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

- Equities
- Fixed Income
- Cash

Lens 2

Asset Class Equity

- Regional Equities
  - Canada
  - U.S.A.
  - EAFE
  - 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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Watch our video to get to know more about the BMO GAM Multi-Asset Solutions (MAST) Team!

At BMO GAM, we've always promoted the value of long-term investing. To us, that's always been the most important decision. In a similar vein, 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 longer-term 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 exposure 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. The process concludes with how we want to implement those changes. We update tactical changes via our scorecard and communicate it via the Fives Lenses each month. Each portfolio is designed with specific portfolio parameters in mind to allow for sufficient degrees of freedom to implement meaningful tactical calls when appropriate, such as overweight U.S. equities, for example. For us, portfolio management involves both strategic and tactical decisions. We will continue to evolve our Five Lenses Strategy to produce better outcomes for our clients.

Five Lenses, as of June 2024

Lens 1
Asset Mix

- We downgraded equities to neutral this month as we think sticky inflation fear and delayed cuts from the U.S. Federal Reserve ("Fed") could turn into headwinds for equities this summer.
- We increased fixed income back to neutral and we are now neutral across our asset mix between stocks, bonds and cash.

Tactical Score:

Equities	▼ 0
Fixed Income	▲ 0
Cash	0

Lens 2
Asset Class Equity

- Our regional equity mix remains unchanged this month.
- We remain underweight to Canadian equities.
- We prefer to be tilted toward U.S. equities with its bias for higher quality and benefit from the far more robust U.S. economy.
- We expect the Canadian economic outlook to continue to soften in 2024 as rate hikes are weighing on the economic outlook and the loonie.

Tactical Score:

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

Lens 3
Asset Class Fixed Income

- We remain neutral across fixed income as the near-term outlook for monetary policy remains uncertain regarding the timing and amplitude of Fed cuts.
- The Bank of Canada could be hesitant to ease policy more than is expected by markets, which could limit the upside from duration.
- Overall, the stronger U.S. growth outlook could threaten the improving inflation outlook, which leaves us neutral on duration for now.
- We increased our bullish view on gold as a hedge against the risk that long-term interest rates might continue to drift higher or if the U.S. economy was to cool faster than expected.

Tactical Score:

IG Credit	0
High Yield	0
EM Debt	0
Duration	0

Lens 4
Style/Factor

- We continue to prefer higher quality companies who enjoy stronger balance sheets and pricing power, which enables them to have more resilient and wider profit margins.
- We remain bullish on firms which can improve and deliver strong dividends as interest rates are likely to decrease in 2024, albeit modestly; we expect investors to rotate in favour of that sector this year.
- We upgraded our view on value companies to a moderate stance as we expect sticky inflation fear to favour value-oriented companies.
- We remain bullish on low-volatility companies to better navigate a potentially more volatile equity market as Fed rate cuts are delayed.

Tactical Score:

Value	▼ +1
Volatility	-1
Quality	+1
Yield	+1

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 which could lead to further delaying expectations for 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:

Canadian Dollar	-1
Gold	▲ +2

▲ Indicates an increase in the tactical score month-over-month | ▼ Indicates a decrease in the tactical score month-over-month

-3	-2	-1	0	+1	+2	+3
Very Bearish	Bearish	Slightly Bearish	Neutral	Slightly Bullish	Bullish	Very Bullish
<-5.0%	-5.0 to -2.5%	-2.5 to -1.0%	-1.0 to +1.0%	+1.0 to +2.5%	+2.5% to +5.0%	>+5.0%

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