



“Exuberant Cycle” not an “Irrational Bubble” Yet...

BREZER, MANDELL, REEMS & HAO GROUP

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OVERVIEW

The current market environment is characterized by elevated optimism, with S&P 500 valuation multiples reaching heights last seen during the Dot-Com era. While these levels naturally prompt questions about a potential bubble, underlying fundamentals remain robust. Technology stocks have led the charge, with Nvidia's remarkable growth supported by profits that have consistently matched its rising share price. Unlike previous cycles where valuations outpaced earnings, today's market appears anchored in genuine profitability rather than speculation.

S&P 500 companies are posting near-record returns on equity, highlighting strong operational efficiency and sustained performance. At the same time, market concentration has increased, with the top 10 stocks now accounting for a much larger share of total market capitalization and earnings. This has resulted in pronounced valuation dispersion, as these leaders trade at premiums justified by exceptional profit growth.

On the macroeconomic front, labour market data shows areas of weakness, with layoffs rising in October and unemployment rates increasing in the US but easing slightly in Canada. In response, the US Federal Reserve and BOC have resumed rate cuts, with further easing expected in the US as markets adapt to changing economic conditions. In addition, Canadian and U.S. fiscal policy remains accommodative, with Carney's new spending bill expected to stimulate the Canadian economy, while Americans await tax cuts, stimulus cheque, and further de-regulation set to take place in the new year.

Continued...

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OVERVIEW

Looking at the bigger picture, accommodative monetary and fiscal policy combine with exceptional earnings growth has created an almost “Goldilocks Scenario” rolling into 2026. That being said, stocks aren’t cheap, and investors are paying top dollar for companies delivering exceptional financial results. While risks persist, the evidence points to an exuberant yet fundamentally sound market cycle, rather than an irrational bubble.

We remain vigilant and recognize the structural strengths underpinning current valuations. Within the portfolio, we remain confident in our companies’ ability to benefit from this technology-led super cycle and are closely monitoring developments to ensure we are not in a bubble or profit cycle peak.

On behalf of our entire team, thank you for your continued confidence. Wishing you a wonderful holiday season.

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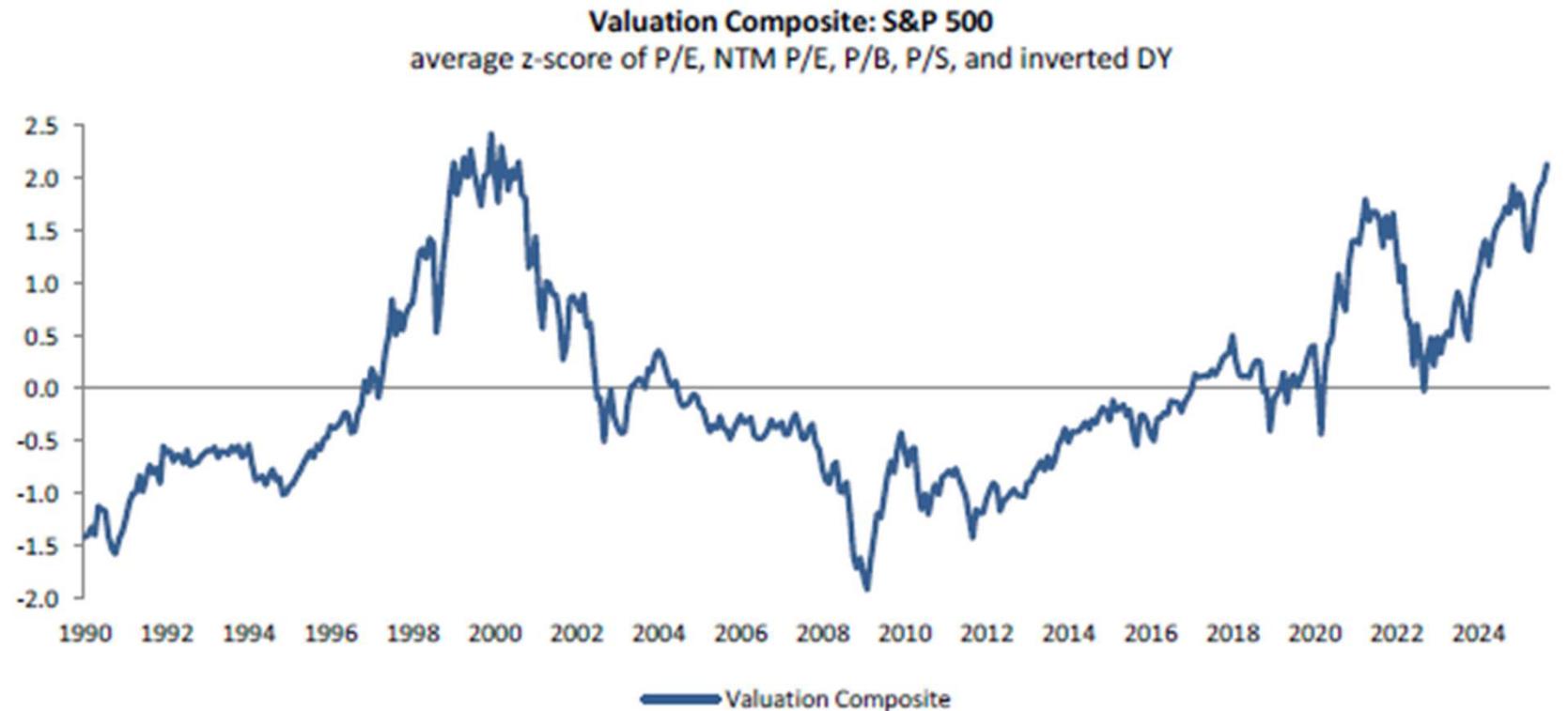


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The S&P 500's valuation multiples are at their highest levels since the Dot-Com Bubble. While this has some investors on edge, market valuations often reflect investor confidence and expectations of continued strong corporate profitability.

Valuation Composite



Source: BMO Capital Markets Investment Strategy, FactSet

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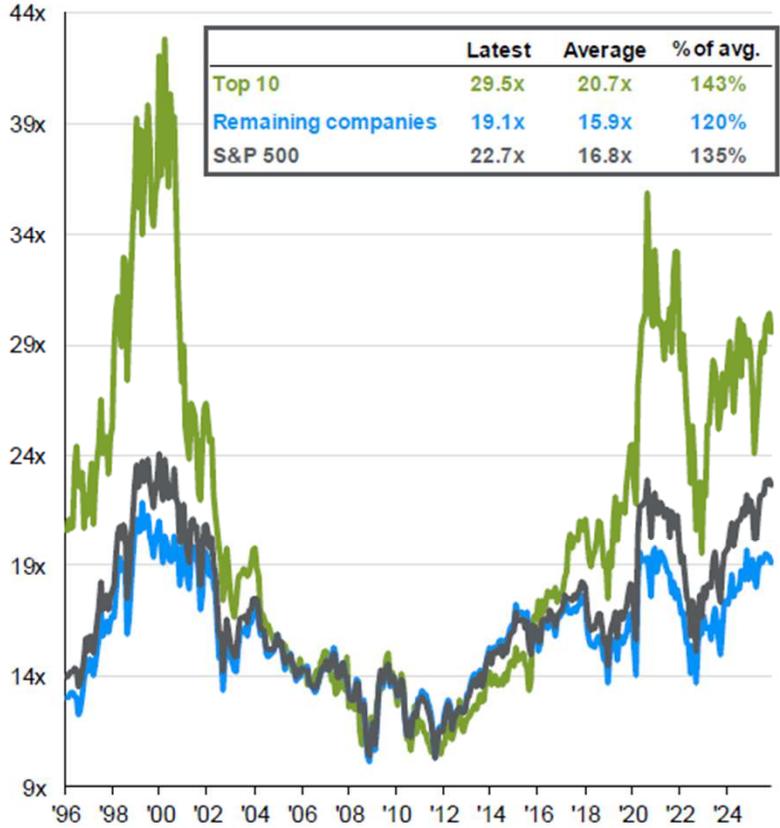
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Valuation Dispersion

Valuation dispersion remains elevated across the market, with the top 10 S&P 500 companies trading at a P/E multiple roughly 54% higher than the remaining 490 constituents. While this dynamic echoes the Dotcom era, the key difference today is that earnings growth is moving in tandem with this concentration. This suggests that elevated dispersion could persist as these leading companies capitalize on AI-driven growth opportunities that remain less prevalent across the rest of the market.

P/E of top 10 and remaining companies in S&P 500

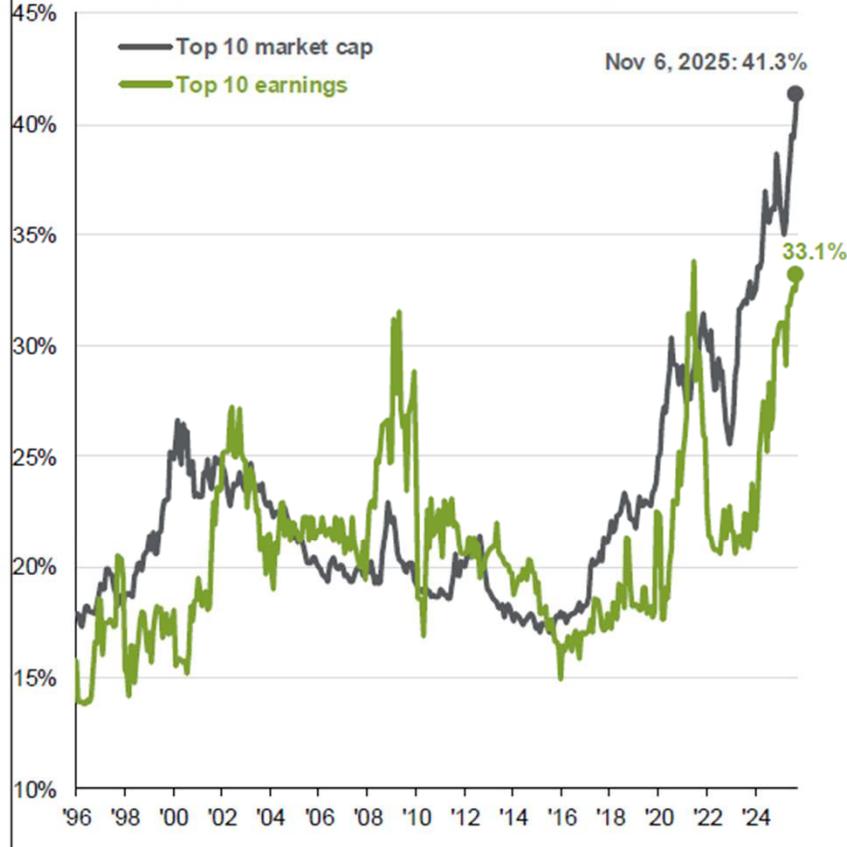
Next 12 months



Source: JP Morgan Global Asset Management Inc.

Weight of the top 10 companies in the S&P 500

% of market capitalization, % of last 12 months' earnings

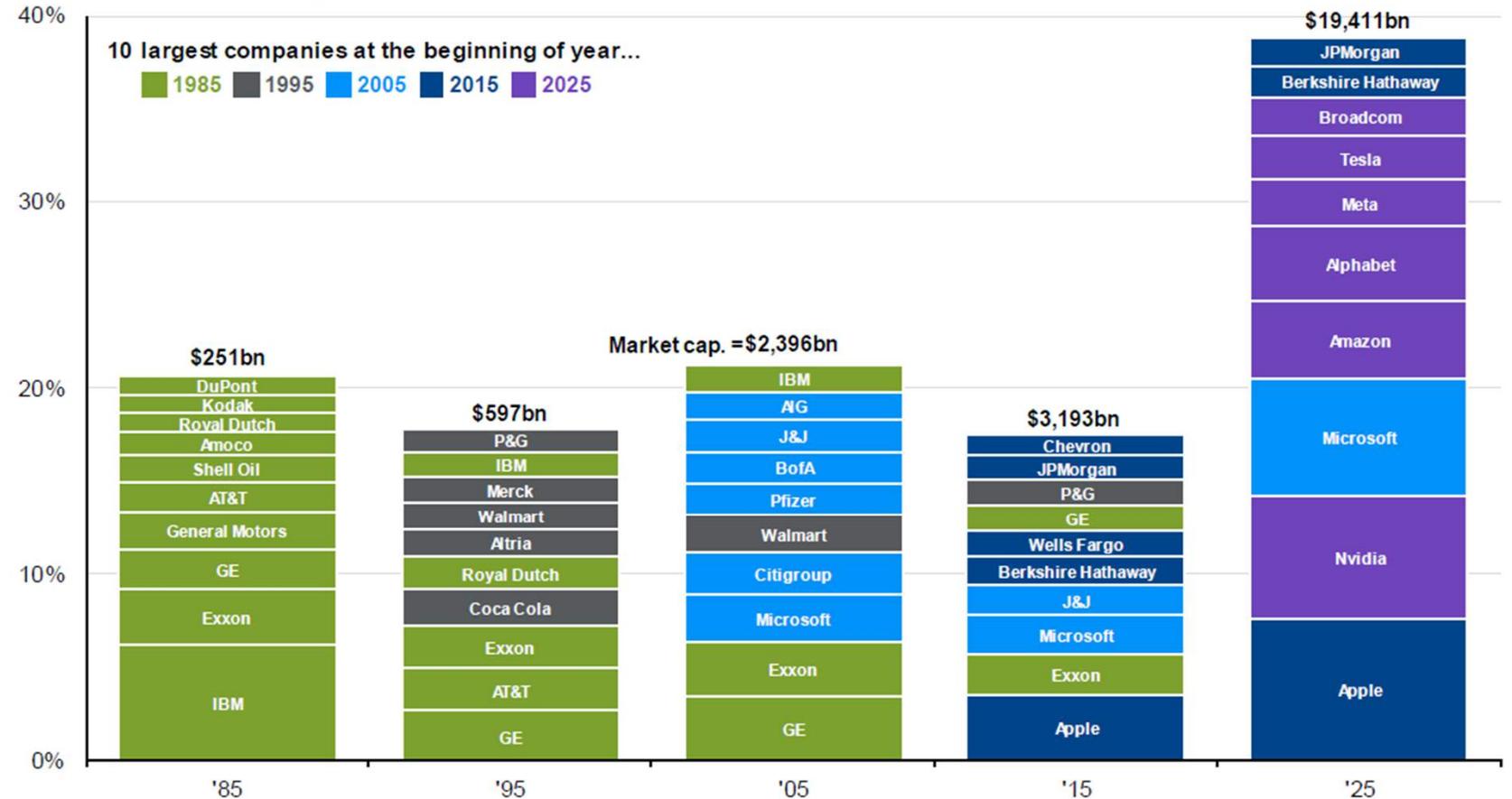


Drive by recent earnings growth the S&P 500 is now about ~50% more concentrated in the top 10 largest stocks than in past decades. This has led to a greater separation between the performance of the “economy” and the “market,” along with higher levels of volatility we have experienced over the past five years.

Index Concentration

Top 10 S&P 500 companies by market capitalization

Percent of S&P 500 market capitalization as of the first day of the indicated year



Source: JP Morgan Global Asset Management Inc.

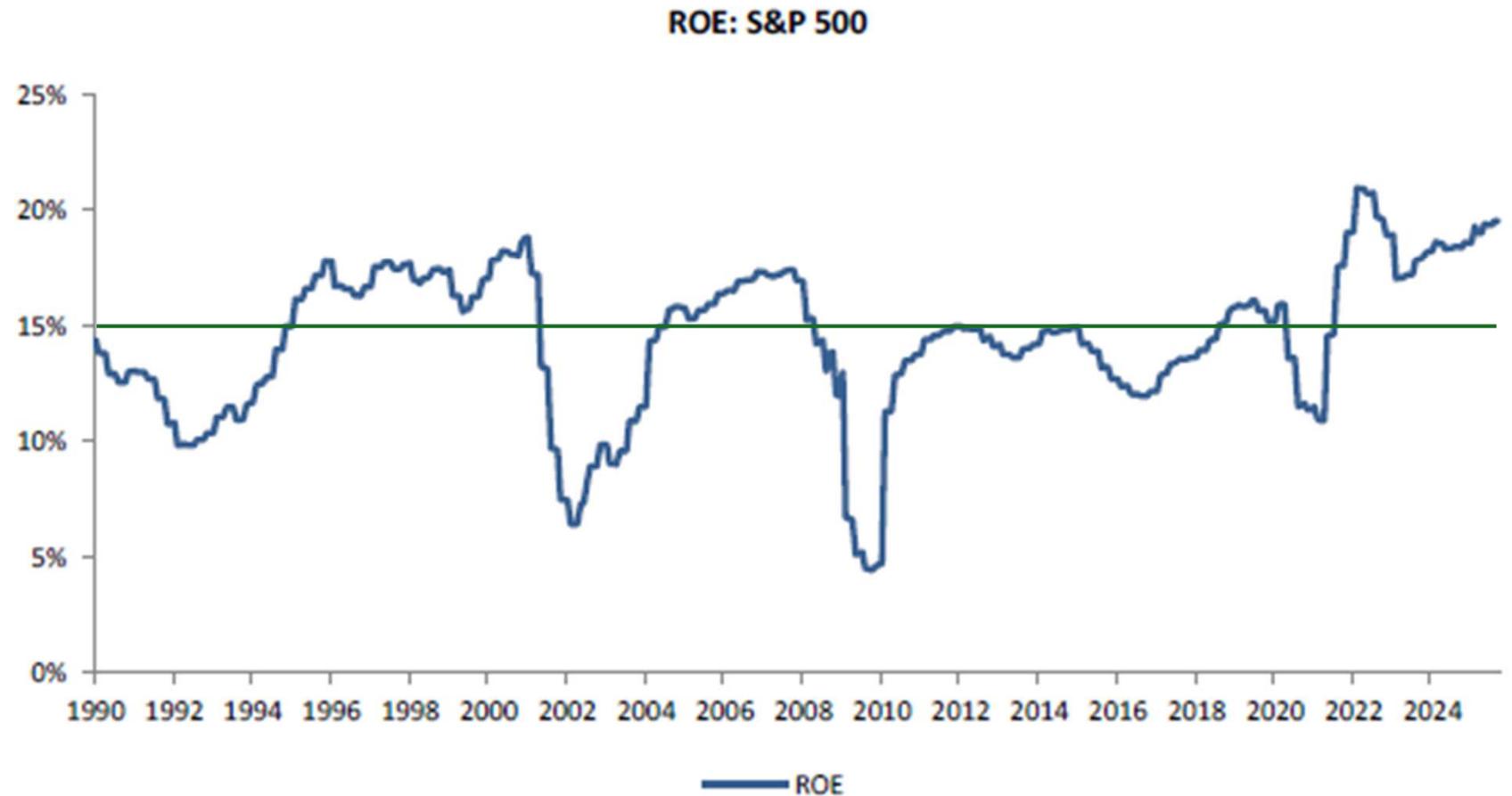
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High S&P 500 concertation has increased it's ROE to above average levels, exemplifying the index's newfound operational efficiency and its ability to maintain above-average rates of return for an extended period.

Return on Equity (ROE)



Source: BMO Capital Markets Investment Strategy, FactSet

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Nvidia Bubble?

Market participants have compared Nvidia's 10x price appreciation to that of Cisco during the Dot-Com Bubble. What's different this time? Nvidia's profits have moved in lock-step with its share price, whereas Cisco's profits grew at a much slower rate, leading to an inflated valuation that was bound to collapse...

Cisco share price and earnings expectations

Index level, rebased to 100 in January 1998



Nvidia share price and earnings expectations

Index level, rebased to 100 in January 2020



Source: IBES, LSEG Datastream. JPM Asset management. Augmented by Charles Henry Monchau, CFA, CMT, CAIA

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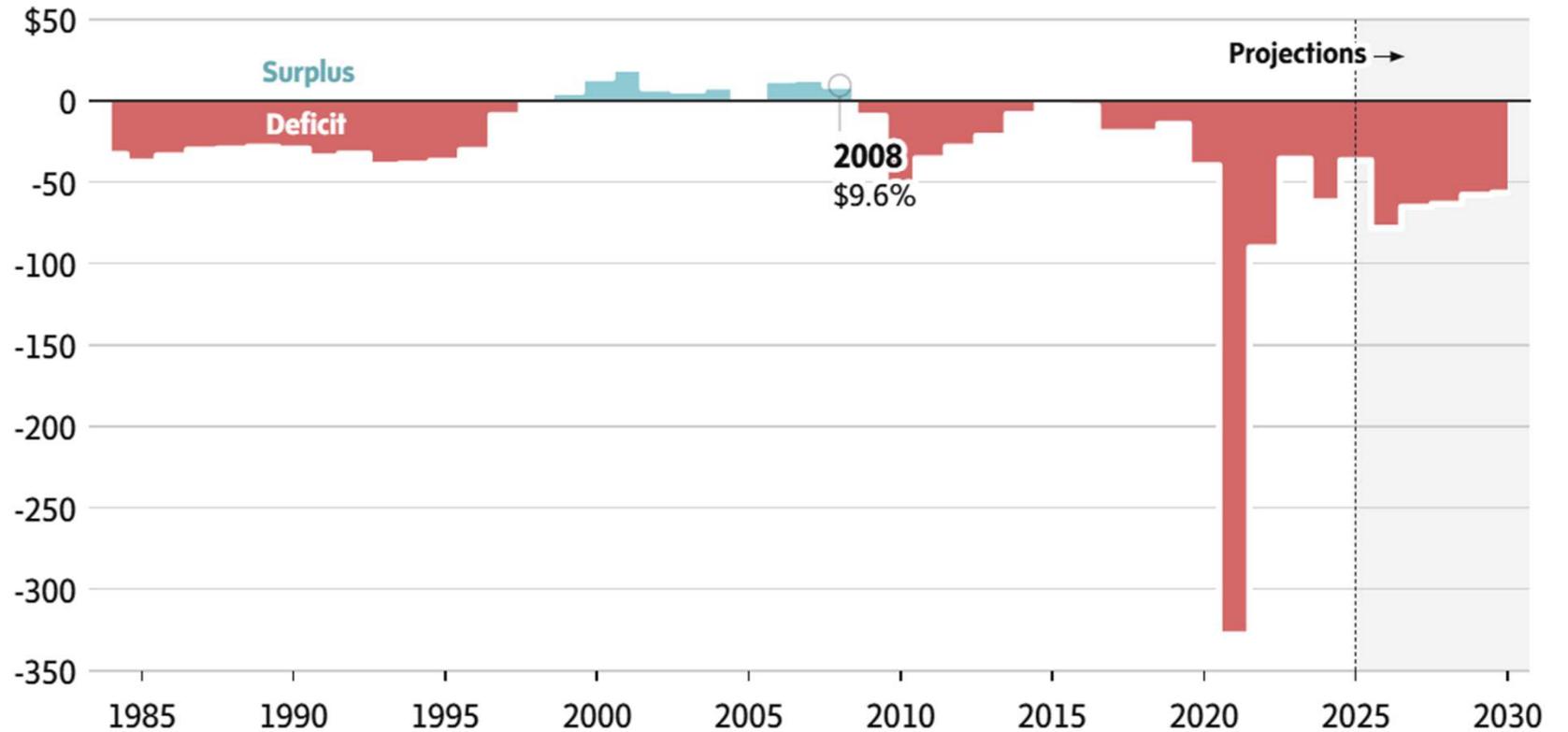


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Carney's New Bill

Budget surpluses and deficits

In billions of dollars, by end of fiscal year



Source: The Global and Mail, Federal Budget 2025

Ottawa's projected \$78.3 billion budget deficit for the current fiscal year (ending March 31/26) is the third largest on record in nominal terms!

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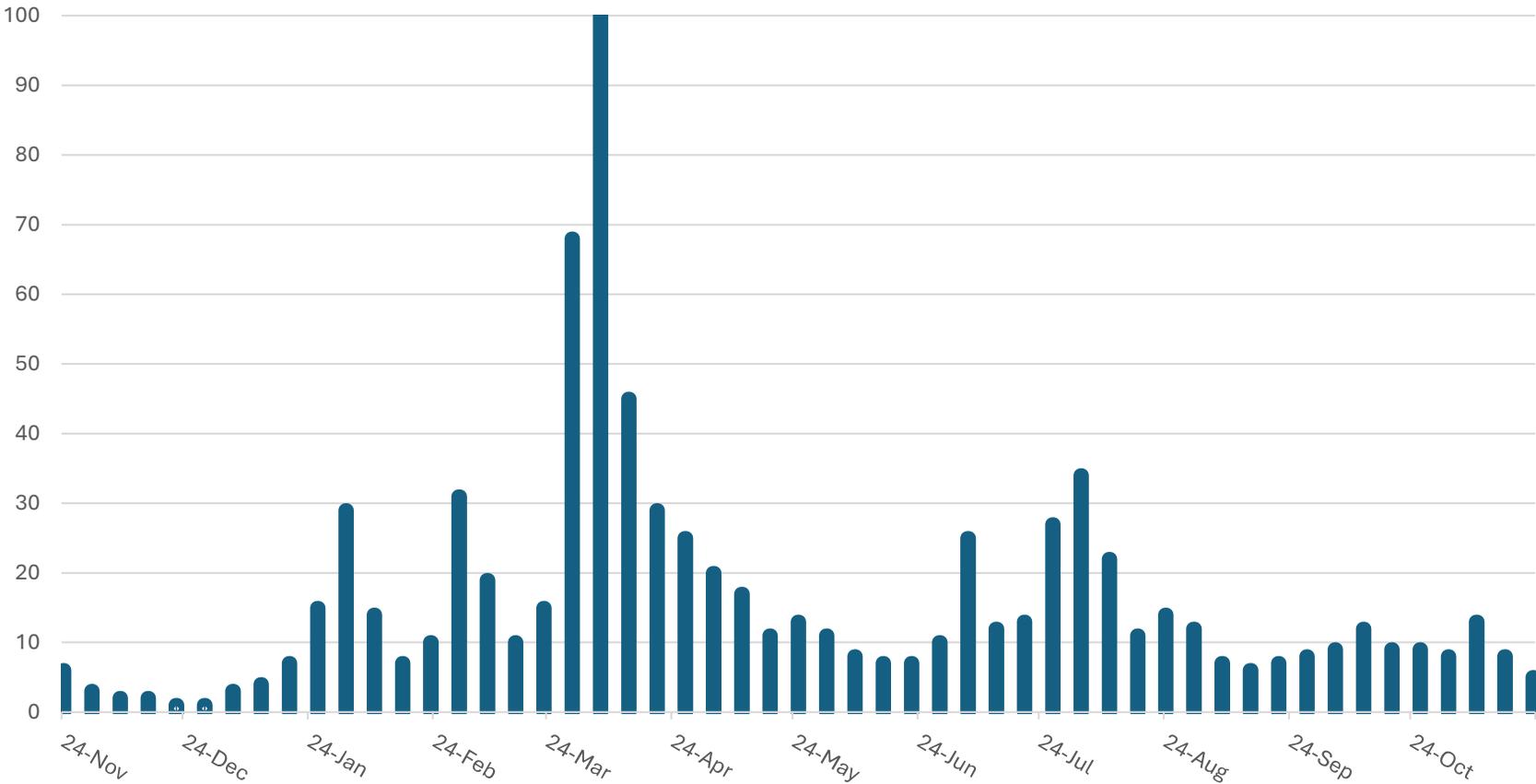


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Global Interest In Tariffs

Global interest in tariffs has significantly decreased since the Liberation Day tariff announcement, which triggered a ~20% market drawdown. With US mid-term elections approaching in the fall of 2026, there is political incentive for the Trump Administration to further de-escalate the self-induced trade tensions that have unraveled.



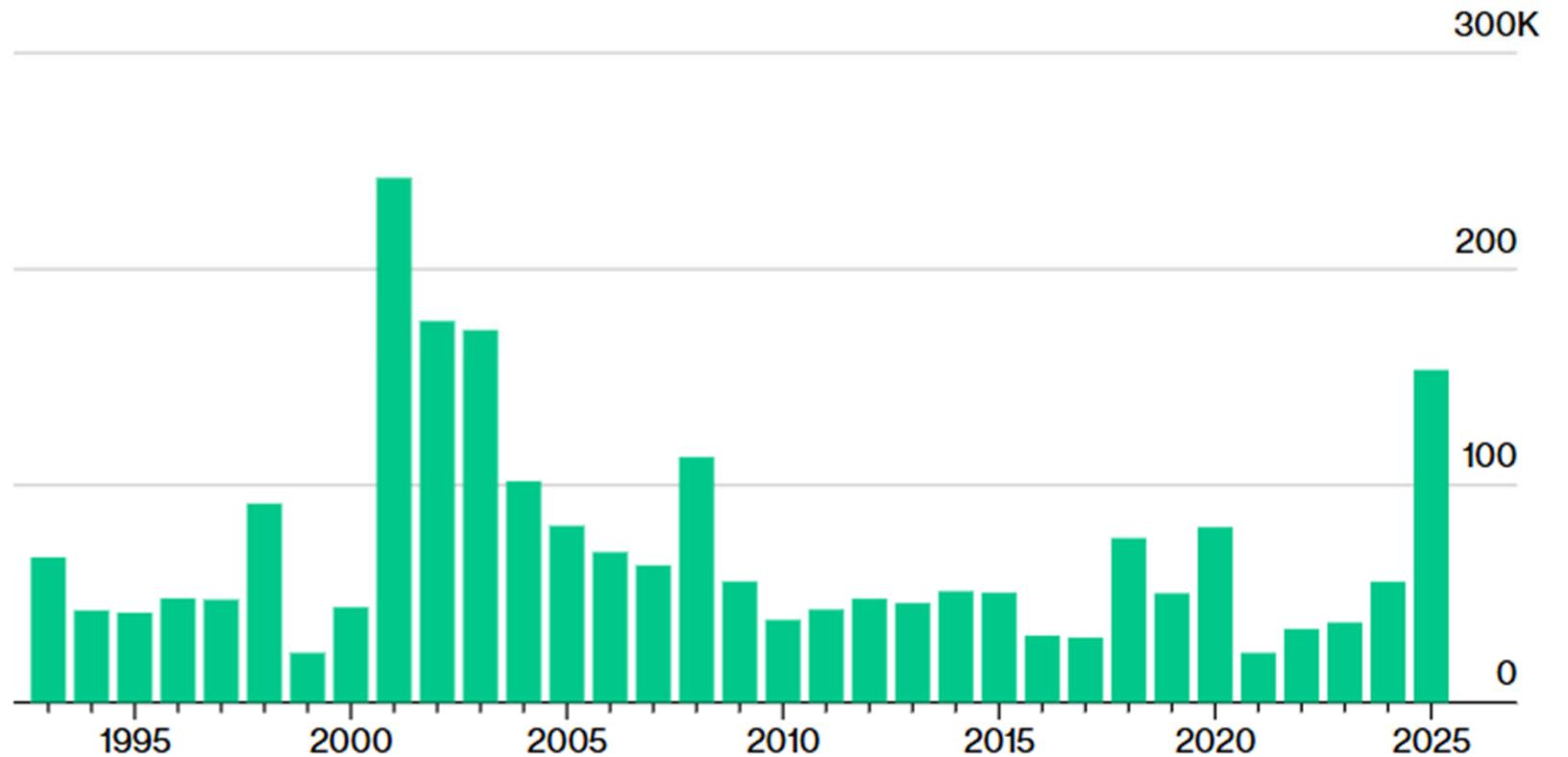
Source: Google Trends

Labour Market Weakness

Now that the US government has resumed its operations, we're starting to receive economic data showing continued signs of labour market weakness. October's job cuts have spiked, and unemployment has jumped to 4.4% (from lows of 3.4%).

Meanwhile, in Canada, October unemployment remains elevated at 6.9% (improving slightly from August's peak of 7.1%).

■ October job-cut announcements



Source: Challenger, Gray & Christmas Inc.

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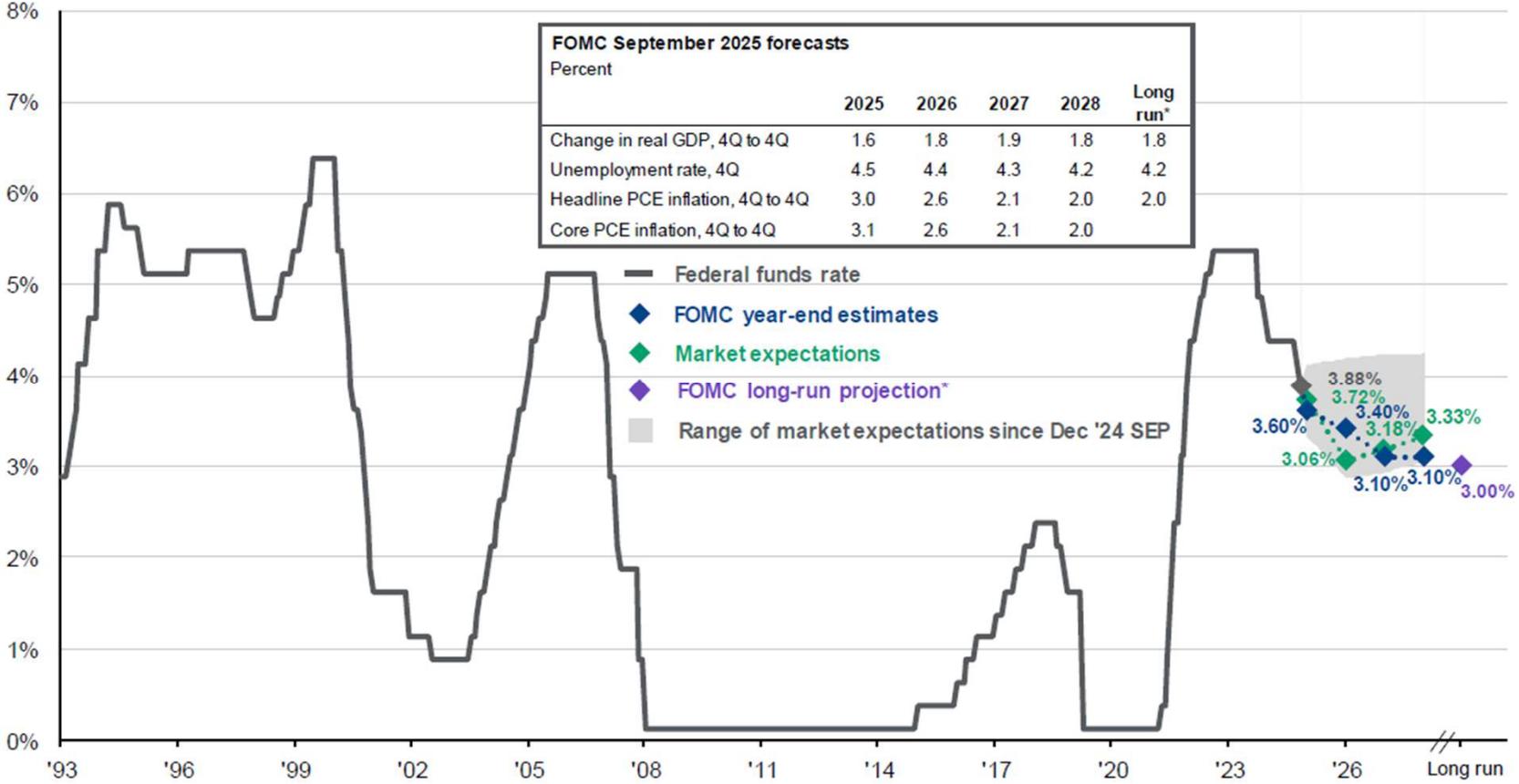


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FED Rate & Expectations

FOMC and market expectations for the federal funds rate

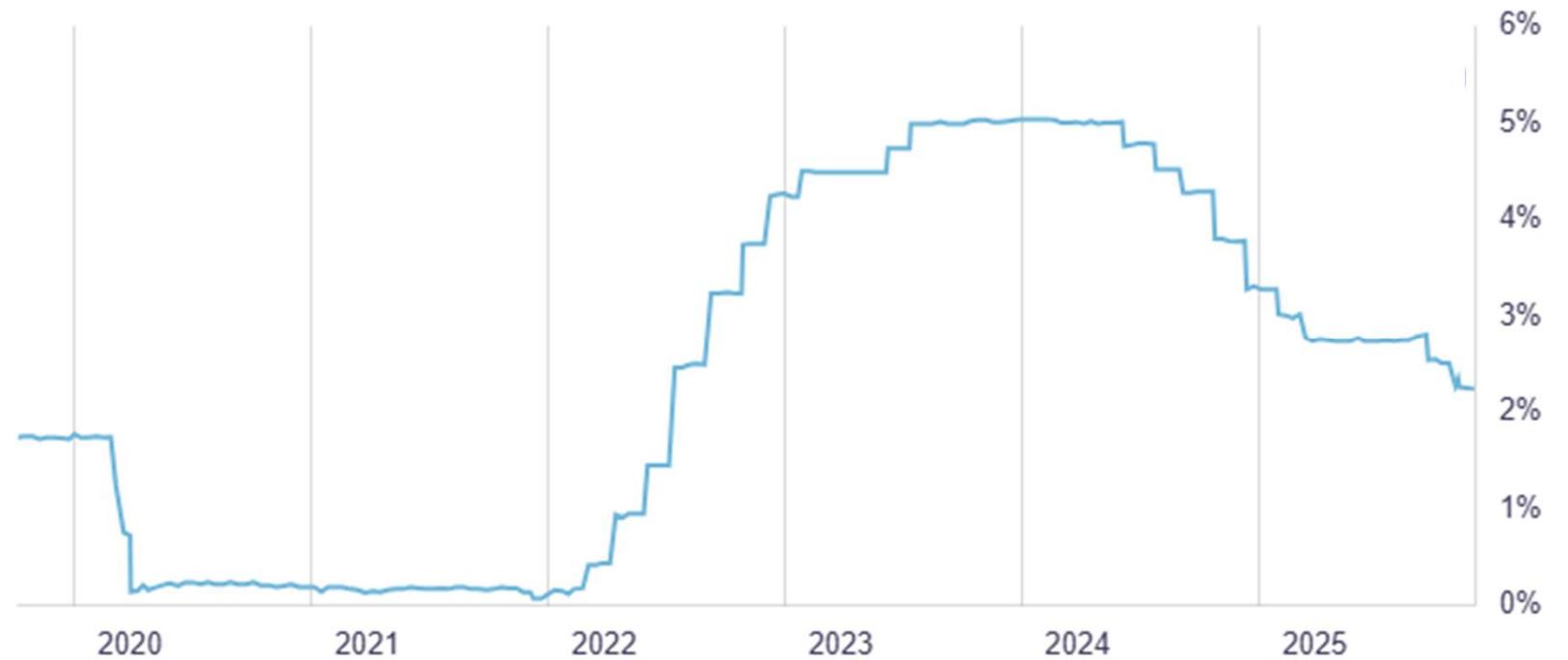


Source: JP Morgan Global Asset Management Inc.

After reported weakness in the labour market, the US FED re-initiated its interest rate cutting policy, slashing rates by 0.25% at the last two meetings, taking the policy rate down to 4%. In December, after some debate, the market is now pricing in another cut, along with 2–3 more rate cuts in the new year.

After a ~7 month pause the Bank of Canada (BOC) has recently followed the US cutting 0.25% at it's last two policy meetings down to 2.25%. Unlike the United States, Canada is expected to keep rates unchanged into year-end and throughout next year.

BOC Policy Rate



Source: Bank of Canada

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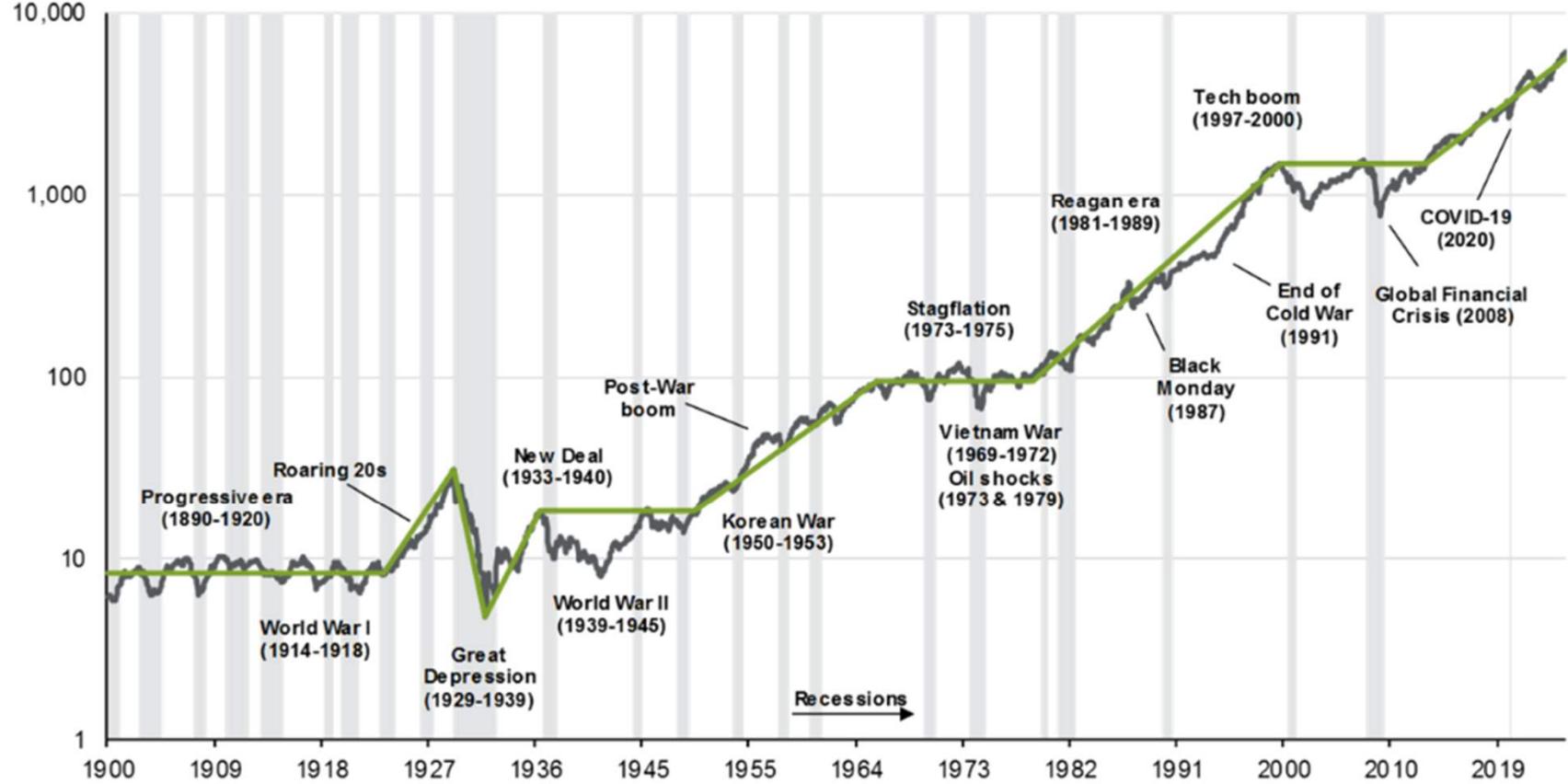
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Zooming Out

S&P Composite Index

Log scale, annual



Source: JP Morgan Global Asset Management Inc.

Zooming out, we're in the midst of the S&P 500's fourth "Super Cycle." As prosperity and technology advance, so has the length of each cycle. With the software and AI tailwind at our back, will this be the longest cycle yet?

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