

BMO ETF Portfolios

(F-Series)

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.

Steven W. Shepherd, CFA
Director, Portfolio Manager
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 ETF Portfolios – Monthly Portfolio Commentary

- Among equities, we favour more granular relative bets, where fundamentals and macro tailwinds intersect favourably, such as our sector tilts toward Canadian Materials, U.S. Energy, and U.S. Industrials.
- While we remain neutral on equities overall, our tilt towards emerging markets (more specifically, China) is expected to play out throughout 2023 as government policy pivots to support consumer-led growth above real estate and infrastructure, with estimates of ~5% GDP growth for the year. While they have rebounded somewhat, 2021's trough levels of -20% declines in existing home resale prices has weighed heavily on consumer wealth, and this has led to a stunning -35% year-over-year decline in square footage under construction, a measure that peaked at near 25% in 2018 (Source: TS Lombard). All that said, the road to recovery lies ahead, and with stronger financial regulations announced at the recent National Party Convention, this should remain a multi-year tailwind for China.

Fixed Income Metrics	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
Effective Duration	6.22	6.52	6.43	6.47	6.59	0.00
Yield to Maturity	5.44%	5.16%	5.15%	5.17%	5.18%	0.00%
Current Yield	3.76%	3.64%	3.59%	3.63%	3.69%	0.00%

Data as of Feb 28, 2023. Fixed income metrics shown are for the fixed income portion of the BMO ETF Portfolios only, excluding equities and cash.

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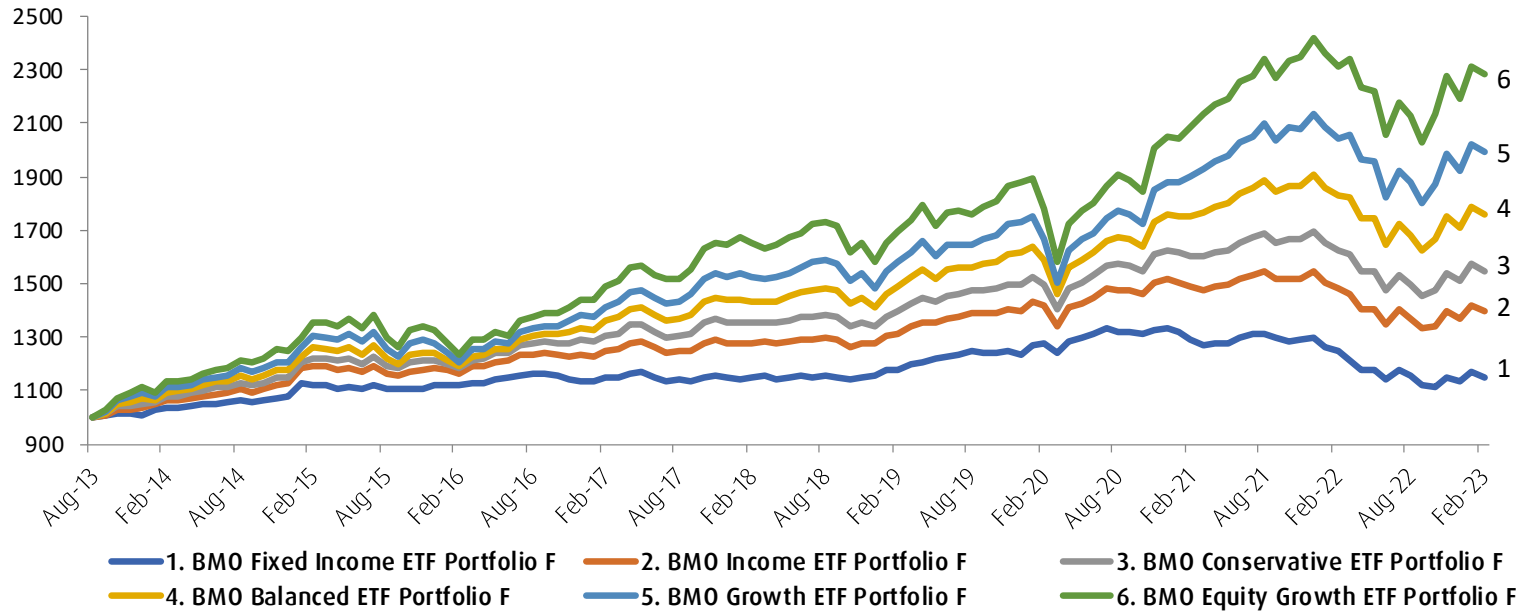
BMO ETF Portfolios (%) – as at Feb 28, 2023

Asset Allocation

	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
Fixed Income							
BMO Aggregate Bond Index ETF	ZAG	19.4	26.4	21.1	15.2	7.5	-
BMO Mid-Term US IG Corporate Bond ETF (CAD Hgd)	ZMU	35.7	18.7	15.5	10.3	5.1	-
BMO High Yield US Corporate Bond (CAD Hgd)	ZHY	9.9	5.4	4.4	2.9	1.4	-
BMO Core Plus Bond Fund ETF	ZCPB	5.6	6.9	5.0	3.5	2.7	-
BMO Emerging Markets Bond ETF (CAD Hgd)	ZEF	10.9	6.1	5.1	3.4	1.7	-
BMO Canadian MBS Index ETF	ZMBS	5.5	3.6	2.6	1.7	-	-
SPDR Portfolio Tips ETF	SPIP-US	5.2	-	-	-	-	-
BMO Long Federal Bond Index ETF	ZFL	3.7	2.6	2.1	1.0	0.3	-
BMO Short Federal Bond Index ETF	ZFS	0.4	0.7	1.8	0.3	0.3	-
Cash & Cash Equivalents		3.7	2.1	2.2	1.8	1.4	1.4
TOTAL Fixed Income		100	72	60	40	20	1
Equity							
BMO S&P 500 Index ETF	ZSP	-	8.4	12.4	17.4	23.7	30.0
BMO S&P/TSX Capped Comp Index ETF	ZCN	-	7.6	11.1	16.7	22.2	27.7
BMO MSCI EAFE Index ETF	ZEA	-	5.9	7.7	12.8	17.0	18.7
BMO MSCI Emerging Markets Index ETF	ZEM	-	1.6	2.3	3.0	4.0	4.8
BMO MSCI Europe High Quality Index ETF	ZEQ	-	1.1	2.1	2.4	2.4	4.4
BMO Japan Index ETF	ZJPN	-	1.2	2.1	2.5	2.5	4.4
Energy Select Sectors SPDR Fund	XLE	-	0.8	1.1	1.2	1.2	1.2
Industrial Select Sector SPDR Fund	XLI	-	0.6	0.8	1.0	1.3	1.6
iShares S&P/TSX Capped Materials Index ETF	XMA	-	0.3	0.5	0.7	0.9	1.1
BMO NASDAQ 100 Equity Index ETF	ZNQ	-	-	-	1.1	1.3	1.4
BMO Brookfield Global Renewables Infrastructure Fund ETF	GRNI	-	-	-	-	1.0	0.9
BMO Brookfield Global Real Estate Tech Fund ETF	TOWR	-	-	-	-	1.0	1.0
BMO S&P US Small Cap Index ETF	ZSML	-	-	-	0.5	0.5	0.8
BMO MSCI China ESG Leaders	ZCH	-	-	-	0.4	0.7	0.9

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BMO ETF Portfolios Performance (since inception, as of Feb 28, 2023)



The chart illustrates the impact to an initial investment of \$1,000 dollars from August 12, 2013 to February 28, 2023 in the BMO ETF Portfolios - Series F. It is not intended to reflect future returns on investments.

Time Lapse	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
1 month	-2.1%	-1.9%	-1.8%	-1.6%	-1.5%	-1.3%
3 month	-0.3%	-0.1%	0.0%	0.2%	0.3%	0.3%
6 month	-0.6%	1.7%	2.9%	4.4%	5.8%	7.2%
1 Year	-8.1%	-6.1%	-5.1%	-3.9%	-2.6%	-1.3%
3 Year	-3.4%	-0.5%	1.1%	3.5%	6.1%	8.3%
5 Year	0.1%	1.8%	2.7%	4.2%	5.5%	6.5%
Since Inception as of August 12, 2013	1.4%	3.5%	4.5%	6.0%	7.3%	8.7%

Series F units are only available to investors who participate in eligible wrap programs or flat fee accounts with their registered dealers that have entered into a Series F Agreement with BMO Investments Inc.

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BMO ETF Portfolios use ETFs as the building blocks, giving you the benefits of ETFs and mutual funds in an easy to use, all-in-one investment solution. They provide diversified market and asset exposure through a series of risk-differentiated portfolios invested in BMO ETFs.

1 Clients expect investment professionals to take **advantage of ETFs** in their portfolio

2 BMO ETFs lead the Canadian industry, ranked #1 with the most net new assets 12 years straight¹

3 BMO ETF Portfolios & BMO USD ETF Portfolios are **risk-based ETF solutions** that meet client's evolving long-term needs

Mutual Fund Trust	Fixed Income				Income				Conservative				Balanced				Growth				Equity Growth			
	FE†	LL‡	DSC‡	Fee Based	FE†	LL‡	DSC‡	Fee Based	FE†	LL‡	DSC‡	Fee Based	FE†	LL‡	DSC‡	Fee Based	FE†	LL‡	DSC‡	Fee Based	FE†	LL‡	DSC‡	Fee Based
Advisor	99700	98700	97700	-	99701	98701	97701	-	99702	98702	97702	-	99703	98703	97703	-	99704	98704	97704	-	99705	98705	97705	-
T6	34706	33706	32706	-	34707	33707	32707	-	34708	33708	32708	-	34709	33709	32709	-	34710	33710	32710	-	34712	33712	32712	-
F	-	-	-	95700	-	-	-	95701	-	-	-	95702	-	-	-	95703	-	-	-	95704	-	-	-	95705
F2	-	-	-	14700	-	-	-	14701	-	-	-	14702	-	-	-	14703	-	-	-	14704	-	-	-	14705
F4	-	-	-	-	-	-	-	37701	-	-	-	37702	-	-	-	37703	-	-	-	37704	-	-	-	37705
F6	-	-	-	-	-	-	-	36701	-	-	-	36702	-	-	-	36703	-	-	-	36704	-	-	-	36705

Management Expense Ratio (MER) as of September 30, 2022

Mutual Fund Trust	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
Advisor	1.01%	1.67%	1.67%	1.72%	1.72%	1.78%
F	0.45%	0.56%	0.56%	0.61%	0.61%	0.67%

†FE = Sales Charge | ‡DSC (Deferred Sales Charge) and LL (Low Load) purchase options are no longer available for sale.

USD

Mutual Fund Trust	USD INCOME	USD CONSERVATIVE	USD BALANCED
Advisor	99816	99814	99812
T6	99817	99815	99813
F	95816	95814	95812
F6	36817	36815	36813
MER (Advisor/T6)	1.70% / 1.70%	1.70% / 1.70%	1.60% / 1.66%
MER (F/F6)	0.57% / 0.57%	0.57% / 0.57%	0.57% / 0.57%

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