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Market Insights | January 23, 2025

Brian G. Belski
Chief Investment Strategist BMO Capital Markets Corp.

Brent Joyce, CFA ®
Chief Investment Strategist and Managing Director, BMO Private Investment Counsel Inc.

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2025 Market Outlook: Cautious Optimism Amid Uncertainty

Hold onto your hats. Amid the ongoing political upheaval in Ottawa and Washington, and amped up by the looming threat of tariffs, don't be surprised if economists write their forecasts in pencil this year. Still, one of BMO's leading economists and a pair of BMO's outspoken market strategists remain optimistic about the year ahead. That was the sentiment of the recent market outlook event hosted by BMO Private Wealth.

The event, moderated by Patrick Bartlett, BMO Private Wealth's GTA Regional President, featured insights from:

- Jennifer Lee, Senior Economist and Managing Director, BMO Capital Markets
- Brent Joyce, Chief Investment Strategist, BMO Private Investment Counsel
- Brian Belski, Chief Investment Strategist, BMO Capital Markets

Cautious optimism

Despite the uncertainty around the world, Jennifer Lee started the conversation upbeat. Part of the reason behind her positive outlook is because of the reassuring comments emerging from the confirmation hearings for U.S. President Donald Trump's cabinet nominees, including testimony from his pick for U.S. Treasury Secretary reaffirming the independence of the Federal Reserve.

Still, she warned that the looming threat of tariffs overshadows everything right now. “It's obviously not good news,” she said while acknowledging that it's still unclear if these are merely threats or what shape they might ultimately take. “It's not good for the economy, it's not good for inflation, it's not good for consumer spending, it's not good for global trade. It's not good for global supply chains. It's not good to alienate your allies.”

Lee said that the economic uncertainty could also weigh on U.S. interest rates, noting the Fed could cut another 75 basis points this year, but not until the second half of the year.

Despite this cloudy market, Lee said she hasn't changed her forecasts much. After seeing 3% GDP growth in Canada last year, she expects growth to come in between 2% to 4% this year.

Tariff talk

Although the U.S. trade deficit has been pointed to as one of the motivating factors for Trump's tariff threats, Lee points out that Canada's trade surplus is almost entirely attributable to energy. Regardless of the reason, a 25% tariff – which has been one of the figures Trump has mused about – would be damaging. “It would probably throw us into a recession,” she said.

Currently, Lee has pencilled in her growth forecasts, but tariffs, if imposed, would cause that growth to almost completely disappear and cause higher unemployment, higher inflation and a weaker loonie. The tariffs could increase the U.S. trade deficit if the U.S. dollar strengthens, she said, which would lower the cost of imports.

Bad for the economy, perhaps, but the impact of tariffs may not spill over to the markets. “The Canadian economy is not the Canadian stock market,” said Brent Joyce. He explained that tariffs would likely hit specific segments more, like steel, forestry, and automotive, making the case for active stock picking.

Positive outlook for equities

As choppy as the economic picture may look, Joyce expects companies – and therefore equities – to carry their momentum from last year into 2025. That will help the S&P/TSX, which he says will reach 28,500, a roughly 15% jump from where the market started the year, fuelled by earnings growth in the low teens.

As Joyce explained, the Canadian market has a history of running in “bunches and punches,” meaning there are periods when the market is stagnant for several years and then rips higher before going sideways again. And that’s where the market is at today – after years of sideways movements, Canada has entered a new phase, rising higher, he explained.

While all eyes have been on the U.S. markets, which have been strong in recent years, Joyce reminded the audience of Canada’s potential. There is opportunity abound, including in fixed income, which he thinks could deliver a total return around 4% this year.

Still, even amid solid expectations for Canadian equities, Brian Belski said people need to look south if they want to diversify, noting that Apple’s market cap is equal to the entire Canadian market. He added that the U.S. bull market is alive and well, citing his forecast for the S&P 500 to rise to 6,700, representing a 1,000-point gain this year.

“We’re in a period where we’re going to make money for a while,” he said. His main message to navigating the next year is to control what you can control. How? By buying great companies that produce stuff you use and buying things you know. “The greatest companies in the world are right here in North America,” he said.

Threat assessment

Belski tried to ease concerns about what the incoming administration could mean for Canada. “What’s happening right now is all about negotiating,” he said. The impact of the tariffs may not be as much of a concern for some Canadian companies, with many Canadian-owned businesses having extensive footprints in the U.S. and would, therefore, potentially not be impacted by tariffs.

There could be a silver lining for Canada to all this tariff talk. “A common threat unifies, and we have very difficult and high interprovincial trade barriers,” said Joyce. “This could be a wakeup call for all the premiers to say, ‘We need to be stronger together.’”

Patrick Bartlett's closing remarks nicely summed up the key message for the evening. "It's going to be noisy, we know that, but that also creates opportunities."

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