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!

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 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 September 2024

Lens 1
Asset Mix

- We maintain a small overweight to fixed income versus cash while remaining neutral on equities.
- With both the U.S. Federal Reserve (Fed) and Bank of Canada (BoC) seen cutting their policy rates perhaps at every decision meeting for the rest the year, fixed income is looking increasingly attractive, especially if economic data was to disappoint.
- We prefer to remain prudent as September tends to be a fragile month for equities while we continue to think they are exposed to elevated valuation multiples and investor sentiment is more fragile.

Tactical Score:	
Equities	0
Fixed Income	+1
Cash	-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 underweight to Canadian equities and continue to prefer U.S. equities, with its bias for higher quality and direct benefit from the robust U.S. economy.
- We expect the Canadian economic outlook to remain soft as elevated interest rates 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 modestly overweight to bond duration as markets are becoming increasingly comfortable with rate cuts from the Fed while the BoC is on track for substantial easing through 2025.
- We remain underweight to high-yield vs investment-grade corporate bonds as spreads to government bonds are tight and relatively unattractive.
- We reduced our bullish view on gold to a small overweight after a good outperformance. We continue to like gold as a hedge against the risks to the inflation outlook or if the U.S. economy was to cool faster than expected.

Tactical Score:	
IG Credit	+1
High Yield	-1
EM Debt	0
Duration	+1

Lens 4
Style/Factor

- We remain modestly bullish on value stocks as the resilient economy continues to support broadening of equity breadth and some rotation.
- We remain bearish on momentum stocks because of our positive view on equity rotation. 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 low-volatility companies to better navigate a potentially more volatile equity market in 2024.

Tactical Score:	
Value	+2
Size	-1
Quality	+1
Momentum	-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 are 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:	
Canadian Dollar	-1
Gold	▼ +1

▲ 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%