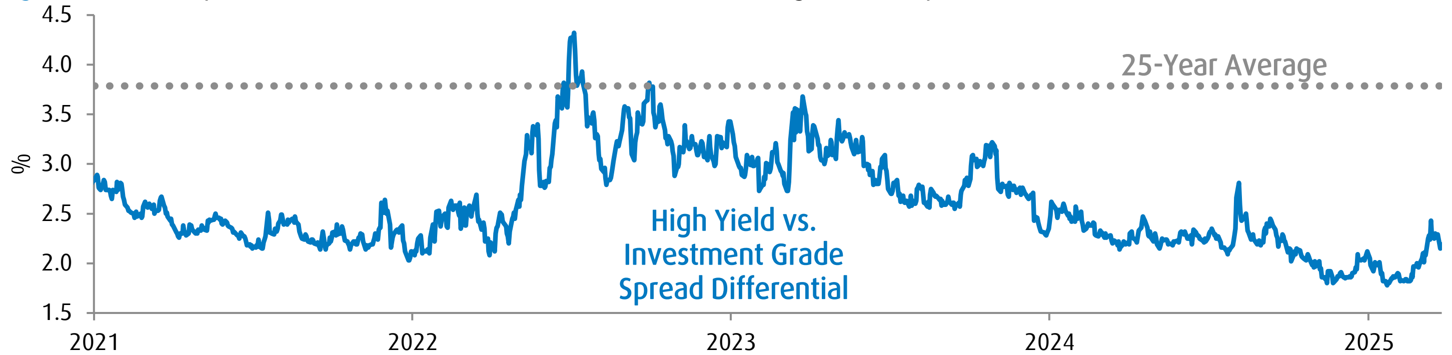
Figure 15: U.S. Corporate Index Credit Spreads (OAS) and Effective Yield



Source: BMO Private Wealth Portfolio Advisory Team, FRED

The same can be said of corporate credit markets. While we have seen some signs of concern lately as the Canadian and U.S. credit spreads hit their widest level in 4 months, the conditions generally remain well balanced with normal secondary market activity and satisfactory demand for new supply without significant concessions. Even the compensation offered to venture in lower credits, moving from the investment grade sector (rating BBB Low and higher) to the high-yield (junk) bond sector (rated BB High and lower) remains tight compared to historical experience. Recent new issue deals in the U.S. were even upsized to meet the strong demand.

Figure 16: Yield Spread Differential Between Investment Grade and High Yield Corporate Bonds



Source: BMO Private Wealth Portfolio Advisory Team, Bloomberg

Having said that, it raises the question whether the current yield compensation to add corporate exposure is adequate and if the market is not a bit complacent. Trade policies can seriously damage some corporate earnings and balance sheets, and the current uncertain environment can significantly alter strategies that may not be fully reflected in spread levels. For corporate bond investors, this means that lower interest rates could be met by wider spreads and impact performance. In our opinion, this supports a more defensive approach to credit, with a focus on the short-term sector lower beta and higher-quality bias (rated A- and higher). Considering the recent developments, our top recommendation would include the higher-rated issuers in the pipeline sector and for obvious reasons (i.e., tariffs) we would avoid exposure to the auto sector in the near term. For investors that may favor an ETF approach over individual bonds, there is a fixed income ETF managed by BMO that focuses on higher quality corporate bond (ticker: ZQB) that offers a good combination of an attractive yield and short duration which fits well into our recommended defensive strategy.

Note: Due to the early publication, benchmark figures are not available. Please refer to our Benchmarking report on SharePoint for applicable data.

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