# BMO ETF Portfolios

(F-Series)

## August 2024

Monthly Commentary

10-year **Anniversary**

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BMO Managed Solutions

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as at Jul 31, 2024

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BMO Global Asset Management

Market & Economic Commentary

## Special Report: Summer Sell-Off Rattles Risk Assets

It's not often one can complain about the timing of a holiday weekend but last week was certainly not ideal for Canadian investors. With Canadian markets closed for the August Civic Holiday, futures were down sharply in the U.S. following the sell-off of the last couple of weeks, which accelerated sharply following the disappointment in U.S. nonfarm jobs, (114k versus 175k expected). This led to fears of economic catastrophe, only days after the U.S. Federal Reserve Board (the "Fed") opted to pass on a July rate cut, pumping market pricing of a September 50 basis point cut to near-certainty, and even suggestions that an emergency between meeting cut should be done to fend off imminent unravelling of the economy. This in turn weakened the U.S. dollar on a relative basis, sending the Japanese yen higher, fuelling a brutal 12% sell-off of Japanese stocks and risk assets worldwide funded by the yen carry trade.

As of August 6th, the first three trading days of August have yielded a -6.1% fall in the S&P500 Index, and -8.0% for the Nasdaq Composite Index. Canadian equities have held up better, with the S&P/TSX Composite Index falling -2.6%, while MSCI Emerging Markets and EAFE Indices fell -6.3% and -7.4%, respectively (Bloomberg, 2024). Yields are down sharply globally, with the U.S. 10 year now at 3.83%, a level last seen last December when markets were pricing in 6-7 rate cuts for 2024.

**What's Next:** In any market drawdown, the key question is whether this is a short-term event or the beginning of something more nefarious. While valuations have certainly argued for some adjustment among technology stocks, the balance of the market, both within the U.S. and internationally, were barely running above longer-term averages. The abrupt shift from narratives of hard landing to soft landing to hard landing has been the more prominent driver of recent volatility, which was amplified by the sharp sector rotation initially driven by the highly volatile U.S. Presidential Election dynamic. Now, add on top the unwinding of yen carry trades and you have the perfect storm, which we are now in the eye of. Corrections often end with a whimper, not a bang, so the final weeks of summer will most likely see some sloppy trading across markets. We are already seeing indications of retail and institutional dip buying, but expect the sensitivity to any economic data to be heightened leading into the September Fed meeting.

**Drawdowns are Common:** Looking at the past three decades of drawdowns from peak levels, we certainly are not outside the realm of "normal" at this point. When one considers other factors, particularly the low level of volatility that dominated since the start of the year, and the degree of concentration on a sector and single-name basis (ie. "Magnificent 7" stocks), a valuation-driven correction during lower volume summer months is fairly reasonable. The notion that the Fed is behind the curve is hardly new either, but to expect a mid-meeting emergency cut seems premature.

**What to Do?** Sudden moves on unstable footing rarely are the best answer. While the sharpness of the correction is unnerving for investors, a look at historical pullbacks and a broader measure of the strength of the global economy indicated as slowing, not a stoppage. Reporting of second quarter earnings has for the most part been benign, and the Fed is on course to start lowering rates in September. With the broad diversification of our managed solutions, we can continue averaging into positions that offer attractive long-term value, while minimizing volatility from any one asset class or sector. One should not view this as an event that brings their long-term portfolio allocations into question, but rather, a healthy reality check for the more exuberant corners of the market where prices have exceeded fundamentals by too great a stretch.

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

| Index | Canadian Dollar Return | Close |
|---|---|---|
| S&P 500 Index | 2.20% | 16,641.53 |
| MSCI World Index | 5.28% | 21,213.09 |
| FTSE Canada Universe Bond Index | 2.79% | 1,143.77 |
| Canadian Dollar ($US/$CA) | -0.93% | 0.72 |
| Crude Oil | -3.52% | 107.58 bbl/CAD |

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

Source: Bloomberg, from Jun 30, 2024 to Jul 31, 2024.

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# BMO ETF Portfolios – Monthly Portfolio Commentary

- The portfolios have had an underweight of Canadian equities for most of the year, favouring the growthier composition of the S&P500 Index, and superior economic growth outlook which is now the primary source of debate. With the disappointment in a single month's job numbers, and a weak ISM Manufacturing reading, the natural extrapolation to a turn in the economy is leading to an unwinding of risk trades globally, lead by U.S. equities and the "Magnificent 7" stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla). However, markets tend to move much faster than economies, and despite these indications, the absolute level of economic activity and consumer spending remain strong, with the Atlanta Fed GDPNow forecast expectation (a model that estimates real GDP growth based on available economic data for the current quarter) running 2.5-2.75% over the past few weeks.
- The portfolios have been underweight both investment grade and high yield corporate bonds, which helped cushion some of the recent downdraft, holding an overweight of core Canada bonds. While the Canadian curve has not adjusted quite as much as the U.S. curve, the calls for lower rates in the U.S. have opened the runway for the Bank of Canada, even allowing the loonie to gain a bit on the U.S. Dollar.
- The portfolios have been trimming an overweight of long federal bonds over the past few weeks as rates have fallen leading up to last week's sharp drop of the U.S. 10-year treasury yield below 4%, moving back to neutral versus the Canadian benchmark. While there may still be some downside for yields, the degree and pace of the recent bond rally has us taking some profits.
- Earlier this summer, the portfolios had rotated their tactical exposures to favour non-tech cyclicals, including Banks and Industrials, which have held up slightly better. Our focus has been on hedging against the concentration/valuation risk, albeit with the backdrop of a firmer economic environment than currently feared. Earlier this year, we closed our overweight of Japanese equities, returning our EAFE exposure to neutral, by country as well as from an overall perspective. Our addition of the BMO Global Health Care Fund has also acted as a buffer thus far quarter to date. Finally, a small allocation to BMO Equal Weight Global Base Metals Index ETF has also entered oversold territory, as the combination of weaker Chinese growth expectations and potentially reduced EV-driven demand should a Republican administration take office in November. However, longer-term global infrastructure build out (particularly electrical grid) and accelerated manufacturing capex stemming from U.S. reshoring trends point to longer time supply deficits that should support commodity price growth.
- Our use of a protective put spread, while directionally beneficial, provided a material if not absolute buffer to counteract the negative impact of broadly tumbling equities. Our allocation to gold has also been a defensive hedge for a number of tail risks, but has also fallen 3.35% from its mid-July peak.

| Fixed Income Metrics | Fixed Income | Income | Conservative | Balanced | Growth | Equity Growth |
|---|---|---|---|---|---|---|
| Effective Duration | 6.31 | 6.33 | 6.45 | 6.49 | 6.55 | 0.00 |
| Yield to Maturity | 5.03% | 4.76% | 4.76% | 4.76% | 4.84% | 0.00% |
| Current Yield | 3.75% | 3.59% | 3.71% | 3.71% | 3.84% | 0.00% |

Data as of Jul 31, 2024. Fixed income metrics shown are for the fixed income portion of the BMO ETF Portfolios only, excluding equities and cash.

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Asset Allocation

# BMO ETF Portfolios (%) – as at Jul 31, 2024

| 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 | 10.9 | 16.8 | 18.3 | 11.5 | 4.6 | - |
| BMO Mid-Term US IG Corporate Bond ETF (CAD Hgd) | ZMU | 34.9 | 17.1 | 13.9 | 9.0 | 4.2 | - |
| BMO High Yield US Corporate Bond (CAD Hgd) | ZHY | 7.4 | 4.5 | 3.5 | 2.3 | 1.0 | - |
| BMO Core Plus Bond Fund ETF | ZCPB | 5.5 | 6.6 | 4.8 | 3.4 | 2.3 | - |
| BMO Emerging Markets Bond ETF (CAD Hgd) | ZEF | 9.9 | 5.5 | 4.2 | 2.7 | 1.2 | - |
| BMO Canadian MBS Index ETF | ZMBS | 5.2 | 3.4 | 2.5 | 1.5 | - | - |
| SPDR Portfolio Tips ETF | SPIP-US | 4.8 | - | - | - | - | - |
| BMO Long Federal Bond Index ETF | ZFL | 8.0 | 3.9 | 3.5 | 2.1 | 0.7 | - |
| BMO Ultra Short-Term Bond ETF | ZST | 4.4 | 3.2 | 2.5 | 1.3 | 0.5 | - |
| BMO Discount Bond Index ETF | ZDB | - | 6.1 | - | 0.5 | - | - |
| Cash & Cash Equivalents | | 9.1 | 3.0 | 3.4 | 2.1 | 1.4 | 0.6 |
| **TOTAL Fixed Income** | | **100** | **70** | **57** | **37** | **16** | **1** |
| **Equity** | | | | | | | |
| BMO S&P 500 Index ETF | ZSP | - | 12.0 | 17.1 | 24.6 | 28.8 | 33.2 |
| BMO S&P/TSX Capped Comp Index ETF | ZCN | - | 6.7 | 9.4 | 14.4 | 19.1 | 18.2 |
| BMO MSCI EAFE Index ETF | ZEA | - | 5.5 | 6.9 | 11.9 | 16.5 | 17.1 |
| BMO MSCI Emerging Markets Index ETF | ZEM | - | 0.9 | 1.2 | 1.9 | 2.5 | 3.0 |
| BMO MSCI Europe High Quality Index ETF | ZEQ | - | 1.4 | 2.7 | 3.1 | 3.3 | 5.9 |
| BMO Japan Index ETF | ZJPN | - | 0.8 | 1.5 | 1.6 | 1.7 | 3.0 |
| SPDR S&P 500 ETF | SPY | - | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| BMO Global Infrastructure Fund | BGIF | - | - | - | - | 1.0 | 1.0 |
| BMO Global REIT Fund | BGRT | - | - | - | - | 1.0 | 1.0 |
| BMO S&P US Small Cap Index ETF | ZSML | - | - | - | 0.6 | 0.6 | 0.9 |
| iShares Gold Trust | IAU | - | 0.6 | 0.8 | 1.2 | 1.7 | 2.1 |
| Industrial Select Sector SPDR ETF | XLI | - | 0.3 | 0.6 | 0.5 | 0.5 | 1.6 |
| BMO Equal Weight US Bank Index ETF | ZBK | - | 0.2 | 0.8 | 0.8 | 0.8 | 2.4 |
| Technology Select Sector SPDR ETF | XLK | - | 0.2 | 0.5 | 0.4 | 0.5 | 1.3 |
| BMO NASDAQ 100 Equity Index ETF | ZNQ | - | - | - | - | 3.3 | 4.3 |
| BMO Global Health Care Fund | BGHC | - | 0.3 | 0.6 | 0.6 | 0.6 | 1.8 |
| SPDR S&P Metals & Mining ETF | XME | - | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| iShares China Large Cap ETF | FXI | - | 0.2 | 0.3 | 0.4 | 0.6 | 0.7 |
| BMO MSCI India ESG Leaders Index ETF | ZID | - | 0.3 | 0.4 | 0.7 | 0.9 | 1.0 |
| BMO Equal Weight Global Base Metals Index ETF | ZMT | - | 0.2 | 0.3 | 0.5 | 0.6 | 0.8 |
| **TOTAL Equity** | | **0** | **30** | **43** | **63** | **84** | **99** |

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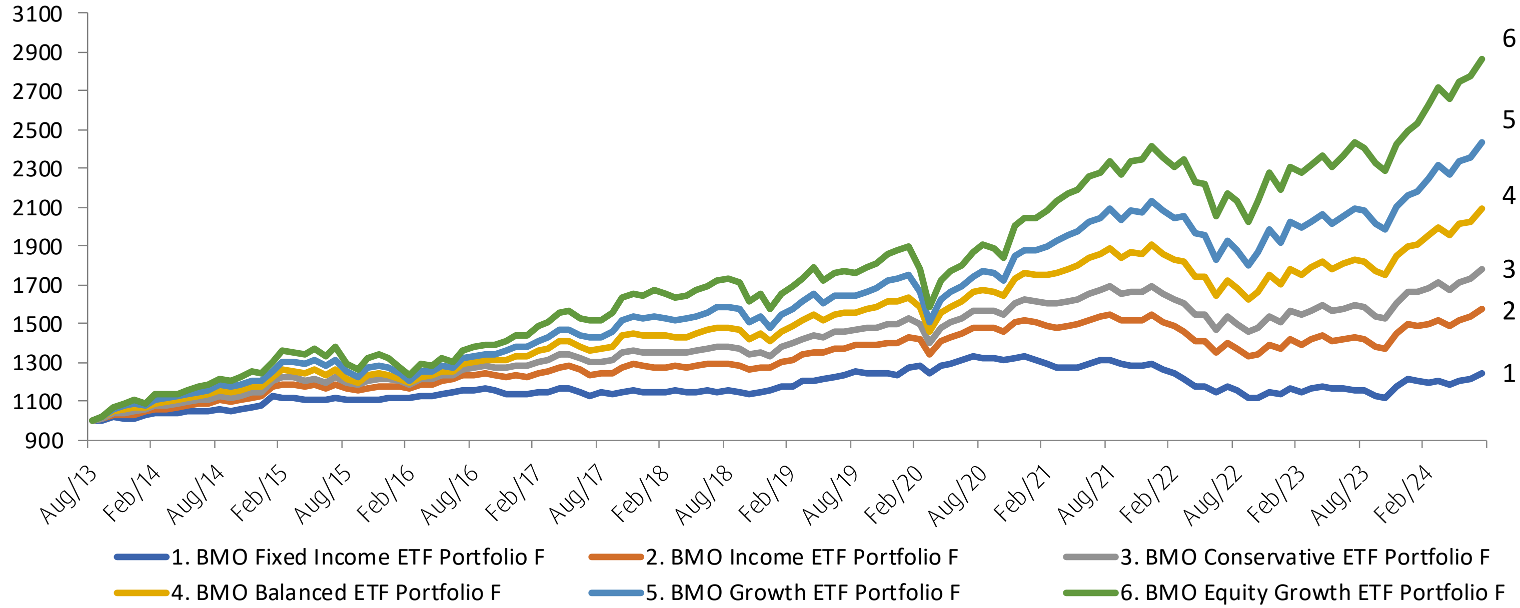
Performance

## BMO ETF Portfolios Performance (since inception, as of Jul 31, 2024)




The chart illustrates the impact to an initial investment of $1,000 dollars from August 12, 2013 to July 31, 2024 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 | 2.2% | 2.5% | 2.7% | 3.0% | 3.3% | 3.2% |
| 3 month | 4.7% | 5.6% | 6.0% | 6.6% | 7.3% | 7.6% |
| 6 month | 2.6% | 5.7% | 7.1% | 9.4% | 11.7% | 13.3% |
| 1 Year | 6.9% | 10.1% | 11.6% | 13.9% | 16.2% | 17.9% |
| 3 Year | -1.6% | 0.8% | 2.1% | 4.1% | 6.0% | 7.7% |
| 5 Year | 0.3% | 2.7% | 4.1% | 6.1% | 8.2% | 9.9% |
| 10 Year | 1.7% | 3.7% | 4.8% | 6.3% | 7.8% | 9.2% |
| Since Inception as of August 12, 2013 | 2.0% | 4.2% | 5.3% | 6.9% | 8.3% | 9.8% |

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

# Fund Codes & Fees

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 rank #2 in net new assets in the Canadian industry for 2023*

**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 | - | - | - | - |
| F4 | - | - | - | - | - | - | - | 37701 | - | - | - | - | - | - | - | 37703 | - | - | - | - | - | - | - | - |
| F6 | - | - | - | - | - | - | - | 36701 | - | - | - | 36702 | - | - | - | 36703 | - | - | - | 36704 | - | - | - | 36705 |
| **Management Expense Ratio (MER) as of September 30, 2023** | | | | | | | | | | | | | | | | | | | | | | | | |
| Advisor (%) | 1.01 | | | | 1.67 | | | | 1.67 | | | | 1.72 | | | | 1.72 | | | | 1.78 | | | |
| F (%) | 0.45 | | | | 0.56 | | | | 0.56 | | | | 0.61 | | | | 0.62 | | | | 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)** | 1.54% / 1.51% | 1.59% / 1.55% | 1.61% / 1.62% |
| **MER (F/F6)** | 0.57% / 0.57% | 0.51% / 0.52% | 0.47% / 0.45% |

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* National Bank Report, January 2024

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