BMO Ascent Portfolios

February 2024

Monthly Commentary

Market & Economic Commentary

BMO Managed Solutions

Portfolio Activity

as at Jan 31, 2024

Asset Allocation

as at Jan 31, 2024

Performance

as at Jan 31, 2024

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BMO Global Asset Management

Rate Cuts See Their Shadow

Japanese equities led global markets in January, with the TOPIX index rising 7.8%. This market has been an overweight among the managed solutions since the second quarter of last year, on attractive valuations and increasing shareholder yield opportunities. Weaker than expected wage growth data helped ease concerns of the Bank of Japan's potential termination of its yield curve controls and negative interest rate policy, boosting valuations over the month. January's slow start turned quickly into a continuation of the fourth quarter's "everything rally" in the U.S., as earnings season delivered above average upside earnings surprises. The "Magnificent 7" [a group of high-performing U.S. stocks including Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA)], was more mixed, with disappointing earnings from Tesla and a sales slump from Apple, while Meta soared on cost-cutting and the initiation of a regular dividend. The banking sector provided a modest fright with regional bank New York Community Bank (NYCB) reporting that they were increasing their credit provisions by $552 million, more than 10 times analyst expectations, while also cutting their dividend. This was all due to deteriorating residential and commercial real estate loans, sparking fears that there might be similar uncovered risks throughout the sector. However, strong U.S. economic data, including upside surprises to January jobs and fourth quarter annualized GDP growth of 3.3% contributed to the rally, only to be cut short by the U.S. Federal Reserve's (the "Fed's") more hawkish stance.

As expected, the Fed held rates steady on January 31, and firmly put the notion of potential further hikes in the rear view. However, it also became abundantly clear that March was also unlikely for any first rate cut, with a blowout jobs report of 353,000 jobs in January versus a consensus expectation of 185,000. Mr. Powell even made it a point to appear on 60 minutes, an unusual forum for the Fed Chairman, to explain to the broader American public that while significant progress had been made, there remained inflationary impulses in the economy that were not yet tamed. Market pricing of rate cuts for the year ahead adjusted quickly, moving down to 4 from the prior 5-6 widely expected by 2024's end.

Chinese equities continued to struggle to rise from their knees in the wake of the property sector's final collapse of Evergrande Group, with authorities taking incremental steps to try to support the equity market, including restrictions on short sellers and a commitment of government buying of domestic equity ETFs. Unfortunately, these lack the scale to radically turn the market in the short-term, although the historically wide valuation discounts versus domestic markets, particularly the U.S., might prove interesting to longer-term contrarians. The increasing volatility has created shorter-term tactical opportunities to capture asymmetrical upside via the options market, however.

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

Index	Canadian Dollar Return	Close
S&P 500 Index	3.11%	14,064.50
MSCI World Index	2.56%	18,210.97
FTSE Canada Universe Bond Index	-1.37%	1,106.15
Canadian Dollar ($US/$CA)	-1.42%	0.74
Crude Oil	7.35%	101.59 bbl/CAD

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

Source: Bloomberg, from Dec 31, 2023 to Jan 31, 2024.

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Portfolio Activity

BMO Ascent Portfolios – Monthly Portfolio Commentary

Fixed Income

- While doubts still linger around the timing and magnitude of the U.S. Federal Reserve cuts, the economic backdrop remains remarkably resilient. That was enough to shift the investor sentiment higher.
- On the portfolio front, we started the month at a neutral position and allowed winners room to run.
- Bonds struggled in the month, reversing some gains made since the October pivot. January saw the Canada Universe fall (-1.4%). While the U.S. 10yr barely moved, closing at the 3.9% level; Canada 10yrs climbed from 3.1% to 3.3% as inflation expectations flared higher. The longer end was hit a bit harder with US Long Treasuries down. Credit fared better with Investment Grade leading high yield.
- The BMO Ascent Portfolios are maintaining a neutral duration position at this time – not wanting to jump in early.

Equities

- We took this opportunity take profits, trimming the positions in BMO ETFs: ZEA and ZCN accordingly and added to U.S. We continue to favour the U.S. with the tailwind of earnings and those mega cap growth names, whose earnings have remained resilient quarter after quarter.
- On the factor front, we have been steadily reducing the factor positions broadly – low volatility, value, momentum – and shifting to beta1 large cap to bolster the core.
- The main additions this month were in the alternatives sleeve. We continue to look for opportunities to add to the Infrastructure, REITs and Physical Gold positions. We have also steadily added to BMO Strategic Equity Yield Fund and BMO Long Short US Equity (ZLSU) over the month.
- The BMO Ascent Portfolios will emphasize the integrated approach of ETFs (beta) | Factors (alpha) and Alternatives (Sharpe) in its portfolio construction.

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Asset Allocation

BMO Ascent Portfolios (%) – as at Jan 31, 2024

Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
BMO Core Plus Bond Fund	14.0	12.3	8.5	2.7	-
BMO Aggregate Bond Index ETF	20.3	16.7	10.1	2.9	-
BMO Mid-Term US IG Corporate Bond Index ETF	18.0	14.7	10.3	5.2	-
BMO Emerging Markets Bond Fund	5.4	4.4	2.9	1.1	-
BMO High Yield US Corporate Bond Index ETF	4.6	4.1	2.1	1.1	-
Other Fixed Income / Cash	8.5	6.3	3.1	3.1	0.3
Total Fixed Income	**71**	**59**	**37**	**16**	**0**
Equity					
BMO S&P 500 Index ETF	8.3	11.7	17.3	23.3	25.4
BMO S&P/TSX Capped Composite Index ETF	3.7	5.8	10.9	16.1	18.1
BMO MSCI EAFE Index ETF	5.9	9.0	14.5	19.5	22.2
BMO MSCI Emerging Markets Index ETF	0.9	1.8	2.9	4.0	5.0
iShares Edge MSCI USA Momentum Factor ETF	-	-	0.4	0.5	1.2
BMO Global Infrastructure Fund	1.8	2.2	2.7	2.9	2.9
US Vanguard Russell 1000 Growth ETF	0.8	1.6	1.7	4.1	6.3
BMO Women in Leadership Fund	0.4	0.6	1.0	1.8	5.1
BMO Global Small Cap Fund	-	0.3	1.7	1.6	2.9
iShares Global REIT ETF	1.9	2.0	2.6	2.7	2.6
BMO MSCI USA Value ETF	0.6	1.2	1.6	1.8	1.6
Royal Mint Responsibly Sourced Physical Gold ETC	1.3	2.2	2.5	3.6	3.3
Other Equity	3.6	3.0	3.0	2.1	2.9
Total Equity	**29**	**41**	**63**	**84**	**100**

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Performance

BMO Ascent Portfolios – Performance

Series A Performance (%)	Since Inception	1 Month	3 Months	6 Months	1 Year	3 Year	5 Year
BMO Ascent Income Portfolio A	1.3	-0.4	8.2	3.2	2.5	-1.8	1.0
BMO Ascent Conservative Portfolio A	2.1	-0.1	8.3	3.3	3.1	-0.2	2.1
BMO Ascent Balanced Portfolio A	3.4	0.2	9.1	3.4	4.1	1.4	3.5
BMO Ascent Growth Portfolio A	4.9	0.8	9.9	3.7	5.9	3.6	5.2
BMO Ascent Equity Growth Portfolio A	6.4	1.2	10.4	4.2	8.3	5.1	6.9

Data as of Jan 31, 2024.
Inception date September 18, 2017. Performance is for Series A mutual funds in Canadian dollars and is net of fees and taxes.
Source: Morningstar

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