# BMO's "Five Lenses" Strategy

### **BMO Multi-Asset Solutions Team**

At BMO Global Asset Management (BMO GAM) we recognize that asset allocation is the primary driver of long-term portfolio performance. That's why we've created a group of asset allocators called the Multi-Asset Solutions Team (MAST), who follow a consistent investment philosophy to focus on global idea generation with local portfolio implementation. The MAST has developed a simplified "Five Lenses" view to help explain what is driving their asset allocation decisions.



### Lens 1

#### **Asset Mix**

- Eauities
- Fixed Income
- Cash

### Lens 2

### **Asset Class - Equity**

- · Regional Equities
  - Canada
  - U.S.A.
  - FAFE
  - · Emerging Markets
- Alternative Investments

### Lens 3

# Asset Class – Fixed Income

- Duration
- Investment Grade Credit
- High Yield
- · Emerging Market Debt
- Alternative Investments

## Lens 4

# Style/Factor

- Value
- Momentum
- Volatility
- Growth
- Quality
- SIZE
- Yield

### Lens 5

#### **Implementation**

- Active vs. Passive
- Derivatives
- Currency Selection

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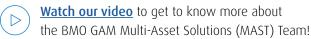
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The Five Lens process begins with the strategic asset allocation, which takes into account the long term expected returns, standard deviations and correlations of various asset classes, adjusted for recent experience. This establishes our longerterm view (4-5 years) that defines the neutral asset mix and the design choices of each portfolio (subject to its objectives). However, we recognize that there are times when our short term views (3-12 months) differ substantially from our longer term views. This is where our tactical asset allocation is employed, and forms part of our risk management framework. How we make our tactical asset allocation decisions

forms the DNA for our Five Lenses. Our process first decides where we want to be more or less bullish, whether we need to adjust our geographic weightings (both within equities and bonds) and whether there are certain exposures we like to have more or less of (i.e., high yield vs. corporate bonds). We then decide whether there are certain styles or factors we want to adjust. Finally, we update tactical changes via our scorecard and communicate it via the Five Lenses each month. Each portfolio is designed with specific parameters in mind to allow for sufficient degrees of freedom to implement meaningful tactical calls when appropriate.

# Five Lenses, as of October 2024

### Lens 1 **Asset Mix**

- We upgraded equities to a small overweight as the U.S. economy remains resilient while the U.S. Federal Reserve ("Fed") cut interest rates by 50 basis points (bps) and China initiated historical economic stimulus.
- We downgraded fixed income to neutral on the view that the Fed policy outlook over the next twelve months was fairly priced in light of the economic outlook.
- We funded our bullish equity tilt by reducing our allocation to cash as we still prefer fixed income over cash.

#### Tactical Score:

△ +1
▼ 0
-1

# Lens 2 **Asset Class Equity**

- Our regional equity mix remains unchanged this month as the economy and markets largely evolve along the lines of our expectations.
- We remain slightly underweight to Canadian equities and continue to prefer U.S. equities.
- · We prefer to be tilted toward U.S. equities with its bias for higher quality and benefit from the more robust U.S. economy.
- We expect the Canadian economic outlook to remain soft as elevated interest rates are weighing on the economy and the loonie.

#### **Tactical Score:**

Canada	-1
U.S.A.	+1
EAFE	0
EM	0

### Lens 3 **Asset Class Fixed Income**

- We remain modestly overweight to bond duration as markets are becoming increasingly comfortable with rate cuts from the Fed while the Bank of Canada is on track for substantial easing through 2025.
- We remain underweight to high-yield, but we downgraded investment-grade corporate bonds to neutral as we prefer to express our bullish views via equities.
- We remain modestly bullish on gold after a good YTD outperformance and we continue to like it as a hedge against the risks to the inflation outlook or if the U.S. economy was to cool faster than expected.

#### Tactical Score

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IG Credit	▼ 0
High Yield	-1
EM Debt	0
Duration	+1

# Lens 4 Style/Factor

- We downgraded value stocks to a small overweight and continue to expect a broadening of equity breadth and some rotation as the U.S. economy remains resilient.
- We upgraded momentum stocks to neutral as an offset to a less bullish view to value.
- We continue to prefer higher quality companies who enjoy stronger balance sheets and pricing power.
- We remain bullish on firms with strong dividends as interest rates are likely to decrease substantially through 2025.
- We remain bullish on small-caps and low-volatility companies.

#### Tactical Score:

Value	<b>▽</b> +1
Size	-1
Volatility	Δ 0
Momentum	Δ 0

# Lens 5 **Implementation**

- We continue to like gold as a hedge against downside macro risks.
- · We think gold could continue to shine if investors were surprised with renewed recession fear or inflation anxiety that could challenge the timing and pace of Fed rate cuts and re-ignite a risk-off U.S. Dollar rally and weigh on the loonie.
- Several central banks are steadily increasing their allocation to gold as a share of their international reserves, which is helping boost demand for gold.

#### **Tactical Score:**



Indicates an increase in the tactical score month-over-month













