

BMO ETF Portfolios

February 2024

Monthly Commentary

**10-year
Anniversary**

**Portfolio
Activity**

as at Jan 31, 2024

**Market &
Economic
Commentary**

BMO Managed Solutions

Asset Allocation

as at Jan 31, 2024

Performance

as at Jan 31, 2024

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Rate Cuts See Their Shadow

Japanese equities led global markets in January, with the Tokyo Stock Price Index (TOPIX) rising 7.8%. This market has been an overweight among the managed solutions since the second quarter of last year, on attractive valuations and increasing shareholder yield opportunities. Weaker than expected wage growth data helped ease concerns of the Bank of Japan's potential termination of its yield curve controls and negative interest rate policy, boosting valuations over the month. January's slow start turned quickly into a continuation of the fourth quarter's "everything rally" in the U.S., as earnings season delivered above average upside earnings surprises. The "Magnificent 7" [a group of high-performing U.S. stocks including Microsoft (MSFT), Amazon (AMZN), Meta (META), Apple (AAPL), Google parent Alphabet (GOOGL), Nvidia (NVDA), and Tesla (TSLA)], was more mixed, with disappointing earnings from Tesla and a sales slump from Apple, while Meta soared on cost-cutting and the initiation of a regular dividend. The banking sector provided a modest fright with regional bank New York Community Bank (NYCB) reporting that they were increasing their credit provisions by \$552 million, more than 10 times analyst expectations, while also cutting their dividend. This was all due to deteriorating residential and commercial real estate loans, sparking fears that there might be similar uncovered risks throughout the sector. However, strong U.S. economic data, including upside surprises to January jobs and fourth quarter annualized GDP growth of 3.3% contributed to the rally, only to be cut short by the U.S. Federal Reserve's (the "Fed's") more hawkish stance.

As expected, the Fed held rates steady on January 31, and firmly put the notion of potential further hikes in the rear view. However, it also became abundantly clear that March was also unlikely for any first rate cut, with a blowout jobs report of 353,000 jobs in January versus a consensus expectation of

185,000. Mr. Powell even made it a point to appear on 60 minutes, an unusual forum for the Fed Chairman, to explain to the broader American public that while significant progress had been made, there remained inflationary impulses in the economy that were not yet tamed. Market pricing of rate cuts for the year ahead adjusted quickly, moving down to 4 from the prior 5-6 widely expected by 2024's end.

Chinese equities continued to struggle to rise from their knees in the wake of the property sector's final collapse of Evergrande Group, with authorities taking incremental steps to try to support the equity market, including restrictions on short sellers and a commitment of government buying of domestic equity ETFs. Unfortunately, these lack the scale to radically turn the market in the short-term, although the historically wide valuation discounts versus domestic markets, particularly the U.S., might prove interesting to longer-term contrarians. The increasing volatility* has created shorter-term tactical opportunities to capture asymmetrical upside via the options market, however.

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*Volatility measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

Index	Canadian Dollar Return	Close
S&P 500 Index	3.11%	14,064.50
MSCI World Index	2.56%	18,210.97
FTSE Canada Universe Bond Index	-1.37%	1,106.15
Canadian Dollar (\$US/\$CA)	-1.42%	0.74
Crude Oil	7.35%	101.59 bbl/CAD

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

Source: Bloomberg, from Dec 31, 2023 to Jan 31, 2024.

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BMO ETF Portfolios – Monthly Portfolio Commentary

- The Multi-asset solutions team House View has returned equities to an overweight position this month, leaving fixed income neutral, drawing down cash to underweight. We were adding modestly to U.S. equities to bring the Income and Conservative Portfolios back to benchmark over the month.
- We entered into a small tactical trade purchasing call options on KraneShares CSI China Internet ETF (KWEB), an ETF that tracks Chinese internet-related companies. This provides potential participation in any shorter-term recovery in the market, while limiting downside risk to a very small absolute proportion of the portfolios.
- We have reduced our Canadian equity exposure, buying broad EAFE to reflect our relative regional bias. This is primarily a reflection of a struggling Canadian economy, with lower relative job growth and continued concerns over the health of the consumer balance sheet.

Fixed Income Metrics	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
Effective Duration	7.20	7.08	7.11	7.09	7.14	0.00
Yield to Maturity	5.12%	4.94%	4.94%	4.94%	4.95%	0.00%
Current Yield	3.82%	3.65%	3.76%	3.73%	3.84%	0.00%

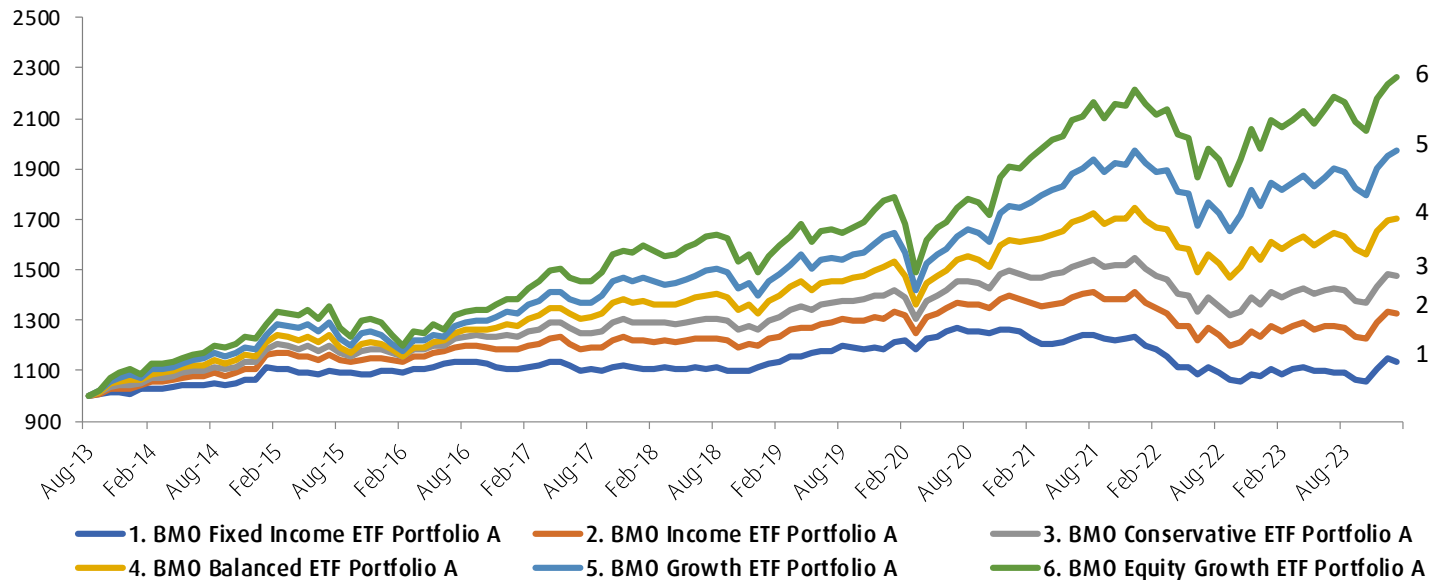
Data as of Jan 31, 2024. Fixed income metrics shown are for the fixed income portion of the BMO ETF Portfolios only, excluding equities and cash.

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

	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	11.0	16.0	19.4	11.5	6.4	-
BMO Mid-Term US IG Corporate Bond ETF (CAD Hgd)	ZMU	37.3	18.0	14.8	9.5	4.4	-
BMO High Yield US Corporate Bond (CAD Hgd)	ZHY	4.9	3.6	3.0	1.9	0.9	-
BMO Core Plus Bond Fund ETF	ZCPB	5.5	6.6	4.9	3.4	2.3	-
BMO Emerging Markets Bond ETF (CAD Hgd)	ZEF	10.0	5.4	4.4	2.9	1.3	-
BMO Canadian MBS Index ETF	ZMBS	5.2	3.4	2.5	1.6	-	-
SPDR Portfolio Tips ETF	SPIP-US	4.9	-	-	-	-	-
BMO Long Federal Bond Index ETF	ZFL	14.2	7.8	6.5	3.9	1.4	-
BMO Ultra Short-Term Bond ETF	ZST	1.7	1.5	1.4	0.5	0.2	-
BMO Discount Bond Index ETF	ZDB	-	7.0	-	1.5	-	-
Cash & Cash Equivalents		5.4	2.7	2.5	1.6	0.8	1.5
TOTAL Fixed Income		100	72	59	38	18	1
Equity							
BMO S&P 500 Index ETF	ZSP	-	10.6	15.6	23.3	30.4	36.0
BMO S&P/TSX Capped Comp Index ETF	ZCN	-	7.8	11.4	17.2	22.9	27.5
BMO MSCI EAFE Index ETF	ZEA	-	5.1	6.4	11.1	15.2	15.8
BMO MSCI Emerging Markets Index ETF	ZEM	-	1.4	2.0	2.9	3.9	4.7
BMO MSCI Europe High Quality Index ETF	ZEQ	-	0.7	1.5	1.5	1.3	2.8
BMO Japan Index ETF	ZJPN	-	1.4	2.5	3.1	3.4	5.5
BMO Equal Weight Banks Index ETF	ZEB	-	0.4	0.6	0.9	1.2	1.5
BMO Global Infrastructure Fund	BGIF	-	-	-	-	0.9	0.9
BMO Global REIT Fund	BGRT	-	-	-	-	1.0	1.0
BMO S&P US Small Cap Index ETF	ZSML	-	-	-	0.6	0.6	0.8
iShares Gold Trust	IAU	-	0.5	0.8	1.2	1.5	1.9
TOTAL Equity		0	28	41	62	82	99


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



Time Lapse	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
1 month	-0.8%	-0.5%	-0.1%	0.4%	0.8%	1.3%
3 month	7.6%	7.9%	8.2%	9.0%	9.6%	10.1%
6 month	3.8%	3.6%	3.6%	3.6%	3.5%	3.5%
1 Year	2.8%	3.6%	4.5%	5.8%	6.8%	8.1%
3 Year	-3.2%	-1.5%	-0.1%	1.9%	4.1%	5.9%
5 Year	0.1%	1.6%	2.7%	4.4%	6.0%	7.5%
10 Year	1.0%	2.4%	3.5%	4.9%	6.2%	7.5%
Since Inception as of August 12, 2013	1.2%	2.7%	3.7%	5.1%	6.4%	7.7%

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

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