

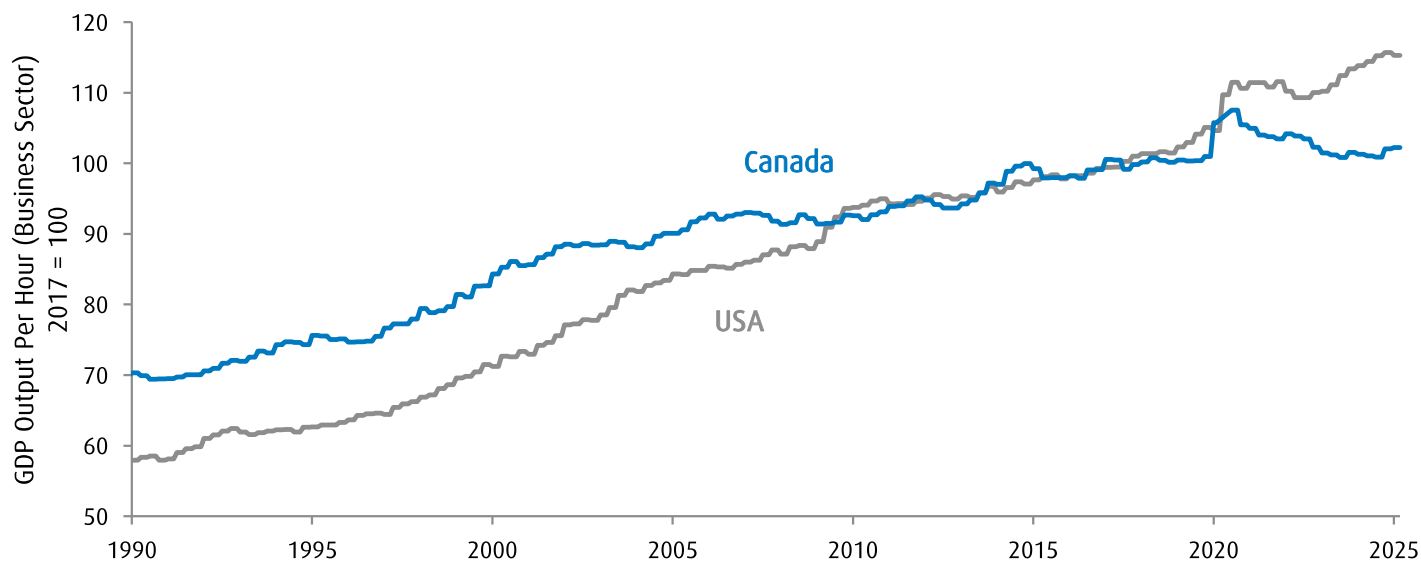
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## First Gas at LNG Canada: A Good Omen for Canada’s Investment Landscape

### Maintaining a Slight Overweight Recommendation on Canadian Stocks and Slight Underweight Position on U.S. Equities

The LNG Canada facility in British Columbia has produced its first liquefied natural gas for export. This has positive implications on several fronts. First, it shows that Canada can still build massive infrastructure projects roughly on time and within budget in partnership with private companies. Second, it diversifies our gas exports toward Asia and reduces our dependence on the U.S. Lastly, it is a tangible step toward achieving Prime Minister Carney’s stated goal of making Canada an energy superpower. The upshot is that after a “lost decade”, Canada could once again become attractive for international investors with positive implications for longer-term growth and productivity trends. As our readers know, we consider Canada’s lagging productivity vs. our neighbours to the South to be one of our greatest handicaps. Productivity growth is one of the holy grails of stock market performance as it contains inflation while increasing the potential growth rate and corporate profitability by extension.

Figure 1: Productivity – Canada vs. U.S.



Source: BMO Private Wealth Portfolio Advisory Team, BLS, StatCan, Factset

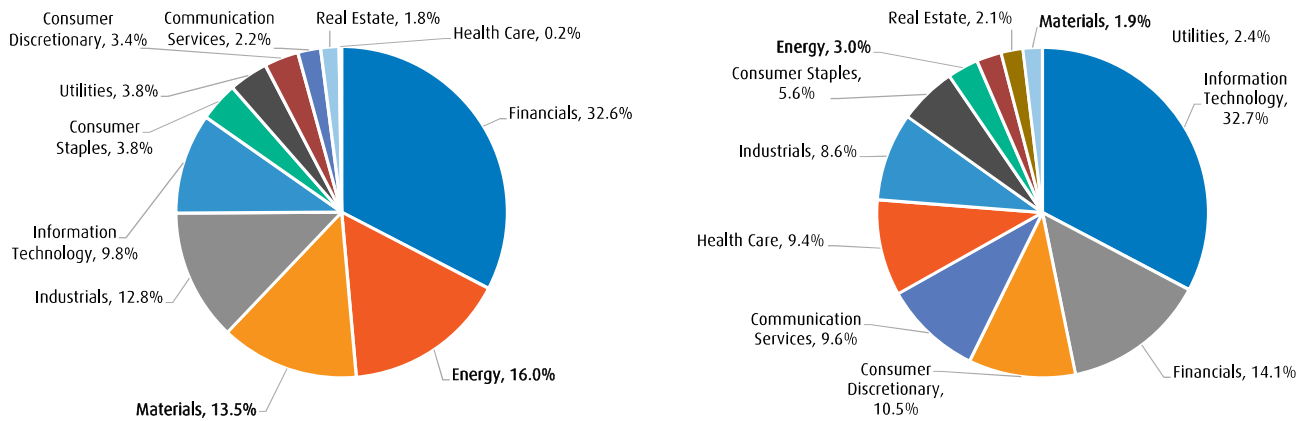
We are starting to see some encouraging trends in commodity prices, particularly precious metals, copper, and natural gas. While oil briefly spiked on Middle Eastern tensions, the fundamental supply/demand outlook is still relatively weak. On balance, though, strength in commodities has historically been associated with relative strength for the Canadian dollar and for the S&P/TSX. At this point, our team’s conviction is higher for gold and natural gas, and we would encourage investors to look at high-quality stocks in those areas (i.e., strong balance sheets, low cost of production, productive assets in politically safer regions, and high free cash generation).

Figure 2: 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                 |
| Fixed Income    | 75                    | 70                | 45                    | 45                | 25                    | 25                | 0                     | 0                 |
| Equity          | 25                    | 25                | 50                    | 50                | 70                    | 70                | 95                    | 95                |
| Canadian Equity | 17                    | 15                | 28                    | 25                | 38                    | 35                | 45                    | 40                |
| U.S. Equity     | 3                     | 5                 | 12                    | 15                | 17                    | 20                | 30                    | 35                |
| EAFE Equity     | 5                     | 5                 | 5                     | 5                 | 5                     | 5                 | 10                    | 10                |
| Emerging Equity | 0                     | 0                 | 5                     | 5                 | 10                    | 10                | 10                    | 10                |

Source: BMO Nesbitt Burns Private Client Strategy Committee

Figure 3: The S&P/TSX (Left) is Far More Energy and Mining Focused Than the S&P 500 (Right):

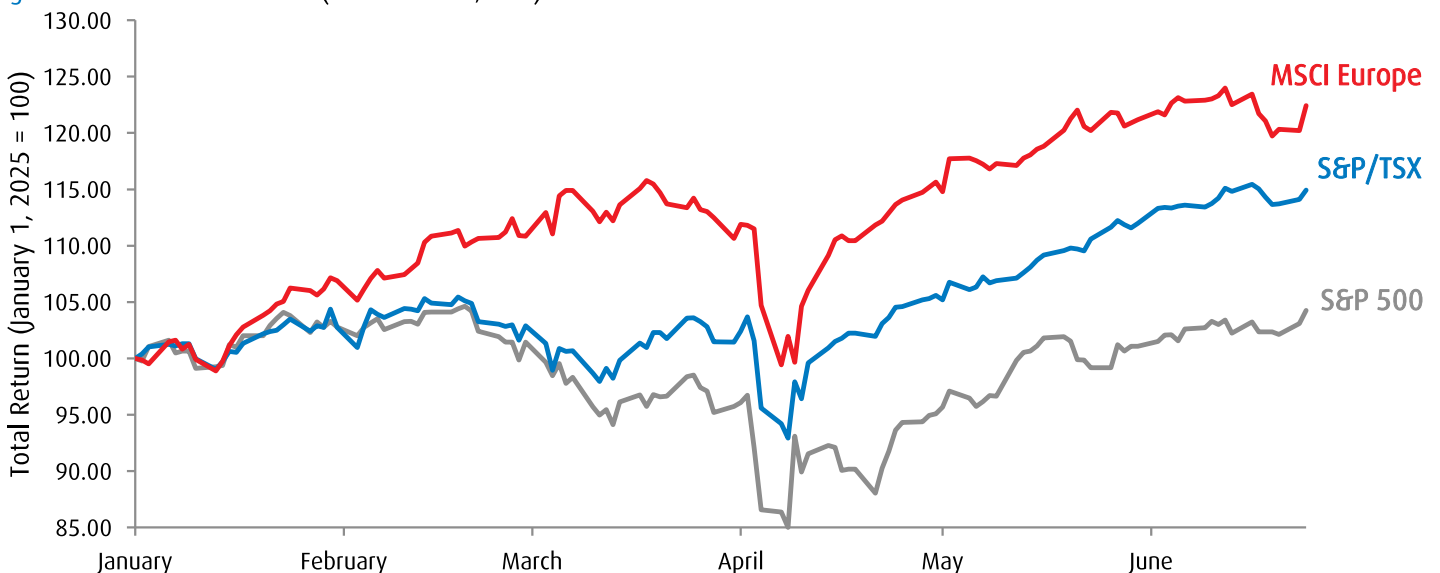


Source: BMO Private Wealth Portfolio Advisory Team, Factset

### Inflation Risks

While the rebound from “Liberation Day” has been impressive, the S&P 500 is significantly underperforming the S&P/TSX and European stocks in U.S. dollar terms. We believe this is due to tariff uncertainty and the fact that inflation risk remains, especially in the U.S.

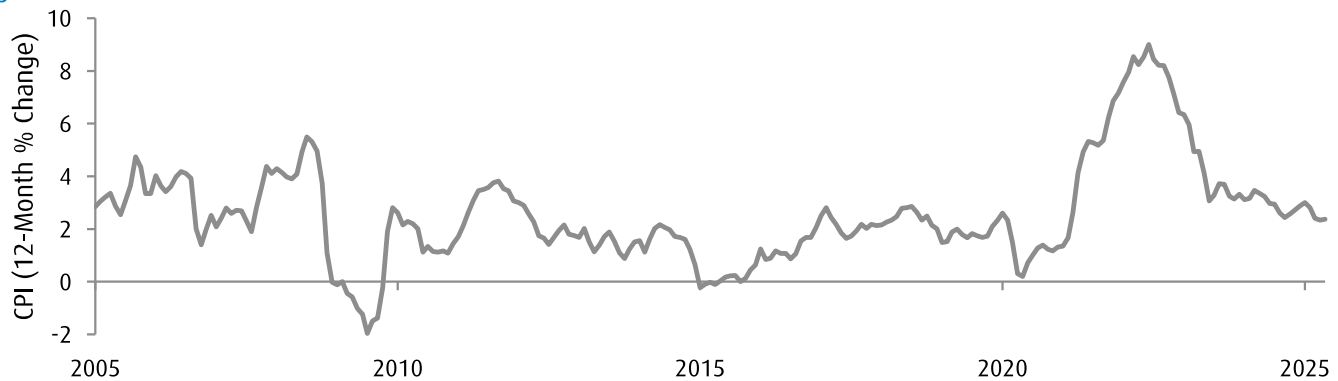
Figure 4: Index Performance (Year-To-Date, USD)



Source: BMO Private Wealth Portfolio Advisory Team, Factset

Tariffs have had a more muted impact to date than many expected (including us) but we think it is too early to declare victory on that front. Inflation data in the next few months will be important for markets since that is when tariffs will really start to be felt by manufacturers, retailers, and consumers. The high level of “pre-buying” has largely shielded them to date, but we suspect that Wal-Mart and other companies will have no choice but to raise prices substantially to avoid seeing their profit margins plummet. Everything will depend on the level of increase. In other words, the market can probably digest a sub-3% plateau but we do not believe the S&P 500 is discounting something much higher than that at this point.

Figure 5: U.S. CPI

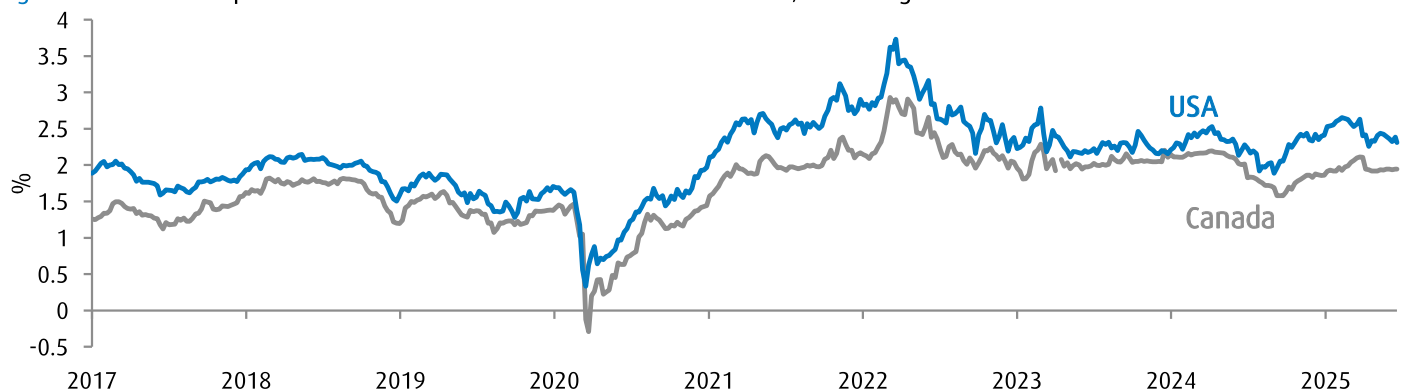


Source: BMO Private Wealth Portfolio Advisory Team, BLS, Factset

The bond market reaction will also be crucial with the U.S. 30-year having already breached the psychologically important 5% barrier earlier this year while the benchmark 10-year rose above 4.5%. The housing market has been struggling for a while, but our rule of thumb is that equity valuations get negatively impacted above the 5% level (on 10-year bonds). The Federal Reserve is expected to remain on hold to combat higher inflation from tariffs while the economy slows, but later this year cut rates by as much as 50 basis points. As for Canada, the BoC is also holding rates steady to fight inflation despite a slowing economy, but each meeting will be heavily dependent on the latest CPI report. Finally, credit spreads in Canada have returned to multi-year tight levels as credit concerns are muted.

Labour inflation could be another driver of inflation, but over a longer time frame. Many industry leaders in the U.S. are already reporting a lack of qualified workers<sup>1</sup> as a key business risk. This problem could be compounded if deportations<sup>2</sup> continue to accelerate. This would be especially problematic in the large agricultural, construction, leisure, and senior care industries.

Figure 6: Inflation Expectations in the U.S. Remain Somewhat Elevated; Advantage Canada on that Front



Source: BMO Private Wealth Portfolio Advisory Team, BLS, Factset

<sup>1</sup> A report from Deloitte and the Manufacturing Institute in late 2024 noted that manufacturers could need as many as 3.8 million new workers by 2033. Roughly 1.9 million of those could go unfilled if current labour gaps remain unsolved.

<sup>2</sup> The Trump administration has claimed that around 140,000 people had been deported as of April 2025, though some estimates put the number at roughly half that. This is not yet a large number relative to the size of the 170MM U.S. labour force but it bears watching.

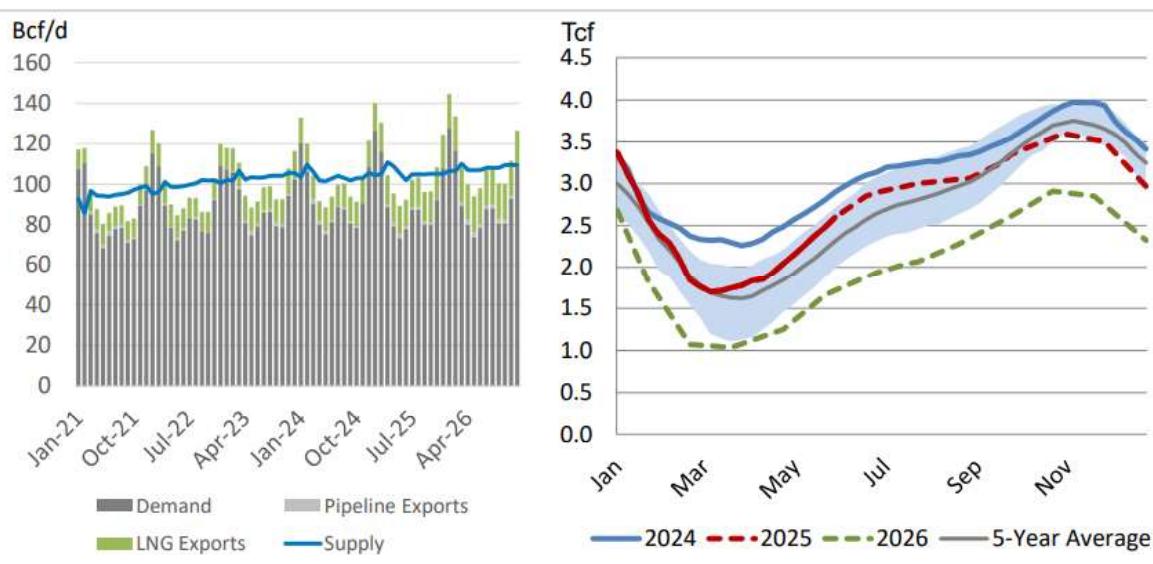
## Commodities Showing Signs of Life

### Natural Gas Outlook

As noted by Oil & Gas analyst Randy Ollenberger: on the gas front, Henry Hub prices have maintained strong momentum from Q1/25, with the weakness in oil prices providing some tailwind. In Canada, AECO prices continue to be disconnected from other benchmarks, with significant anticipation for the LNG Canada Phase 1 ramp-up to materially draw on high inventories. Incorporating first quarter results and updated near-term commodity prices, we continue to expect robust free cash flow generation from the Canadian oil and gas group in 2025 and 2026. At the current strip, we anticipate our coverage group (excluding restricted names) will generate approximately \$28.4 billion (8.4% yield) in free cash flow in 2025 and roughly \$27.6 billion (8.4% yield) in 2026.

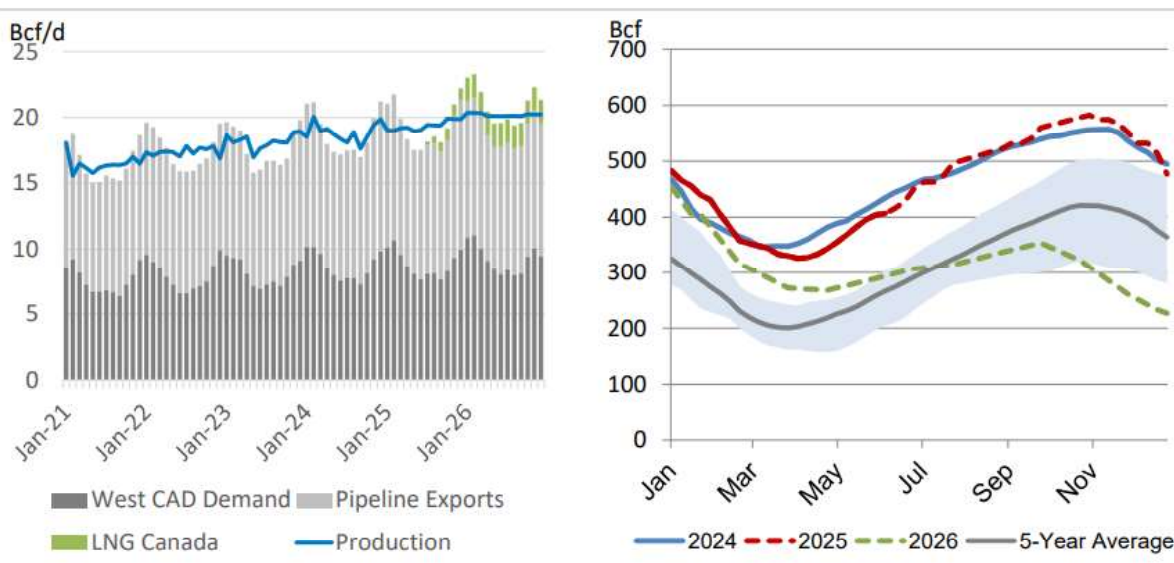
Most importantly, the U.S. and Canadian gas markets are expected to be undersupplied in 2026 when factoring in LNG exports. This should continue to put upward pressure on prices.

Figure 7: U.S. Gas Market



Source: BMO Capital Markets

Figure 8: Canada Gas Market

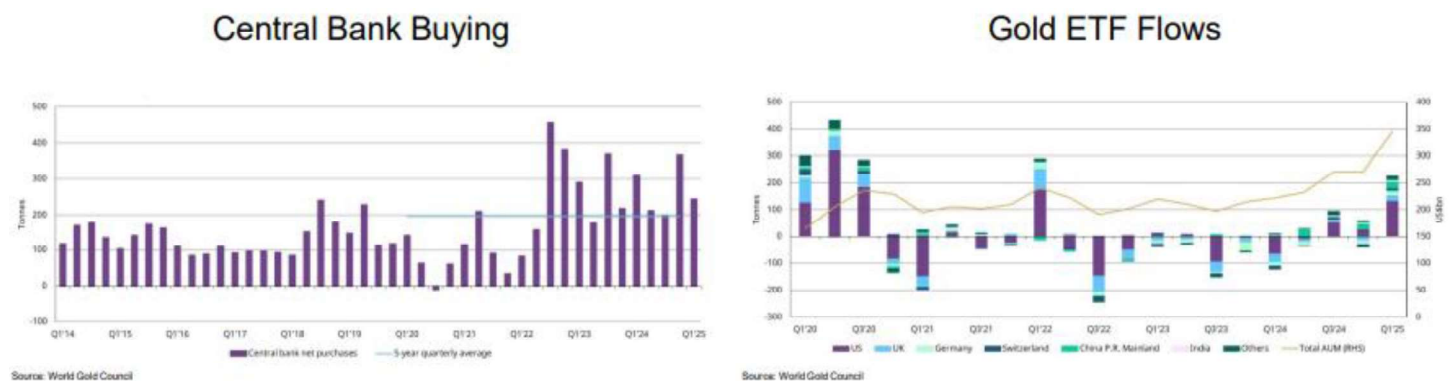


Source: BMO Capital Markets

### Gold Outlook (From the BMO Capital Markets Mining Team)

In summary, given its unique set of demand characteristics, gold has always required a different framework for market analysis. However, over various periods of time, certain factors have been more dominant than others. Gold has traditionally correlated with real rates, but with this trend now broken, we are looking at a new era for gold. In our view, this looks to be defined by global shifts, with the most pertinent being China’s increasingly aggressive push to de-dollarize trade. We do not see global financial systems as being fully prepared for this, and hence gold is once more being pulled back into the monetary system. This shift has, in our view, been a key reason in gold trading at a consistent premium to the cost curve over the past few years. While financial markets will adapt in time, and the need for gold may again be alleviated, for the coming years we expect strong emerging market support for gold prices, particularly as there is no clear solution to the U.S. deficit.

Figure 9: Gold Central Bank Buying & ETF Flows



Source: BMO Capital Markets

Gold companies have had a track record of margin erosion, but costs are stabilizing, resulting in increased optimism for additional free cash flow. This explains the catch-up in performance for gold stocks which have historically underperformed bullion.

The Portfolio Advisory Team recently launched a new quantitative model that tracks sales, earnings, and free cash flow momentum (i.e., the increase in estimates from analysts). Interestingly, seven of the top 10 ranked equities in the entire S&P/TSX are precious metal stocks. Historically, there is a very strong correlation between increasing momentum (especially free cash flow) and stock performance.

Figure 10: Portfolio Advisory Team Quantitative Model Flagging Gold Stocks

| Rank | Ticker | Name                                  | Sector      | Industry  | 1-Year Price Return | EV/EBITDA (FY1) | P/E (FY1) |
|------|--------|---------------------------------------|-------------|---|---------------------|-----------------|-----------|
| 1    | *K     | Kinross Gold Corporation              | Materials   | Metals & Mining                                       | 107.0%              | 5.8x            | 13.1x     |
| 2    | *NGD   | New Gold Inc.                         | Materials   | Metals & Mining                                       | 153.5%              | 5.6x            | 11.9x     |
| 3    | *AEM   | Agnico Eagle Mines Limited            | Materials   | Metals & Mining                                       | 87.8%               | 9.2x            | 19.0x     |
| 4    | *CPX   | Capital Power Corporation             | Utilities   | Independent Power and Renewable Electricity Producers | 38.7%               | 7.9x            | 17.3x     |
| 5    | *WDO   | Wesdome Gold Mines Ltd.               | Materials   | Metals & Mining                                       | 77.8%               | 4.9x            | 9.8x      |
| 6    | *OGC   | OceanaGold Corporation                | Materials   | Metals & Mining                                       | 110.5%              | 4.2x            | 8.7x      |
| 7    | *NA    | National Bank of Canada               | Financials  | Banks   | 27.7%               |                 | 12.3x     |
| 8    | *AGI   | Alamos Gold Inc.                      | Materials   | Metals & Mining                                       | 71.1%               | 10.4x           | 20.7x     |
| 9    | *LUG   | Lundin Gold Inc.                      | Materials   | Metals & Mining                                       | 267.9%              | 11.6x           | 20.3x     |
| 10   | *PMZ.U | Primaris Real Estate Investment Trust | Real Estate | Retail REITs  | 12.2%               | 12.8x           | 10.9x     |

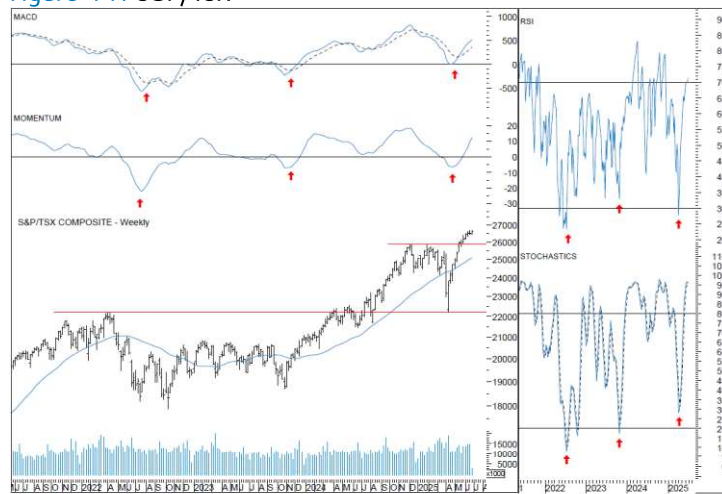
Source: BMO Private Wealth Portfolio Advisory Team

### Technical Analysis

June was mostly a non-event for North American equity markets as major averages such as the S&P/TSX Composite and S&P 500 are within 1% of where they started the month as we summarize our thoughts here close to July. At face value, that’s not great, but overall we view the recent choppy, overlapping price action as nothing more than a much-needed pause following one of the biggest ten-week rallies in those indexes in the past 25 years. Our medium-term timing model (which measures 3-6+ month trends) remains bullish and supportive of more upside so any weakness that develops through the

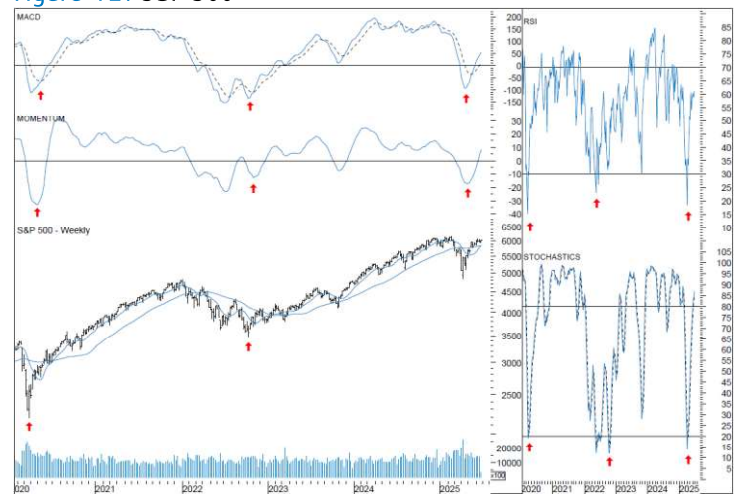
usual “summer doldrums” in July will likely only be temporary and met with further new highs through the second half of the year. For example, weekly momentum gauges for both the S&P/TSX Composite and the S&P 500 remain “4 for 4” bullish after giving new buy signals in April from the steepest oversold readings since the 2022 bear market low.

Figure 11: S&P/TSX



Source: BMO Nesbitt Burns Technical Analysis

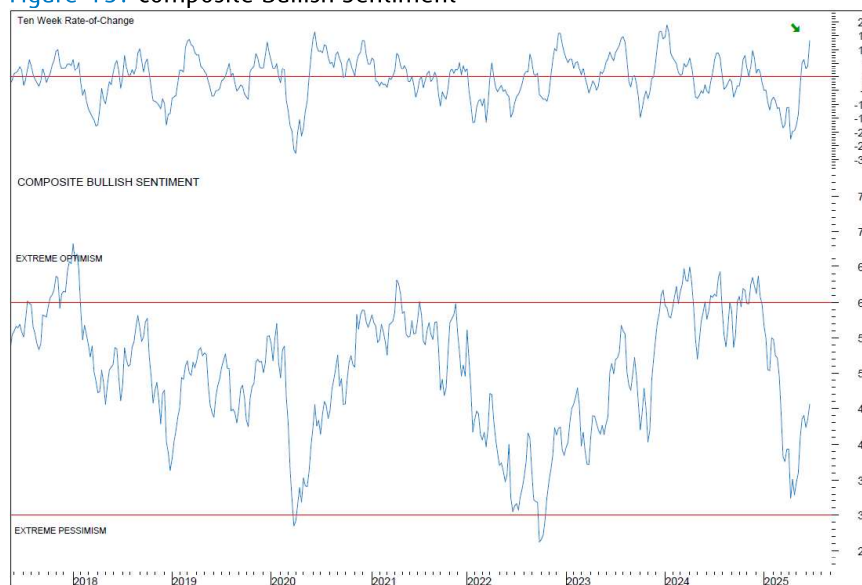
Figure 12: S&P 500



Source: BMO Nesbitt Burns Technical Analysis

At the same time, bullish sentiment continues to expand for all segments of the market, resulting in the biggest 10-week expansion in our Composite Sentiment indicator in more than 18 months.

Figure 13: Composite Bullish Sentiment



Source: BMO Nesbitt Burns Technical Analysis

All things considered, the improvement in our medium-term timing model since April is consistent with the performance of these indicators at the beginning of every cyclical bull market since (and including) the credit crisis.

As for upside expectations, the S&P/TSX Composite recently broke out of a six-month consolidation pattern above resistance at 25,875. That breakout opened an upside target that measures to 29,523. Favorite areas for new money here in Canada remain the Financials, all of which are either challenging their recent all-time highs or have already broken out. On the commodity front, natural gas stocks and precious metals (both gold and silver) are the most compelling given the solid uptrends in their underlying products.

Figure 14: Natural Gas



Source: BMO Nesbitt Burns Technical Analysis

Figure 15: Gold



Source: BMO Nesbitt Burns Technical Analysis

Key resistance for the S&P 500 is its early 2025 peak at 6,147. A breakout there would shift the long-term trend back to bullish and open a new upside target that measures to 7,460. Pro-cyclical “risk on” sectors (Industrials, Consumer Discretionary, Technology, Financials) are outperforming the “risk off” areas (Healthcare, Staples) which is common for this phase of the cycle, and we expect that to continue throughout the remainder of 2025 at least.

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