

BMO ETF Portfolios

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.

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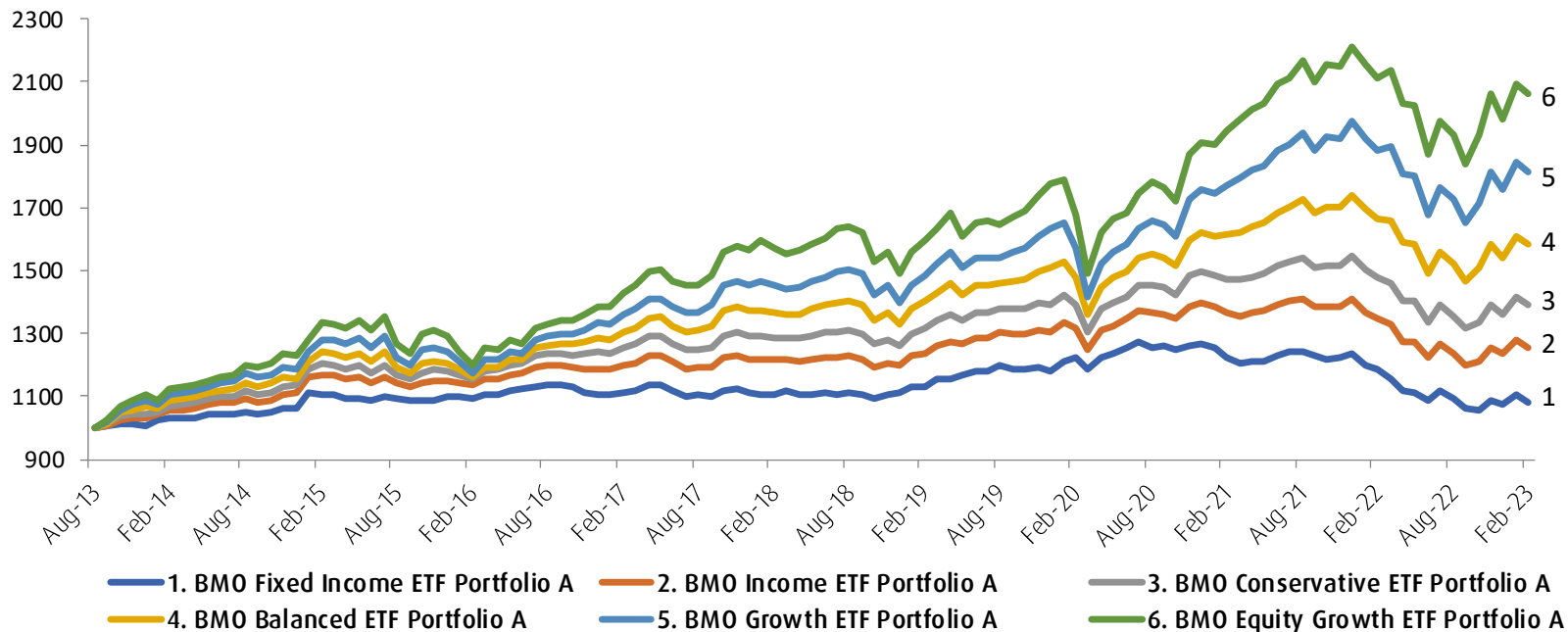
BMO ETF Portfolios (%) – as at Feb 28, 2023

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
TOTAL Equity		0	28	40	60	80	99

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



Time Lapse	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
1 month	-2.2%	-2.0%	-1.9%	-1.7%	-1.6%	-1.4%
3 month	-0.4%	-0.4%	-0.2%	-0.1%	0.0%	0.1%
6 month	-0.9%	1.1%	2.3%	3.9%	5.2%	6.6%
1 Year	-8.7%	-7.2%	-6.1%	-4.9%	-3.7%	-2.4%
3 Year	-4.0%	-1.6%	0.0%	2.4%	5.0%	7.1%
5 Year	-0.5%	0.6%	1.6%	3.0%	4.3%	5.3%
Since Inception as of August 12, 2013	0.8%	2.4%	3.4%	4.8%	6.2%	7.5%

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