BMO ETF Portfolios
(F-Series)

January 2022
Monthly Commentary

Portfolio Activity
as at Dec 31, 2021

Market & Economic Commentary
BMO Managed Solutions

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BMO Global Asset Management

Market & Economic Commentary

2021 closed on a strong note, with risk assets continuing to grind higher in the face of reacceleration of COVID's Omicron variant, driving cases to new heights in many regions. The sheer number of cases is once again threatening to overload health system capacity, once again bringing mobility restrictions, school closures, and further deferral of back to office plans.

Equities did not seem to care however, as they finished with broadly positive returns for the month, with indices setting records not only for their absolute levels, but more importantly (or concerningly), the durability of their outperformance. For example, in 2021 the S&P 500 Index set a record 70 new all-time highs, posting a third year of double-digit returns, and a modest maximum drawdown of only -5.2% lasting a blink of five days. (Bloomberg, 2022)

December's relative market performance was not indicative of the full year however, with EAFE markets outperforming U.S. equities, followed by Canadian, and then Emerging Markets (in local currency returns). For the full year, the technology laden S&P 500 Index lead global returns, followed by Canada and EAFE, while EM was a distinct outlier, declining 4.6% while the MSCI World Index rose 20.14%. Similarly, rotations back and forth between Growth and Value saw Growth take the lead in the second half, a reflection of growing concerns over the impact of slowing economic growth, higher inflation, and less accommodative U.S. Federal Reserve policy. (Bloomberg, 2022)

Fixed Income has become the more confusing asset class however, as the world continues to claw back from the extreme measures taken during the global pandemic. With real interest rates still negative, one could argue that rate increases are in fact long overdue, and that central banks are well behind the curve. However, economic stabilizers are slow in their efficacy, and the speed of decline and recovery have complicated matters. Short-term year-over-year indicators, especially inflation, reflect emergence from 2020's economic flatlining. While "transitory" has been firmly dismissed from popular debate of current inflation, a world of above-2% inflation for the coming year is a reasonable expectation, as global supply chains remain constrained by COVID and industry specific demand (eg, semiconductors, used cars). The overall result is a volatile path for the direction of rates, that is only made more volatile by the multiplier effect of an 8-year benchmark duration for the broad Canadian bond market. To simplify, investors should consider bonds their "stay-at-home defenceman", happy to see them preserve capital versus scoring significant returns.

That suggests that equities remain firmly supported by the notion of TINA ("There Is No Alternative"), as rate increase will erode capital from bonds paying yields below inflation. However, there are far more positive indicators than just that, with earnings growth expected to remain in the 'teens, continued strong employment and consumer spending, and strong free cash flows across many sectors of the market. While some mega-cap stocks are certainly showing excessively high valuations by historical standards, the equally weighted S&P 500 is showing a level of valuation that is at a much more reasonable level, especially when considering the low-rate environment.

For these reasons and more, we remain bullish on equities headed into 2022. While a formal correction of more than 10% is overdue, as these have proven to be very common annual events over the past several decades, we would view this as a buying opportunity. These pullbacks serve to remove the more speculative positions from the broader market, while giving investors the opportunity to buy quality exposures that were unfairly lumped into the broader market. Further, the application of factor and sector analysis provides a further opportunity for investors, as rotation among these has been the more recent trend. This can also be seen in relative regional performance, as we have faded our Canadian overweight in favour of raising US equities back to preference, while maintaining an underweight in EAFE markets, while adding very selectively to EM using cashflows, as we watch China's delicate recovery with interest.

Steven W. Shepherd, CFA
Vice President, Portfolio Manager
BMO Asset Management Inc.

Index	Canadian Dollar Return	Close
S&P 500 Index	3.10%	12,632.18
MSCI World Index	2.71%	16,618.22
FTSE Canada Universe Bond Index	1.67%	1,190.26
Canadian Dollar ($US/$CA)	1.11%	0.79
Crude Oil	12.15%	95.13 bbl/CAD

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

Source: Bloomberg, as at Dec 31, 2021

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Portfolio Activity

BMO ETF Portfolios – Monthly Portfolio Commentary

- The low volatility equity exposures lead BMO ETF Portfolio performance over the month, with both U.S. and Canadian low volatility outperforming their respective broad markets.
- The regional equity allocation detracted from value over December as strong European equity returns lead the EAFE Index to outperform both the U.S. and Canada.
- Our exposures to U.S. Financials and U.S. Energy underperformed during the month, as Technology lead the U.S. market higher into year end. Our allocation to global airlines (US Global Jets ETF: JETS) moved up from recent lows, following its pullback on the discovery of the COVID Omicron variant. We added to this position on weakness, in anticipation of a deferred recovery of global travel in 2022.

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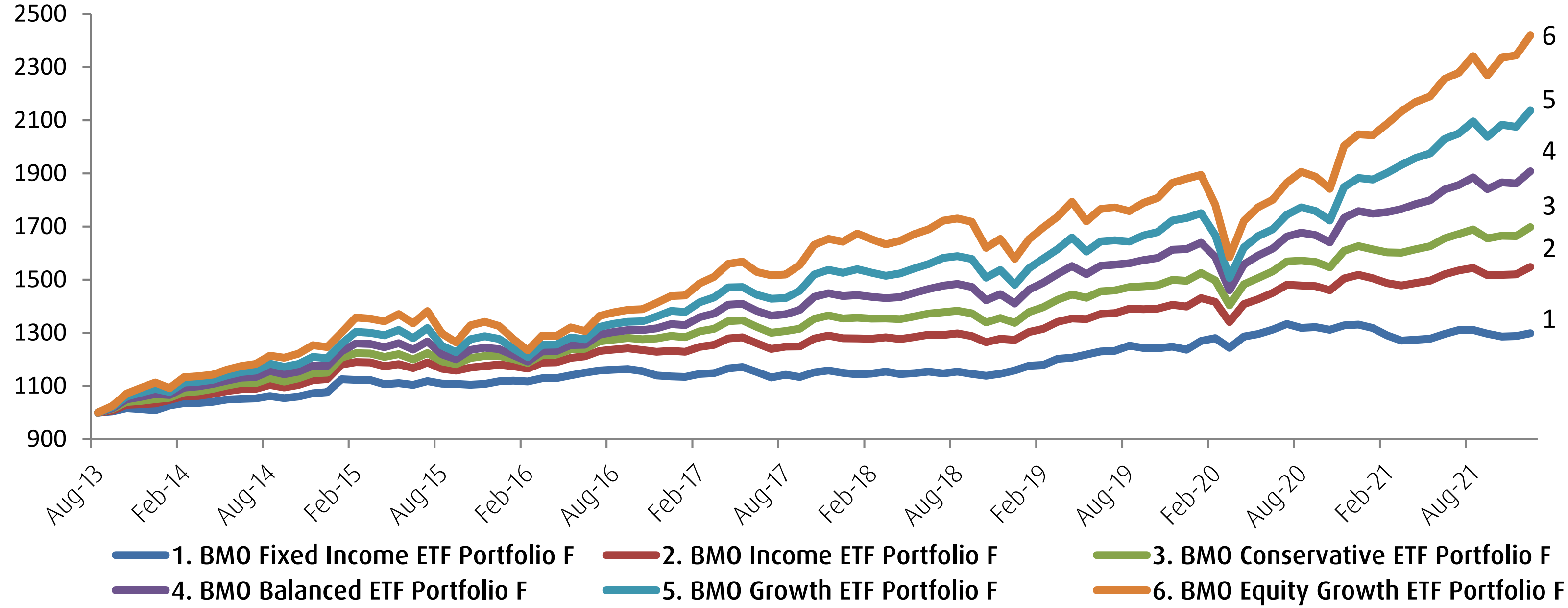
Asset Allocation

BMO ETF Portfolios – as at Dec 31, 2021

Fixed Income	Ticker	BMO Fixed Income ETF Portfolio	BMO Income ETF Portfolio	BMO Conservative ETF Portfolio	BMO Balanced ETF Portfolio	BMO Growth ETF Portfolio	BMO Equity Growth ETF Portfolio
BMO Aggregate Bond Index ETF	ZAG	29.8	29.5	26.7	15.6	9.6	-
BMO Mid-Term US IG Corporate Bond ETF (CAD Hgd)	ZMU	20.2	9.8	9.3	7.0	2.2	-
BMO High Yield US Corp Bond Hedged	ZHY	8.8	1.7	1.5	1.3	0.4	-
BMO Long Federal Bond Index ETF	ZFL	3.5	3.9	2.7	2.2	1.1	-
BMO Short Corporate Bond Index ETF	ZCS	7.3	2.9	2.2	0.9	0.3	-
BMO Mid Corporate Bond Index ETF	ZCM	2.0	6.0	3.0	1.8	0.7	-
BMO Core Plus Bond Fund ETF	ZCPB	-	1.4	1.3	1.5	0.5	-
BMO Emerging Markets Bond ETF (CAD Hgd)	ZEF	5.1	4.3	3.5	2.5	0.4	-
BMO Long Provincial Bond Index ETF	ZPL	0.8	2.1	1.5	0.9	0.4	-
BMO Canadian MBS Index ETF	ZMBS	6.5	3.4	2.8	0.9	-	-
SPDR Portfolio Tips ETF	SPIP-US	5.6	-	-	-	-	-
BMO Long-Term US Treasury Bond ETF	ZTL	5.6	-	-	-	-	-
Other Fixed Income/Cash		2.7	6.1	7.1	3.8	2.9	1.3
TOTAL Fixed Income		**98**	**71**	**62**	**39**	**18**	**1**
Equity							
BMO S&P 500 Index ETF	ZSP	1.2	8.6	12.6	18.1	22.4	28.5
BMO S&P/TSX Capped Comp Index ETF	ZCN	1.1	9.8	11.2	17.4	23.5	28.4
BMO MSCI EAFE Index ETF	ZEA	-	5.9	9.1	13.4	18.8	23.1
BMO MSCI Emerging Markets Index ETF	ZEM	-	1.8	2.4	4.9	6.2	6.8
BMO Low Volatility Canadian Equity ETF	ZLB	-	0.5	1.2	1.2	2.0	2.5
BMO Low Volatility US Equity ETF	ZLU	-	-	0.3	1.6	2.5	2.6
BMO S&P US Small Cap Index ETF	ZSML	-	-	-	2.0	2.7	3.2
iShares U.S. Financials ETF	IYF	-	1.0	0.6	1.0	1.3	1.6
Other Equity		-	1.4	1.0	2.0	2.1	2.1
TOTAL Equity		**2**	**29**	**38**	**61**	**82**	**99**

Performance

BMO ETF Portfolios Performance (since inception August 12, 2013, as of Dec 31, 2021)



Source: Morningstar Direct. Performance is for Series F mutual funds in Canadian dollars, and is net of fees and taxes.

Time Lapse	BMO Fixed Income ETF Portfolio F	BMO Income ETF Portfolio F	BMO Conservative ETF Portfolio F	BMO Balanced ETF Portfolio F	BMO Growth ETF Portfolio F	BMO Equity Growth ETF Portfolio F
1 month	0.8%	1.8%	2.0%	2.5%	2.9%	3.2%
3 month	0.7%	2.0%	2.8%	3.8%	5.0%	5.8%
6 month	0.8%	1.9%	2.8%	3.9%	5.4%	6.5%
1 Year	-1.8%	2.0%	4.6%	8.7%	13.6%	17.3%
3 Year	4.1%	6.7%	8.3%	10.7%	13.0%	15.0%
5 Year	2.8%	4.7%	5.7%	7.5%	9.1%	10.8%
Since Inception as of August 12, 2013	3.1%	5.3%	6.4%	7.9%	9.3%	10.7%

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