

# BMO Ascent Portfolios

March 2023

Monthly Commentary

## Market & Economic Commentary

BMO Managed Solutions

## Portfolio Activity

as at Feb 28, 2023

## Asset Allocation

as at Feb 28, 2023

## Performance

as at Feb 28, 2023

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Following February's pullback, markets were digesting Jerome Powell's more hawkish tone, repricing terminal rates and the implications of a return to 50 basis point (bps) hikes for March. Of course, this will be amplified by Friday's February U.S. Jobs Report, which if anything at all like January's, will surely lead to another downdraft in equities, and spike in yields. Meanwhile, the Bank of Canada (BoC) has, as predicted, stood pat, not raising rates, but still faces the same sticky core inflation problem, which may require another hike this summer.

The yield curve reached an historically inverted -108 bps, with 2-year U.S. Treasury yields cracking the 5% mark for the first time since June 2006. Odds of a rate cut this year have gone virtually to zero, which puts equity markets in limbo, to chew on not just when a recession may hit, but also how deep it will cut. Consensus odds of a recession have similarly increased, although strong consumer spending, aggregate savings and increases in Real Disposable Personal Income would suggest otherwise. With a higher expected terminal rate, and potentially lumpier increases, making a policy error a higher probability, the odds have shifted between a soft and hard landing, with the first remaining the base case, but a bit less so than last month.

Expectations of a 50 bps hike dropped substantially despite the upside surprise from U.S. jobs data (the 11th monthly beat now), mostly on lower-than-expected wage growth and a slight uptick in the unemployment rate (which indicates a fall in participation versus a loss of jobs). A slightly disinflationary reaction, equities popped initially. Overall, the U.S. Federal Reserve was being responsible in saying they would go to 50 bps, if necessary, but it certainly isn't their preferred move, and this report doesn't give enough impetus to justify it. Conversely, the 21.8k Canadian jobs report, with 31k increased full time jobs, definitely suggests the BoC will check their calendars for when another hike might be appropriate.

Finally, the drama over Silicon Valley Bank reached a fever pitch as U.S. regulators stepped in to protect deposits beyond the FDIC limits,

harkening back to the big bank bailouts of the financial crisis. Fed-talk was quickly overshadowed, causing a sharp decline in yields and sell-off in equities, with U.S. banks down 11.5% in a week. The debate has quickly turned from how high rates must go to kill inflation, to if the Fed will pause here to address any inklings of systematic risk in the banking sector, as the futures market dropped its implied probability of a March increase to 0%.

From a portfolio perspective, "when" has become a lot more difficult of a decision than "what". Duration is probably the topic on the top of our collective minds, as moving to an overweight on interest rate risk became more attractive as 10-year yields crossed 4%. More importantly, their sensitivity to Fed policy news seems asymmetrical, with almost no upward movement resulting from Mr. Powell's sharp tone. History suggests that one would want to move overweight well before the last Fed hike, but that is more a function of how convinced the market is that it is indeed the last.

- BMO Multi-Asset Solutions Team "MAST"  
BMO Asset Management Inc.

| Index                           | Canadian Dollar Return | Close          |
|---------------------------------|------------------------|----------------|
| S&P 500 Index                   | -0.28%                 | 11,546.94      |
| MSCI World Index                | -0.38%                 | 15,408.63      |
| FTSE Canada Universe Bond Index | -1.99%                 | 1,062.04       |
| Canadian Dollar (\$US/\$CA)     | -2.49%                 | 0.73           |
| Crude Oil                       | -0.14%                 | 104.92 bbl/CAD |

Index performance is shown for illustrative purposes only.  
You cannot invest directly in an index.

Source: Bloomberg, from Jan 31, 2023 to Feb 28, 2023.

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## BMO Ascent Portfolios – Monthly Portfolio Commentary

### Fixed Income

- Fixed income investors saw a difficult February as U.S. 10-year yields spiked back up above 4%.
- As the 10-year yields continue to seesaw on Consumer Price Index (CPI) prints, the overall sentiment on bonds has significantly improved from 2022.
- The latest 25 basis point hike from the U.S. Federal Reserve took the overnight target to 4.75%, mirroring the move in Canada.
- On a forward-looking basis, bonds look more attractive and we are buyers at these levels. When we factor in the potential for capital gains down the road for bond investors, we are growing more and more fond of this asset class.
- While we are still neutral on duration, we maintain a positive tilt to investment grade credit.

### Equities

- We remain overweight to North America, but we reduced that overweight by allocating more to international equities.
- Given the change risk sentiment year-to-date, we also trimmed some of the value factor bias in the BMO Ascent Portfolios (via Vanguard Russell 1000 Value Index Fund ETF and BMO MSCI USA Value Index ETF) and rotating it back to growth (via Vanguard Russell 1000 Growth Index Fund ETF).
- We remain wary of making large regional tilts given the macro backdrop in geopolitical situation. With the U.S. facing off in the Ukraine/Russia war and China/Taiwan conflict looming on the horizon, it's tough to ignore these black swan events.
- We continue to have some put option protection in place via risk-reversal collars spread across April/May/June option contracts.



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## BMO Ascent Portfolios (%) – as at Feb 28, 2023

# Asset Allocation

| Fixed Income                                     | Income    | Conservative | Balanced  | Growth    | Equity Growth |
|--|-----------|--------------|-----------|-----------|---------------|
| BMO Core Plus Bond Fund                          | 15.4      | 16.0         | 10.4      | 3.9       | -             |
| BMO Aggregate Bond Index ETF                     | 15.5      | 16.0         | 10.4      | 4.0       | -             |
| BMO Mid-Term US IG Corporate Bond Index ETF      | 23.9      | 15.1         | 10.4      | 5.7       | -             |
| BMO Long Federal Bond Index ETF                  | -         | -            | 0.1       | -         | -             |
| BMO Emerging Markets Bond Fund                   | 6.5       | 4.1          | 2.7       | 1.0       | -             |
| BMO High Yield US Corporate Bond Index ETF       | 6.2       | 2.9          | 1.9       | 0.8       | -             |
| Other Fixed Income / Cash                        | 3.6       | 3.1          | 0.9       | 0.6       | 0.9           |
| <b>Total Fixed Income</b>                        | <b>71</b> | <b>57</b>    | <b>37</b> | <b>16</b> | <b>1</b>      |
| Equity   |           |              |           |           |               |
| BMO S&P 500 Index ETF                            | 3.3       | 6.8          | 10.9      | 16.8      | 17.0          |
| BMO S&P/TSX Capped Composite Index ETF           | 8.6       | 12.6         | 17.8      | 23.3      | 27.0          |
| BMO MSCI EAFE Index ETF                          | 4.2       | 6.1          | 9.0       | 13.8      | 17.9          |
| BMO MSCI Emerging Markets Index ETF              | 0.8       | 1.9          | 3.3       | 4.2       | 4.8           |
| iShares Edge MSCI USA Momentum Factor ETF        | -         | 0.6          | 1.5       | 1.8       | 2.9           |
| BMO Global Infrastructure Fund                   | 2.5       | 2.4          | 2.6       | 2.9       | 2.7           |
| US Vanguard Russell 1000 Growth ETF              | -         | 0.1          | 0.3       | 0.8       | 3.2           |
| BMO Women in Leadership Fund                     | 0.3       | 0.4          | 0.8       | 1.5       | 4.2           |
| BMO Global Small Cap Fund                        | -         | 0.3          | 2.8       | 3.1       | 5.0           |
| iShares Gold Trust                               | -         | -            | 0.2       | -         | -             |
| iShares Global REIT ETF                          | 2.2       | 1.9          | 2.6       | 2.8       | 3.0           |
| BMO MSCI USA Value ETF                           | 2.8       | 2.7          | 3.1       | 3.1       | 2.9           |
| Royal Mint Responsibly Sourced Physical Gold ETC | 1.1       | 1.9          | 2.1       | 3.3       | 3.2           |
| Other Equity                                     | 3.2       | 5.0          | 6.2       | 6.6       | 5.4           |
| <b>Total Equity</b>                              | <b>29</b> | <b>43</b>    | <b>63</b> | <b>84</b> | <b>99</b>     |

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## BMO Ascent Portfolios – Performance

| Series A Performance (%)             | Since Inception | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year |
|--------------------------------------|-----------------|---------|----------|----------|--------|--------|
| BMO Ascent Income Portfolio A        | 0.6             | -2.3    | -0.2     | 1.4      | -6.9   | -1.7   |
| BMO Ascent Conservative Portfolio A  | 1.5             | -2.1    | -0.2     | 2.2      | -6.2   | 0.1    |
| BMO Ascent Balanced Portfolio A      | 2.9             | -2.0    | -0.2     | 3.5      | -5.1   | 2.2    |
| BMO Ascent Growth Portfolio A        | 4.3             | -1.8    | -0.1     | 4.9      | -3.8   | 4.7    |
| BMO Ascent Equity Growth Portfolio A | 5.7             | -1.5    | 0.2      | 6.2      | -2.8   | 6.5    |

Data as of Feb 28, 2023.

Inception date September 18, 2017. Performance is for Series A mutual funds in Canadian dollars and is net of fees and taxes.

Source: Morningstar Direct



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