

Blissfully Flying Through the Fog

“On this day in 1929, William Peter Hamilton, editor of Wall Street Journal and one of the leading advocates of the ‘Dow Theory’ of technical analysis, correctly predicted the coming demise of the bull market. But since Hamilton had already predicted the death of the bull market in January 1927, June 1928, and July 1928, nobody listened.”

– *Wall Street Journal, Today in Markets History, October 21, 2025*

Capital markets continued to forge ahead despite a fog around most official U.S. economic data courtesy of the government shutdown. October saw a minor scare in U.S. private credit markets, gold’s sharp reversal of fortune, and perceived hawkish-leaning policy meetings of central banks in Canada, the U.S. and Europe. Outweighing these negatives was progress on trade relations between the U.S. and China (can kicked, again) and, most significantly, very solid corporate earnings reports.

Capital markets crave information. Share prices move tick-by-tick, digesting changes in the fundamental outlook for economic and corporate earnings growth, interest rates and inflation, among other variables. Not all information is data, and not all data comes from the U.S. government. Importantly, when the U.S. government released its take on inflation, core CPI was slightly softer than expected but still printed warm at 3%. Investors have access to other data that provide insight. For example, the private sector releases reports on employment and housing. Economic activity can be measured through credit card usage, bankruptcy filings, and surveys of consumers and businesses. Serendipitously, the lack of official data coincides with the beginning of a quarterly corporate earnings season. Even when government data flows, the results and commentary from bellwether companies provide great insight into the economy.

Banks are an especially good economic barometer. Despite some concerns about weakness in subprime auto loan companies (“When you see one cockroach, there’s probably more,” said JP Morgan CEO Jamie Dimon), U.S. banks reported strong results and delivered constructive commentary on the health of consumers, overall financial conditions being supportive, and noted that the few isolated credit events are unlikely to affect them.

All but two of the major equity indices we track posted gains for the month. The S&P/TSX rose 0.8%, showing strength in technology, financials and utilities, tempered by a setback for gold miners. The S&P 500 gained 2.3%. The MSCI Emerging Markets Index jumped 4.1%, receiving no help from Chinese equities despite thawing trade relations between the U.S. and China (better trade relations might slow needed domestic economic stimulus). The MSCI EAFE Index (Europe, Asia, Far East) rose 1.1%. It was aided by Japan’s Nikkei 225 stock index bolting higher by 16.7%, although a weaker yen took a quarter of that away for foreigners. Still, Japan’s new leadership now aligns with the rest of the world’s “spend, spend, spend” philosophy.

Boring in bond-land

Bond markets delivered gains for the month as inflation continues to meet or exceed expectations. The Federal Reserve and Bank of Canada cut rates while the European Central Bank stood pat. Outside the U.S., where central banks have been cutting more aggressively, most easing cycles are either ending or the bar is set high for further rate cuts. Equity markets often bristle at this prospect, and there was some short-term market reaction. But central banks are providing justification that equity investors can stomach: interest rates have already been lowered considerably in many places, so pass-through impacts are still to come; some economies are doing better than expected (Europe is the latest); and for the granddaddy U.S., lack of data is a convenient scapegoat. The U.S. narrative remains that the economy is generally in good shape and inflation isn’t a problem, but is not low enough yet to justify excessive rate cuts, either. The salve of excellent earnings growth made all this a non-issue. Since the Fed has cut less than many other central banks, this leaves room for investors to expect some additional cuts. We much prefer to see equities rise based on earnings, not cuts to interest rates.

Earnings are everything

We are encouraged that earnings remain the single most positive factor supporting our conviction that equities remain attractive. Of course, the earnings landscape of AI and AI-adjacent companies (energy, data, storage, and computing) continues to garner a lot of attention. Two things stand out to us as very constructive in the current reporting season. First, earnings growth is broadening beyond technology. Second, investors are becoming more discerning in the AI space. They are asking questions about the bottom line, then rewarding companies that have good answers and punishing those that don't.

The broadening out

The blended S&P 500 earnings growth rate for Q3 stands at 11%, beating expectations for 7.9% growth at the end of Q2. The percentage of companies beating expectations on consensus earnings hovers around 80%, a very healthy number, and well above averages for one and five years (ditto for top-line sales growth). It isn't just a concentrated tech story; in addition to technology, the utilities, materials, financials and industrials sectors are on track for Q3 earnings growth north of 10%.

For 2026, S&P 500 earnings growth expectations sit at 13%. Notably, this number is remaining firm. In the past, equity market downturns were often preceded by softening earnings growth-rate expectations. Prices continued to rise (especially in bubble episodes) despite deteriorating fundamentals. We do not see this today.

The jump in Japanese equities is underpinned by strong corporate earnings. Even in Europe, where earnings growth has been weak thanks to sluggish economies, the proportion of European companies exceeding earnings estimates (albeit modest ones) is the highest since Q1 2023. It is very early in the S&P/TSX earnings reporting calendar, but growth around 15% is expected, marking a third consecutive quarter of double-digit growth.

More discerning

Spending and investment in the AI space are ballooning (more on this in The Last Word below). For individual companies, investors are becoming more discerning about the expected returns on these investments. Companies like Google (Alphabet), Apple, and Amazon are being rewarded for their AI spending because their existing platforms are viewed as conduits for AI deployment, which gives them better visibility on how their AI investments can bear fruit. When Meta was unable to provide the same level of comfort its shares suffered. Dealmaking is also under scrutiny. Investors are on alert for overexposure to single entities and investments that appear circular among a small set of companies. For

example, Microsoft's ties to OpenAI are on investors' radar. This disciplined mindset differs from the overly exuberant "buy anything with .com in the name" mentality that marked the 1999 internet bubble.

Concentration: an issue and opportunity

As the largest companies continue to capture an increasing share of capital, a heavy concentration on market capitalization remains in focus. This situation skews any measurement based on an index average – valuations and profit margins are two important examples. In the U.S., research by strategists at Fidelity¹ found that across 3,000 U.S. stocks, the median earnings growth rate has turned positive for the first time in more than three years. Market capitalization-weighted average earnings growth has been solid for many quarters. However, the median earnings-growth rate has just exited the longest stretch on record when median earnings contracted while index-level earnings expanded. In terms of length, the recent contraction ranks in the top quartile in history – typically seen only in full recessions. The conclusion is that the median stock is only now emerging from a deep and extended earnings downturn. Historically, the deeper and more prolonged the under-earning period, the greater the catch-up. For those worried that we have seen a rally in everything, this is evidence that opportunities remain. Further proof lies in the fact that the equal-weighted S&P 500 is up a pedestrian 7.2% on the year.

We never expect a straight line

Impressive returns over the last few months have raised our antennae for some near-term choppiness. A potential catalyst might be the deluge of data that will flow when the U.S. government eventually reopens. In our view, a breather for equity markets would be healthy and welcome, but it would be against the norm. Those who follow seasonality will call attention to the fact that equity markets tend to close out the year with positive results, but seasonality is once again an average. The 2018 Christmas near-bear market proves that pullbacks in stocks can happen at any time for any number of reasons.

Opportunities remain in equity markets, and we continue to see conditions conducive to equities outperforming fixed income. Our asset mix favours Canadian and U.S. equities and is underweight in fixed income.

We recommend harvesting profits regularly and rebalancing your portfolio. Those who have future or regular funding requirements (e.g., a major purchase, living expenses, RRIF withdrawals, or taxes), should consider taking advantage of current market conditions to top up cash allocations to pay for these items.

The last word: Productivity, bubbles and debt

You can read our most recent views on bubbles in the [August Global Markets Commentary](#) and September 26 edition of [Weekly Strategy Perspectives: Bear Hunting](#), where we conclude that if we are in a bubble we believe it is less contagious than prior bubbles. Bubbles are to be expected, and we emphasize that what matters most is how we investors address them. However, “Are we in a bubble?” remains the most common question we get, so here are some additional thoughts.

Bubbles are not a bug of capitalism – they’re a feature. Over time, humankind has invented wonderful things that enhance our quality of life. Capital market bubbles are an essential element of the risks and rewards necessary to incentivize innovation. Yet, there is an important distinction between good and bad bubbles. Strategist Louis-Vincent Gave, co-founder of the research firm GaveKal, summarized it nicely in a December 2014 paper: “... bubbles can bid up asset values because of their perceived ‘scarcity’ (typically, land and real estate, but also tulips, or gold...) or because of their productivity (canals, railroads, telecom lines, energy...). This distinction matters because, in the first case, an economy is left with no more land (or gold, or tulips...) than at the outset. In the second case, productive capital has been put in place which can still be exploited, either by its current owners, or by a new set of owners.”²

Are we in a productive bubble or a speculative bubble? For the price of gold, we say speculative. We agree with Mr. Gave that it won’t leave the world with any more gold, and its productive value is limited (full disclosure: we prefer more exposure to the AI theme than gold, although our well-diversified portfolios contain both).

For AI, we lean toward the view that it’s productive; how productive remains to be seen. It’s noteworthy that a significant portion of the spending is occurring in the AI-adjacent space – building the infrastructure required to deliver AI to the masses. Whether society utilizes new energy, data and computing power for AI or not, these productive assets can be deployed in many future applications.

How a bubble is funded also matters. Fund a speculative bubble with debt, and you get a double-whammy; nothing productive to show for it plus damage to the credit system. Fund a productive bubble with equity capital (primarily what we see happening today, although credit is increasingly being deployed) and the risk is borne by those who should expect it (equity investors). Excessive equity capital doesn’t imperil the broader credit system nearly as much as using debt does.

An inflating bubble creates winners – perhaps too many. When it pops, there are losers, especially those who come to the party late or get overexposed. We can’t know what will eventually emerge from the current environment – productivity, bubble, boom, or bust. Of course, we have our views and are positioned accordingly, but not excessively. *Wall Street Journal* editor Peter Hamilton died from illness a few weeks after his last (and finally accurate) prediction about the stock market crash. This is a reminder that as investors, we need to focus on controlling the things we can: our risk tolerance and our emotions (especially ones that are based in fear and greed). We must also respect our investment time horizon, which for individuals is finite – just like Mr. Hamilton’s.

Please contact your Investment Counsellor if you have any questions or would like to discuss your investments.



1 <https://advisoranalyst.com/2025/10/16/median-earnings-growth-finally-turns-up.html/>

2 https://obj.portfolioconstructionforum.edu.au/articles_perspectives/PortfolioConstruction-Forum_A-better-class-of-bubble.pdf

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