WEEKLY STRATEGY
Perspectives

BMO Private Wealth

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After 'Liberation Day' What Now?

"Courage is being scared to death... and saddling up anyway."
– John Wayne

The Through Line: Markets reacted sharply after President Donald Trump unveiled his "Liberation Day" tariff plans, moving rapidly to reset valuation levels. Did they go far enough to accommodate the current fundamental situation or overreact? Time will tell – though probably not quickly. We lay out key issues to watch that may help indicate the ultimate track.

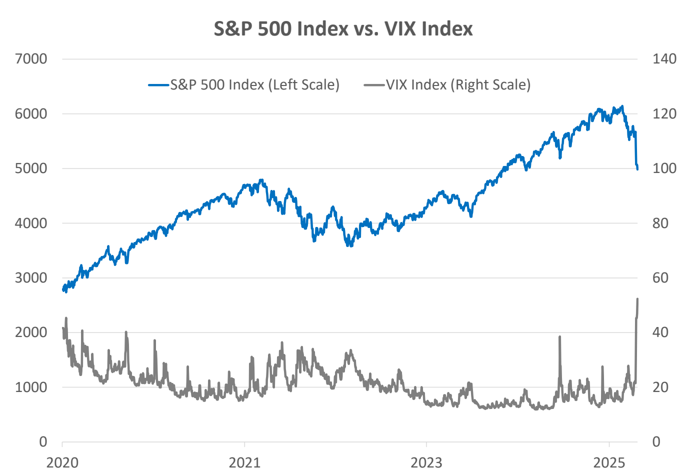
"Promises made promises kept"

The "Liberation Day" tariff plan should not have come as a shock to anyone, given the number of times President Trump had emphasized his fondness for using tariffs as a tool. But virtually everyone was taken by surprise at the type and level – a 10% global rate on all countries as well as levies of up to 50% on 60 trading partners. If investors had been hoping for clarity, it was not forthcoming. Some would argue **the announcements actually made things murkier**. Stocks declined sharply and the bond market was clearly roiled with yields all along the curve swinging widely in the subsequent few days.

Sometimes it *IS* "different this time"

It's not unique for markets to react with heightened volatility in the face of what is perceived as "new news." But this past week, the response of most capital markets to the evolving tariff news has been one for the record books. We will spare you a replay of the stats (you can delve deeper on your own here) and skip ahead to a few notable observations:

- **Recent volatility has been caused by a policy choice, not fundamental breakage of a major sector.** Equity market unwinds that accompanied the popping of a bubble (internet in 2001-2002) and housing (2008-2009) were slow, grinding multi-year affairs while the affected sectors took time to heal. On the other hand, corrections caused by technical or black-swan-type events such as the crash in 1987, the Asian currency crisis of 1998 or the COVID-19 pandemic were short, sharp and stabilized quickly – even before headlines/fundamentals had turned. While the current pullback doesn't fit neatly into either bucket, we expect it to play out more like the latter – particularly in light of solid business, consumer and economic activity in play at the start of the year.
- **Market extremes tend to exhaust themselves quickly.** In the last few days, as the news vacillated, a variety of indicators, including the VIX (Volatility Index a.k.a. Wall Street's "fear gauge" see chart), investment grade bond credit spreads, trading volume and investor sentiment surveys all reached stressed levels. Extremes in volume and sentiment are tough to sustain, as more and more nervous sellers exit. While volatility is expected to remain high until the final framework is clearer, markets were primed to move on any hint of good news. On Monday, for example, rumors circulated that the administration might be considering a 90-day pause in tariff implementation, prompting more than $5 trillion in stock trades as markets swung from down 3-5% to up a similar amount in less than 15 minutes. Wednesday brought an *actual* 90-day suspension for countries who hadn't retaliated and rallies of 8-12% in major indexes. **Two lessons worth gleaning: 1) there is plenty of cash wanting off the sidelines and 2) it's impossible to catch these moves if one is not already in place.**



Source: Bloomberg L.P. (2025); as of April 8, 2025

What we know today – and why it matters

President Trump's move to hard-pivot the global trade regime is more equivalent to elective surgery than medicine for an ill patient. Although the trade system may not have been to the President's liking, it is hard to argue that the U.S. economy was suffering. Aggregate GDP had been growing close to 3% for several years, inflation was down by two-thirds from its peak, and unemployment had been at multi-decade lows for several years. Admittedly globalization has severely impacted certain industries. Nevertheless, according to World Bank statistics, U.S. GDP per capita, at $89,700 per person, stands head and shoulders above that of any other country in the world and well above the Advanced Economy average of $62,400. Canada is at $55,900, and Mexico $13,600.[i]

The duties announced last week pushed the aggregate U.S. tariff from under 3% to a proposed level over 20%.[ii] This would be the highest rate in over a century and, according to Yung-Yu Ma, Ph. D., BMO Wealth Management-U.S. CIO, would represent a significant challenge for the U.S. economy if they are not at least partially ameliorated soon. *The recently announced 90-day pause for non-retaliators clearly sets the stage for negotiation and helped push the market narrative in a more constructive direction* - at least for a bit..

The tariffs took effect starting last Saturday, causing further declines in bond and stock prices as global growth came into question. Some of the tariffs were rolled back on Wednesday though China's levy was increased to 125% as punishment for its retaliation. While the impacts of the on-again-off-again tariffs won't be embedded in corporate results yet, there should be enough clues for companies to talk about in their quarterly calls as earnings season ramps up over the next few weeks. **Insights into which levers companies are pulling could help shift investor focus to a more constructive narrative.**

What signs are we following?

As noted in our recent client webcast (BMO Private Wealth Reciprocal Tariffs Webcast and Transcript), the shock to the economic system introduced by these tariffs has the potential to lower the U.S. GDP growth rate and increase inflation. While Mexico and Canada were specifically excluded from additional country-specific levies, slowing U.S. growth is also expected to put downward pressure on economic progress in its two closest neighbors. During the webcast, Dr. Ma noted a number of key markers we will be monitoring over the next three to six months that may provide additional insight into what the long-term path looks like:

- **Legal challenges** – have already been filed and could suspend or overturn some aspects of the tariffs. The levies were initiated with executive orders that invoked national security concerns. These may or may not hold up when applied in the blanket fashion of "10% on everyone." China has also filed a complaint with the World Trade Organization.
- **Republican pushback could mount** – Congress is taking note of results from special elections in Florida and Wisconsin, as well as mounting protests and constituent angst over the realities of impacted services and DOGE displacements in local communities. Matters related to taxation of international trade technically reside with Congress under Article 1, Section 8 of the U.S. Constitution though they have delegated some of those activities to the executive branch in recent decades.
- **Progress in negotiating levies down** – Notable progress on bilateral agreements will be needed to help avert a heavier drag on economic growth. Progress on negotiation could also help shift market sentiment to a more constructive tone. Dr. Ma notes that negotiations and a deal with China remains a major concern that is multi-faceted. Trade, national security, export restrictions, the fate of TikTok, influence over the Panama Canal and access to crucial rare earth material are all in play. The biggest obstacle to a deal is China's skepticism that the U.S. will stick to an agreement, but he ultimately believes one can be worked out.
- **WWJD – What Will Jerome (Powell and the Fed) Do?** Market expectations for the number of rate cuts the Fed is likely to deploy this year have swung wildly in recent weeks as growth expectations have been cut. Yet during a public presentation last Friday, Chair Powell reiterated the FOMC's preference for watching from the sidelines. He also acknowledged that tariffs are likely to moderate growth and nudge inflation higher. Dr. Ma expects the Fed to cut approximately three times (most likely beginning in late summer) since employment is expected to weaken as the impact of tariffs plays out.

What now?

Given the dramatic shift in trade policy that President Trump is attempting to instigate, the range of potential outcomes is unusually wide. This makes forecasting earnings, market levels or economic outcomes tougher than usual. Core tenets of our base case include:

- **U.S. economic activity slows,** but not enough to push the country into recession.
- **Tariffs are reduced** from the announced worst case, though remaining well above the 2% level that had prevailed until April 5. President Trump finds modified off-ramps, especially with China. Even better if it includes technology-sharing arrangements in exchange for relocating Chinese manufacturing within U.S. borders.
- **The Fed resumes rate cuts** as unemployment ticks up. DOGE cuts continue.
- **Businesses quickly adapt** – they're primed for efficiency and have multiple levers to pull. Congress makes progress on business tax deductions such as reinstating accelerated depreciation of plant and equipment. Animal spirits exit hibernation.
- **Markets remain volatile,** as legal challenges on tariffs, DOGE and other policy priorities are sorted out. Once technical signs of bottoming are present (backing and filling with lighter volume on down days, higher lows, and markets holding even with negative headlines) such volatility could present interesting opportunities.
- **The concept of a North American regional trading block gains momentum.** The door that was opened with Canada and Mexico's exclusion from country-specific tariffs creates opportunity to negotiate restoration of the previous order.

In focus in North America

Jon Borchardt, Sr. Analyst
George Trapkov, CFA, VP and Portfolio Manager

This week

Canadian sentiment impacted by looming trade issues – The Bank of Canada's Business Outlook Survey (BOS) was conducted through the month of February. It fell almost a full point to -2.14 in the first quarter, reversing the previous quarter's improvement. As tariff threats on Canada ramped up, about a third of respondents expect a recession in the coming year. The share of respondents expecting inflation above 3% in the coming year rose 3% to 23%. The impact of trade uncertainty also dominated the BoC's Survey of Consumer Expectations. Measures of inflation expectations deteriorated at all time horizons, as did the probability of losing a job in the next 12 months. Given that uncertainty remains and tariffs are now in place, BMO Economics expects weakness to persist in the coming quarters.

U.S. bond markets show intense volatility amid the tariff flip-flops – Yields on 30-year U.S. governments briefly topped 5% this week while 10-year yields moved back above 4.5% before settling back in the wake of the reciprocal tariff pause. Theories for the volatility range from concerns relating to slowing global growth in the wake of increased tariffs; the potential for weakness of demand in pending bond auctions; the progress/proposals floated during Congress' budget process and implications for deficits; and fears that global trading partners may begin to question the securities' safe haven status.

U.S. China trade war still in play – The hardest hit by U.S. trade policy is China, with tariffs stacking as high as 145%. In response, Beijing has introduced 84% retaliatory tariffs on U.S. goods, imposed critical mineral export controls, placed import restrictions on certain agricultural products and launched numerous regulatory investigations into American companies. Beijing has vowed to "fight until the end," while proclaiming that China has the policy toolkit and economic diversity needed to withstand an extended trade war. The government has also sought to portray China as a stable and reliable alternative trading partner to the U.S..

SE Asian regional trade talks – After five years of silence (and centuries of cultural enmity), China, Japan and Korea have reengaged in talks to advance the Trilateral Free Trade Agreement, designed to bolster regional ties. Dialogue between the European Union and China has also stepped up in recent weeks. On Wednesday, Chinese Premier Li Qiang and EU Commission President Ursula von der Leyen held a call discussing the potential to strengthen communication and cooperation while expanding free and open global trade. President von der Leyen stated that while U.S. tariff policies have severely impacted global trade, the E.U. and China remain committed to upholding fair and free trade. In 1995, the U.S. was a co-founder of the World Trade Organization and has long been seen as a cornerstone of the global economy.

Oil prices have dropped sharply in recent weeks – with West Texas Intermediate (WTI) crude recently dropping to $55.12 per barrel, the lowest level since February 2021. That trade marked a more than 30% decline from this year's high. The sell-off was initially attributed to growing concerns about the outlook for global growth. OPEC+ added to the market's fears by announcing the group would restore 411,000 barrels per day of production – three times the amount that had been expected. While lower oil prices would be a welcome relief at the pump for inflation-weary American consumers, continued uncertainty over the economic outlook and shifts in OPEC+ policy will remain dominant forces in an exceptionally volatile oil market.

Jobs market softening in Canada – Employment fell 32,600 in March (-0.2%), the softest jobs report in three years, which came below the consensus call of about flat. The jobless rate increased by 0.1% to 6.7%. Details were even a bit weaker signalling that the widespread decline in business (and consumer) sentiment in the last two months played out in real decisions in March. Full-time positions fell by a heavy 62,000; private sector jobs accounted for all the overall losses. Falling energy prices and the end of the carbon tax will help dampen inflation pressures (but only in April, after a likely strong March print, which will be out the day before the next rate decision on April 16). However, **the BoC will likely want to see more data before more rate cuts**.

Next Week

Earnings season picks up steam, with additional big bank and core consumer goods companies reporting. Key manufacturing survey data from regional Federal Reserve banks will be released and the BoC is out on Wednesday with a rates decision and press conference.

- **Monday 4/14** – Canada Wholesale sales
- **Tuesday 4/15** – U.S. Empire State Manufacturing Index | Canada Housing starts and Inflation data
- **Wednesday 4/16** – U.S. retail sales, Industrial production, Capacity utilization and Business inventory data | Canada BoC rate decision, Monetary Policy Report and Press Conference
- **Thursday 4/17** – U.S. Initial jobless claims, Philly Fed manufacturing survey | Canada CFIB Business Barometer

Data scorecard as of April 9, 2025

Equity Market Total Returns						
	4/9/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	5,457	7.5%	-6.9%	25.0%	26.3%	-18.1%
NASDAQ	17,125	9.9%	-11.1%	29.6%	44.7%	-32.5%
DOW	4,608	6.0%	-4.1%	15.0%	16.2%	-6.9%
Russell 2000	1,913	4.7%	-13.9%	11.5%	16.9%	-20.5%
S&P/TSX	23,727	2.3%	-3.3%	21.7%	11.8%	-5.8%
MSCI EAFE	7,796	-5.0%	-3.5%	3.8%	18.2%	-14.5%
MSCI EM	533	-8.6%	-7.1%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		-1.8%	1.8%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		-1.6%	2.4%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		-2.1%	0.5%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		-0.7%	-1.5%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		-3.4%	-1.8%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-1.8%	0.4%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-1.7%	0.9%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		-1.3%	0.4%	6.9%	8.2%	-9.5%
Government Bond Yields						
	4/9/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.34%	4.21%	4.21%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.19%	2.97%	2.97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.78%	4.67%	4.67%	4.56%	3.53%	3.66%
German 10-Year Bund	2.59%	2.74%	2.74%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.26%	1.49%	1.49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	4/9/2025 Level	WTD	YTD	2024	2023	2022
USD Index	102.90	-0.1%	-5.1%	7.1%	-2.1%	8.2%
CAD:USD	$0.71	1.0%	2.1%	-7.9%	2.3%	-6.7%
Bitcoin	$83,173.76	-1.1%	-11.2%	120.5%	157.0%	-64.3%
Gold	$3,082.70	1.5%	17.5%	27.2%	13.1%	-0.3%
Oil (WTI)	$62.35	0.6%	-13.1%	0.1%	-10.7%	6.7%

**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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[i] https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD/USA

[ii] https://economics.bmo.com/en/publications/detail/dcfb68ed-a616-491c-a1fd-306604d5b884/