

# BMO ETF Portfolios

(F-Series)

January 2025  
Monthly Commentary

10-year  
Anniversary

Portfolio  
Activity

as at Dec 31, 2024

Market &  
Economic  
Commentary

BMO Managed Solutions

Asset Allocation

as at Dec 31, 2024

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as at Dec 31, 2024

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Global Asset Management

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## “Hazy Shade of Winter”

Despite blurry outlook as 2025 begins, the title was almost “I Don’t Like Mondays”, as the first day of the first full week following the holidays did not fail to disappoint. “Trump tariffs will be lower” reported the media, followed by “No they won’t” from Mr. Trump’s social media account. Bitcoin back above 100k, and AI shares geeking out over the Consumer Electronics Show (CES) in Vegas. Canada has one more job vacancy, location: Ottawa. New Years’ resolutions for a calm and peaceful year: gone.

### Looking at the board for the year ahead, here’s what’s on the watch list:

**U.S. Federal Reserve (“Fed”) Cuts** – Markets are now pricing in between 2 and 3 over 2025, terminating in the fourth quarter at around a 4% policy rate. Further cuts will require a significant easing of inflation (good), or a sharp acceleration in unemployment (bad). With tariffs imminent, it’s hard to see inflation easing, as good deflation has been offsetting sticky service wage inflation. Musk’s Department of Government Efficiency (DOGE) efforts certainly don’t suggest a ramp up in government hiring, and more layoffs if anything, especially come March once the debt ceiling<sup>1</sup> becomes an issue again.

**Tariffs** – This does not bode well for many areas of the market or economy. Exporters will face reduced demand, and importers will face higher total costs in the short term. Substitution effects will vary based on the nature of the goods...luxury/premium global brands vs commoditized staples (ie local vs imported food). For example, U.S. small caps may benefit from higher relative domestic revenue vs large-cap’s international sales. This can be extended to the negative effects of a strong U.S. Dollar on foreign revenue as well.

**Earnings Growth** – There is a fairly broad disparity between the earnings growth implied by current market valuations, the bottom-up consensus estimates, and the macro-implied growth rate. Add on top of that the concentrated nature of earnings contribution within the broader S&P 500 Index, and indeed now the entire MSCI World Index, the question becomes will 2025 bring upside surprises that support current valuations moving even higher, or will a more sober perspective be taken on what the incoming administration will positively or negatively impact. From a bottom-up look, it seems odd that there hasn’t been much degradation of year-over-year earnings per share growth estimates for 2025, despite a significant downgrade of the third quarter of 2025 with no corresponding uptick yet to keep the full year level, placing the onus on the fourth quarter.

**Bond Yields** – What the Fed giveth on the front end, the bond market taketh on the long. With U.S. Treasury yields soaring through 4.50%, a breakout above the 4.75% level would probably be a sufficient trigger for a risk-off event. The next point of resistance is 5%, which may be high enough to lure in institutional buyers.

Historical market trends – Market patterns are like snowflakes: no two are exactly the same, but when you’ve seen enough of them, or worse, clean up after them, they tend to look less interesting. Specifically, a lot is made recently of U.S. Presidential cycles, and the expected pullback seen on average immediately following the inauguration of a new administration, which has also historically yielded a positive year for equities. It’s fair to say that the incoming Trump administration is about as far from average as most have seen in their lifetime, so as the small print often reads, “results may vary”.

**Global vs U.S.** – With the effect of the Magnificent 7 stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla) and Trump’s overtures of exceptional growth under his stewardship, the U.S. has been the epicenter of 2024’s rally. However, taking a step back from benchmark relative investing, several other markets offer reasonable growth prospects, are not priced for perfection or better, and are relatively light in their institutional positioning. Like many a fitness resolution in the new year, one has to be prepared for a period of discomfort, particularly if comparing oneself to those that are presently outperforming. Canada is a strong example, that while lagging presently, offers significant value among dividend paying stocks, in a falling rate environment with more room for upside economic surprises than our southern counterparts, particularly if a narrow congressional Republican majority isn’t fully prepared to toe the line for the next 4 years.

Let’s hope next month’s title is “Early Spring”, and not “Thin Ice.” Happy new year to all.

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

<sup>1</sup>The debt ceiling is the maximum amount of money the U.S. can borrow to meet its existing legal obligations.

Index	Canadian Dollar Return	Close
S&P 500 Index	0.34%	18,580.11
MSCI World Index	0.07%	23,083.72
FTSE Canada Universe Bond Index	-0.69%	1,168.88
Canadian Dollar (\$US/\$CA)	-2.63%	0.70
Crude Oil	8.42%	103.21 bbl/CAD

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

Source: Bloomberg, from Nov 30, 2024 to Dec 31, 2024.

## BMO ETF Portfolios – Monthly Portfolio Commentary

- China: Stock replacement via call option:** given the underperformance of China versus the rest of world and anticipating China’s stimulus announcement, we closed out our physical China holdings, replacing them with a call option on an A-shares ETF as we believe volatility will increase after Trump’s inauguration. This has worked in our favour, as China lagged since we opened the position, demonstrating the benefits of options’ asymmetrical return profile.
- Added USD/CAD hedge:** given the run-up of USD/CAD after Trump’s tariff threat, we hedged a portion of our U.S. equity overweight back to Canadian dollars. We think the tariff threat is overblown, but will increase our hedge should the loonie depreciate further, with net short positions more extreme than March 2020, the inception of the COVID pandemic.
- Trimmed U.S. Banks:** we took profit on roughly half of our holding of BMO Equal Weight US Banks ETF after a huge rally post-election. This worked in our favour as banks lagged more than the broad S&P500 Index after we took profit. We kept half of the position as we still believe in U.S. banks’ continued leadership, given expected deregulation and steeper curves throughout 2025.
- Increased Canadian Duration Overweight:** given our equity overweight, we increased our fixed income duration to balance the portfolio risks. While U.S. yields have led the way higher, Canadian rates have remained more subdued, with expectations of continued cuts much more probable than those from the U.S. Federal Reserve.

Fixed Income Metrics	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
Effective Duration	6.78	6.92	7.52	7.14	7.83	0.00
Yield to Maturity	4.81%	4.42%	4.44%	4.45%	4.89%	0.00%
Current Yield	4.09%	3.82%	3.81%	3.84%	4.17%	0.00%

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

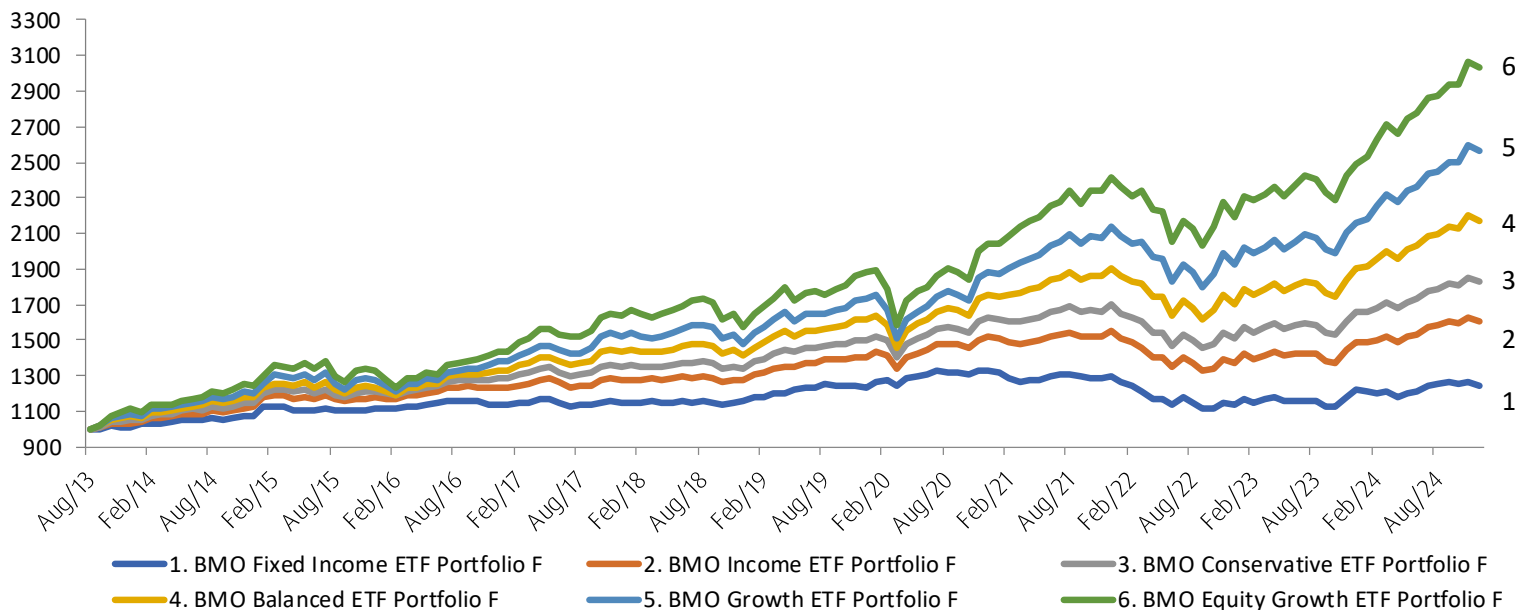
## BMO ETF Portfolios (%) – as at Dec 31, 2024

# 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
<b>Fixed Income</b>							
BMO Aggregate Bond Index ETF	ZAG	11.9	19.2	13.4	9.2	-	-
BMO Mid-Term US IG Corporate Bond ETF (CAD Hgd)	ZMU	34.6	16.9	13.7	8.6	3.9	-
BMO High Yield US Corporate Bond (CAD Hgd)	ZHY	12.1	4.5	3.4	2.3	1.0	-
BMO Core Plus Bond Fund ETF	ZCPB	5.5	6.7	4.6	3.3	1.8	-
BMO Emerging Markets Bond ETF (CAD Hgd)	ZEF	9.8	5.2	4.0	2.6	1.1	-
BMO Canadian MBS Index ETF	ZMBS	5.3	3.5	2.3	1.5	-	-
BMO Long Federal Bond Index ETF	ZFL	10.8	5.5	6.2	3.0	1.5	-
BMO Money Market Fund ETF	ZMMK	4.1	3.8	4.7	1.3	1.2	0.6
BMO Short Corporate Bond Index ETF	ZCS	4.2	3.1	0.8	0.8	-	-
Cash & Cash Equivalents		1.7	0.8	1.0	0.7	0.7	1.1
<b>TOTAL Fixed Income</b>		<b>100</b>	<b>69</b>	<b>54</b>	<b>33</b>	<b>11</b>	<b>2</b>
<b>Equity</b>							
BMO S&P 500 Index ETF	ZSP	-	13.4	19.4	28.2	34.3	33.8
BMO S&P/TSX Capped Comp Index ETF	ZCN	-	7.4	10.8	15.9	20.8	22.0
BMO MSCI EAFE Index ETF	ZEA	-	4.8	6.3	10.8	15.3	14.7
BMO MSCI Emerging Markets Index ETF	ZEM	-	0.9	1.5	2.2	2.9	3.5
BMO MSCI Europe High Quality Index ETF	ZEQ	-	1.3	2.5	2.8	2.6	4.3
BMO Japan Index ETF	ZJPN	-	0.8	1.3	1.6	1.7	2.9
BMO Global Infrastructure Fund	BGIF	-	-	-	-	1.0	1.0
BMO Global REIT Fund	BGRT	-	-	-	-	0.9	0.9
BMO S&P US Small Cap Index ETF	ZSML	-	-	-	0.6	0.5	0.8
BMO Gold Bullion ETF	ZGLD	-	0.9	1.3	1.9	2.5	3.1
Industrial Select Sector SPDR ETF	XLI	-	0.3	0.6	0.3	0.2	1.2
BMO Equal Weight US Bank Index ETF	ZBK	-	0.1	0.4	0.4	0.4	1.2
BMO NASDAQ 100 Equity Index ETF	ZNQ	-	0.3	0.5	0.4	3.8	5.6
BMO Global Health Care Fund	BGHC	-	0.3	0.5	0.5	0.5	1.5
BMO MSCI India ESG Leaders Index ETF	ZID	-	0.3	0.4	0.6	0.8	0.9
BMO Equal Weight Global Base Metals Index ETF	ZMT	-	0.1	0.3	0.4	0.6	0.7
<b>TOTAL Equity</b>		<b>0</b>	<b>31</b>	<b>46</b>	<b>67</b>	<b>89</b>	<b>98</b>

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



The chart illustrates the impact to an initial investment of \$1,000 dollars from August 12, 2013 to December 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	-1.3%	-1.1%	-1.2%	-1.2%	-1.1%	-1.1%
3 month	-1.8%	-0.1%	0.5%	1.6%	2.5%	3.3%
6 month	2.6%	4.7%	5.5%	7.2%	8.6%	9.1%
1 Year	2.3%	7.5%	9.9%	14.3%	18.6%	21.5%
3 Year	-1.3%	1.2%	2.4%	4.4%	6.3%	7.8%
5 Year	0.3%	2.8%	4.1%	6.2%	8.2%	9.8%
10 Year	1.5%	3.6%	4.7%	6.4%	7.9%	9.2%
Since Inception as of August 12, 2013	1.9%	4.2%	5.3%	7.0%	8.5%	9.9%

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 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%

\* National Bank Report, January 2024

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