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Level-setting the ABCs of 2026

“Change is the law of life. And those who look only to the past or present are sure to miss the future.”

– John F. Kennedy

The Through Line: In 2025, we saw a swarm of trends, concerns and surprises – many of which will follow us into the new year. Some of the themes rhymed with prior periods, while others permanently bent the arc of specific trajectories. Investors may feel overwhelmed trying to make sense of the moving parts and the changes they bring. Breaking it down to the basic ABCs can help.

A shiny new year of yin and yang

Global stocks powered through a host of headlines in 2025 and posted a third straight yearly gain of over 20% (using the MSCI All Country World Index for a yardstick). At the dawn of the new year, investors appear conflicted: optimistic re more clearly visible trade, tax and policy outlines (and strengthening fundamentals), yet concerned about a mature advance that leaves prices loftily valued. Most strategists project even more gains this year, which adds to the angst. Investors too are optimistic – a recent poll found over 60% anticipate another +20% gain.¹

Although we don't like to align with the consensus (we prefer narratives supported by fundamentals that are less widely recognized) we do see a host of factors that put a slightly heavier thumb on the optimistic side of the scale. For starters, companies in aggregate have proven their mettle through multiple events in recent years, building strong muscle memory for how to adapt to nearly everything thrown at them. Countries, too, have done rapid pivots in elections, security/supply relationships and stepped-up fiscal spending.

Now that many of the most upsetting economic and policy factors are arguably in the rearview (or at least in flight and offering a bit more visibility) and a host of more favorable influences are on the horizon, it's hard not to adopt a rose-tinted outlook. Listed below – alphabetically (not in order of importance) – we highlight some of the issues we expect markets will need to wrestle with in the year ahead.

AI – and a host of factors surrounding it (data center spend, competitive technological leapfrogging, component backlogs, evidence of margin improvement/productivity enhancement/verifiable use cases) will continue to dominate, especially since earnings season is right around the corner. Mag 7 earnings will be under especially intense scrutiny. Market action has already started to broaden – which it must do. In the first few days of 2026 trading, the Mag 7 are down half a percent while an equal weighted

S&P 500 boasts an increase of nearly 2%. The Russell 2000 (a proxy for small cap performance) is up over 4%. Similarly, the best-performing sector in 2025's fourth quarter was healthcare – not tech – and the largest IPO of the year was Medline, a healthcare company. Still, we expect AI themes to continue to dominate and potentially large initial public offerings (IPOs) of one or two “hectocorns” (private companies that have valuations in excess of \$100 billion).

Bubble – concerns continue to run high, but we believe they are overdone. Overt ebullience – where everything goes up no matter what and any news is good news – is lacking. On the other hand, investors have shown a keen ability to be discerning in rewarding or punishing stocks in the same industry based on fundamentals, not merely because they are part of said industry.

Consumers – drive over half of Canadian GDP and two-thirds of U.S. GDP. They have been resilient spenders – even when crabby – as long as they remain employed and/or their assets (homes, portfolios) are appreciating. We see large disconnects between consumer attitudes revealed in sentiment surveys and actual spending, but it is best to focus on what consumers do, not what they say.

Dollar – the U.S. greenback underperformed most major currencies in 2025 after many years of outperformance. While some of the reorientation was expected, the underperformance has called the greenback's reserve currency status into question. More than half of all global transactions are underwritten in dollars. No other currency has the depth or breadth to fully replace it – yet. We expect the search for alternatives to continue.

Earnings – remain on track for another double-digit up year in 2026. Recall that Q3 of 2025 saw aggregate topline growth of over 8% for S&P 500 companies and earnings advancement of over 13%. Reporting on Q4 is set to kick off next week, so the next four-to-six weeks will deliver insights into the continuation (and possible acceleration) of top-line and bottom-line progress.

Companies remain laser focused on margins, suggesting that better-than-expected increases in revenues can drop in magnified fashion to the bottom line.

Fed – and all things related to the U.S. central bank – from who's leading it, the makeup of the membership, rationale (political versus economic) for cutting or pausing rates – will remain very much in focus. President Donald Trump is set to announce his pick for Fed chair any day now.

Global pivot – in supply chains, customer relationships, and direct foreign investment will carry on.

Hemispheric rewrite – will continue to dominate headlines. The U.S. has been increasingly vocal about its intent to focus on activities closer to home and made statements to that effect at a variety of global gatherings (G20, IMF, World Bank). This shifting focus culminated in last week's events in Venezuela. In a similar vein, China has stepped up its activities relative to Taiwan, which has implications for trade and trade routes through the area.

Inflation – and central bank policies will be closely watched, especially by fixed income traders. Most developed markets have inflation well under control and central banks are largely done cutting. The U.S. Fed is the exception; futures markets are discounting two or three additional cuts this year. The question about the Fed's 2% inflation targets (fixed or mid-range?) may gain traction once a new Fed chair takes the reins and new rate-setting committee members are in place.

Japan – is the only developed-market country still struggling to bring down inflation. Rising Japanese government bond yields exerting upward pressure on global yields bears watching. Recent disagreements between China and Japan over support for Taiwan also require close monitoring. They could have knock-on impacts on shipping and manufacturing of key technology components.

K-shaped consumer, economy and market – will be mitigated by tax refunds that help lower-decile consumers and encourage broader participation in markets. Small businesses could benefit from improved deal markets, nimbler deployment of technology and access to highly skilled workers offloaded from larger competitors.

Leverage – will be watched closely, especially AI spending funded via debt. Corporate balance sheets (especially among the largest companies) are in good shape. However, credit spreads are tight and private credit funds are being closely scrutinized after several high-profile (albeit unique) issues plagued the industry in 2025.

Mergers & Acquisitions (M&A) – should continue to accelerate and include larger deals plus more funding. Reuters reports that there were nearly 70 deals valued at more than \$10 billion in 2025; several key investment banks conducted more than \$1 trillion apiece in deals generating billions in fees.¹ Deals beget more deals when money is recycled and pieces are sold/rationalized.

National Security Statement (NSS) – U.S. domestic and foreign policy will continue to dominate headlines as outlined by the recently released NSS. This statement, much of it emanating from the Project 2025 plan, puts a framework around the hemispheric pivot and a number of social issues. Equity markets typically shrug off geopolitical machinations for the most part – until they impact specific industries (energy, tech, rare earths) or supply routes.

Outperformance – of tech and communications services may wane once other leadership steps up.

Pullback – is possible (pullbacks are the norm, not the exception) during the leadership handoff.

Quantum and robotics focus – will be part of the leadership transition. This transition will impact other industries, including finance, industrials, biotechnology/healthcare and others that will benefit from tax law changes (e.g., immediate write offs for research and development expenses), reduced regulation and/or faster permitting.

Security spending (including cyber, infrastructure and grid stability, shipping insurance, and sustainability) – will continue to strengthen as countries increase their respective commitments and companies work to avoid increasingly savvy (and AI-enabled) bad actors, particularly in a contentious election year.

Tariff/trade policy – clarification continues. Overall tariff rates are substantially higher than they were last year at this time but are substantially lower than they were indicated to be after Liberation Day on April 2, 2025. The USMCA/CUSMA rewrite will dominate 2026 activity. We expect inflammatory headlines will lay out worst case/negotiating positions à la Liberation Day.

U.S. Treasuries – particularly the 10-year bellwether – will continue their key feedback role and require close monitoring. This will be especially true when incoming members of the rate-setting Federal Open Market Committee take their seats and a new Fed chair succeeds Jerome Powell in May.

Volatility – which has largely been in hiding, could increase given the number of bullish projections, full valuations and even loftier goals for AI-tech-related companies. A little disappointment could go a long way toward quickly knocking valuations back down.

World equity indexes – outperformed in 2025 and could well be poised to do so again in 2026, particularly if the dollar weakens further and defense, infrastructure and security spending push GDP growth higher around the planet.

(e)Xpectations – for continued market gains are high, despite the volatility.

Yields – within fixed income markets have remained orderly even though most developed countries are running higher deficits relative to growth than they did five years ago (pre-pandemic). We see subtle hints here and there that bond vigilantes are watching – especially in longer-dated maturities – but so far they have been tolerant of increasing global fiscal spending.

Implications for investors

ZZZZs – will likely be scarce in the coming year, given all the moving parts outlined above. That said, markets functioned well in 2025, demonstrating their capacity for resilience and adaptability.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

U.S. geopolitics in the headlines again – Last month's release of a new National Security Strategy ushered in profound changes to U.S. foreign policy. The President called for a return to the 1823 Monroe Doctrine, which viewed the Western Hemisphere as the core sphere of influence for the United States. Last weekend's U.S.-led military intervention in Venezuela culminating in the arrest of a dictator and ensuing efforts to control the political and economic destiny of the country marks the beginning of a new "Donroe" doctrine. Stated goals of the NSS include reducing Chinese influence in Latin America while identifying strategic investment opportunities for American companies. Venezuela presents an opportunity to advance both objectives simultaneously.

President Donald Trump used the word "oil" more than 20 times in his Saturday morning address to the nation announcing the arrest of Venezuelan President Nicolás Maduro. The administration sees an opportunity for U.S. energy companies to invest billions of dollars to revive Venezuela's dilapidated oil industry. That opportunity comes at China's expense: approximately one third of Venezuelan oil production currently goes toward repaying debt to Beijing. China has invested heavily in Venezuela's energy sector since 1997; its footprint later expanded into telecom, ports and rail infrastructure. If the Trump administration can transition Venezuela to a more Washington-friendly regime, China faces the potential loss of these investments. Until there is political stability in Venezuela, it may be challenging for U.S. companies to deploy capital at a meaningful scale, and China will retain hope of maintaining continued influence in the country.

Canada's equity markets end 2025 in fine fashion – Canadian markets closed the year up; the S&P/TSX Composite Index gained 31.7% in 2025. The materials sector led the rally, surging more than 100% and contributing roughly one-third to the index's overall performance. Financials also delivered robust returns, accounting for another third of the gains. All sectors finished in positive territory, although industrials and real estate stood out as notable underperformers.

Canada's GDP softens – Statistics Canada reported that the Canadian economy contracted 0.3% in October after a run of soft data in the month. The flash reading for November shows a modest 0.1% rebound on the heels of a soggy October. While education will bounce back from the temporary disruption, StatCan notes that mining and manufacturing look to be down again. Canadian retail sales dipped 0.2% in October, a touch softer than expected. However, StatCan's early look at November points to a strong 1.2% rebound heading into the holiday season. Retail spending volumes fell 0.6% in October, continuing a choppy but clearly flattening spending pattern. BMO Economics expects Canadian real GDP to be up 0.5% in Q4 of 2025 and 1.4% in 2026.

Ongoing conflict over the future course of U.S. rates – The U.S. Federal Open Market Committee December meeting minutes reveal that the trajectory of inflation was a point of contention. Committee members were trying to determine the impact of tariffs. Many believe the effects of tariffs will wane, but some still fear there will be a greater pass-through to final prices on goods. The minutes noted that the "outlook for the labor market was quite uncertain," reflecting a lack of economic clarity, cost containment pressures and immigration policy concerns. Most members pointed to data points showing "continued softening" in labor markets. While most supported the December rate cut, some preferred to leave rates unchanged, and a few viewed the decision as finely balanced. This suggests meaningful indecision regarding the extent and timing of further rate cuts; upside risks to inflation and downside risks to labor markets are both elevated. On January 1, the market-implied odds of the FOMC leaving rates unchanged at its January meeting stood at just over 80%.

China steps up pressure on Taiwan – on New Year's Eve Chinese President Xi Jinping said, "The reunification of our motherland, a trend of the times, is unstoppable." The comments came after a multi-day military operation called "Justice Mission 2025" that simulated an attack on Taiwan. According to Taiwan's Ministry of National Defense, the island nation was totally surrounded by Chinese naval, air and rocket forces, which together conducted live-fire drills and simulation of "integrated blockade and control." Just ahead of Christmas day, the U.S. Department of Defense released its annual report on China's military. According to that report, the People's Liberation Army continues to make steady progress toward its 2027 goals; specifically, the PLA must be able to achieve "strategic decisive victory over Taiwan." The report adds, "the PLA continues to refine multiple military options to force Taiwan unification by brute force." The most recent simulated attack was likely triggered by a U.S. plan to deliver \$11 billion in new weapons to Taiwan. *The Global Times*, a daily Chinese tabloid, wrote that the sale "gravely harms China's sovereignty, security, and territorial integrity." Taiwan's fate is important for several obvious reasons. The country produces over 90% of leading-edge semiconductors. China demonstrated with rare earth metals that when in control of an important global resource, it is able to gain significant leverage. This same concept would also flow through to important supply chain routes. The Taiwan Strait runs between Taiwan and China while to the south the Luzon Strait separates Taiwan and the Philippines. These critical shipping lanes connect Japan and Korea to the South China Sea and on to the Middle East and Europe. China could cause significant economic harm to Japan and Korea if it controls these choke points.

Next week

Earnings season starts in the U.S., and several key money-center banks will release Q4 results. It's a data-rich week, particularly in the U.S., and will include producer and consumer inflation readings; small business sentiment surveys; the Fed's Beige Book; and key indicators of retail and manufacturing activity.

Monday 1/12 – None Scheduled

Tuesday 1/13 – U.S. NFIB small business optimism survey, CPI, U.S. budget deficit | Canada Building permits

Wednesday 1/14 – U.S. Retail sales, PPI, Business inventories, the Fed's Beige Book

Thursday 1/15 – U.S. Initial jobless claims, Empire state manufacturing survey, Philly Fed | Canada Manufacturing and Wholesale sales

Friday 1/16 – U.S. Industrial Production, Capacity utilization | Canada Housing starts

Data scorecard as of January 7, 2026

Equity Market Total Returns						
	1/7/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	6,921	0.9%	1.1%	17.9%	25.0%	14.4%
NASDAQ	23,584	1.5%	1.5%	21.2%	29.6%	13.4%
DOW	48,996	1.3%	2.0%	14.9%	15.0%	11.6%
Russell 2000	2,575	2.7%	3.8%	12.8%	11.5%	6.1%
S&P/TSX	32,135	0.8%	1.4%	31.7%	21.7%	16.1%
MSCI EAFE	10,816	1.4%	2.0%	31.2%	3.8%	8.9%
MSCI EM	799	2.4%	4.2%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.3%	0.1%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.3%	0.1%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		0.4%	0.1%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		0.3%	0.3%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.5%	0.6%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.6%	0.3%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.5%	0.2%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.5%	0.2%	4.4%	6.9%	1.5%
Government Bond Yields						
	1/7/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.15%	4.17%	4.17%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.39%	3.43%	3.43%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.42%	4.48%	4.48%	4.48%	4.56%	3.16%
German 10-Year Bund	2.81%	2.85%	2.85%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.12%	2.06%	2.06%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	1/7/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	98.68	0.3%	0.4%	-9.4%	7.1%	1.8%
CAD:USD	\$0.72	-0.9%	-1.0%	4.8%	-7.9%	-1.5%
Bitcoin	\$91,007.95	1.1%	3.8%	-6.5%	120.5%	24.8%
Gold	\$4,456.47	2.9%	3.2%	64.6%	27.2%	17.9%
Oil (WTI)	\$55.99	-2.3%	-2.5%	-19.9%	0.1%	3.4%

*Annualized 5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average (“DOW”) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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¹ <https://www.bloomberg.com/news/articles/2026-01-05/stocks-bull-run-set-to-mark-a-historic-2026-streak-market-pulse>

² Goldman Sachs tops global M&A rankings with \$1.48 trillion in deals | Reuters