

BMO ETF Portfolios

May 2024
Monthly Commentary

10-year
Anniversary

Portfolio
Activity

as at May 31, 2024

Market &
Economic
Commentary

BMO Managed Solutions

Asset Allocation

as at May 31, 2024

Performance

as at May 31, 2024

Legal Disclaimer

BMO



Global Asset Management

*If you have any issues with the file links, please update your version of Adobe Reader.

Downshift to Neutral

April's pullback proved to be short lived, as May brought a resurgence of positive sentiment, a combination of softer inflation data and continued support from tech earnings. The beginning of June however brought some doubt back into the collective view, as a blowout U.S. non-farm jobs report dented rate cut expectations. A huge miss to the upside, job creation came in at 272,000 versus the consensus expected 180,000, with wage growth moving slightly higher back up, only to reverse course on the day of the Fed's June meeting, which coincided with downside surprises in consumer price index (CPI) readings for May.

Despite holding rates steady yet again, markets quickly moved to price a second cut back into 2024 expectations, even while the Fed's own dot plot (i.e., median expectations of voting members) showed a deferral of the previously expected second cut to 2025's total. The result was a sharp gain in bonds, as the U.S. 10-year treasury yield plunged to below 4.30%. What was of note was during the month, the market actually showed a couple of instances where bad news was actually seen as bad news; for example, the slowing of ISM manufacturing index saw a negative impact on the daily market move, rather than being cheered as a reason for the Fed to cut rates. Nonetheless, the S&P500 Index once again set a new all time high, hitting 5,433 at time of writing, well outpacing May's Bloomberg Strategist Consensus Year-End Forecast (SPXSFRC Index) of 5,100.

With so many things going right, the reader might be surprised to hear that we have adjusted our House View of equities to neutral from our long-standing overweight. Well, the devil is always in the details, and while our longer-term outlook for equities remains positive, there are a number of short-term tailwinds that are materializing in our view:

- 2025 earnings per share (EPS) projections have not come down at all – despite reductions in expected gross domestic product growth and an increasingly tighter job market, there has been no material reduction in projected growth rates for most sectors of the S&P500 Index for 2025.
- Consumer spending has pulled back in the lower income tiers, with many large retailers reporting reduced same store sales and cutting projected earnings expectations.
- AI (artificial intelligence) seems to be re-defining the law of gravity, with more and more of the market being linked to its parabolic growth. Not just semis and software, but Utilities, Materials and Industrials have all seen upticks due to the expected revolutionary impacts of AI. Broadening of market participation is always a welcome thing, and AI is certainly a multi-year, if not decades, theme. However, the recent sharp gains made with a complacent level of volatility suggest that corrections from overbought conditions should be expected along the way.

- Canadian rate cuts finally have started, but will they come fast enough? With both the Bank of Canada and European Central Bank cutting their first 25 basis points, it does remove some uncertainty at the margin, but the clock is ticking before the 2025/26 refinancing wall approaches, when it is estimated that close to 74% of Canadian mortgages outstanding will need to be rolled, with roughly a 2.5-3% higher applicable interest rate on the bellwether 5-year fixed mortgage. With four more meetings between now and year end, the market is only pricing in 2, maybe 3 cuts, implying a policy rate of 4-4.25% for the start of next year.

- Politics, politics, here there and everywhere – 2024 is the busiest year for global elections worldwide, despite the media focus on our neighbours to the south. The U.S. Presidential Election will undoubtedly bring volatility, less-than diplomatic rhetoric, and significant implications for domestic policy, international trade, and ultimately, economic growth. Europe is facing similar unrest, with the snap election called in France, and “tariff tennis” being played between the European Union and China over electric vehicle imports. Military conflict in the middle east and Ukraine continues, with very little visibility on a resolution for either.

Now, lest the reader leave completely discouraged, note that these are some of the headwinds. For each, there is an equal, and in many cases, stronger tailwind for financial markets, and hence our staying neutral equities versus bonds or cash, versus an outright underweight. Across the full line-up of BMO's managed solutions, this shift is expressed in several different ways, whether an outright sale of equities, a shift to lower-beta exposures within the market, or through the application of an overlay strategy, using options as a hedge against adverse market movements. In short, this is not a year in which we are “selling in May and going away”...but we will definitely be checking the tape regularly – even if it's from the cottage on the odd Friday.

Steven W. Shepherd, CFA

Director, Portfolio Manager, BMO Asset Management Inc.

Index	Canadian Dollar Return	Close
S&P 500 Index	4.10%	15,682.22
MSCI World Index	3.72%	20,148.36
FTSE Canada Universe Bond Index	1.40%	1,104.81
Canadian Dollar (\$US/\$CA)	1.10%	0.73
Crude Oil	-6.79%	105.04 bbl/CAD

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

Source: Bloomberg, from Apr 30, 2024 to May 31, 2024.

BMO ETF Portfolios – Monthly Portfolio Commentary

- We have closed our long-standing overweight of Japanese equities, rotating back to a neutral balance of Europe within our EAFE sleeve. Marked improvements in manufacturing data, coupled with the beginning of the rate cut cycle by the European Central Bank may prove the needed catalyst to unlock the relative valuation advantage of European equities versus the U.S. A slowing of Japanese consumer spending and economic outlook, coupled with flows that have led Japan to become a very crowded, consensus trade lead us to take profits on our position.
- Similarly, we have reduced our tilt toward Canadian banks within the Canadian equity allocation. The increase in loan loss provisions last quarter were significant, although by no means catastrophic. With the first rate cut done, and only another currently priced into markets for this year, we do not foresee any relative outperformance in the second half of the year versus the broader S&P/TSX Index.
- We have initiated a small position in global mining firms, to gain exposure to what we believe to be the early stages of a secular commodity rally. While copper has pulled back recently following a sharp rally, continued growth of global demand due to electrification, industrial reshoring, and infrastructure renewal should support all base metals fundamentally, while any softening of the U.S. dollar once the U.S. Federal Reserve Board (“Fed”) begins cutting rates will also prove a benefit.

Fixed Income Metrics	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
Effective Duration	6.54	6.56	6.61	6.62	6.64	0.00
Yield to Maturity	5.12%	4.90%	4.91%	4.92%	5.00%	0.00%
Current Yield	3.89%	3.69%	3.81%	3.81%	3.93%	0.00%

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

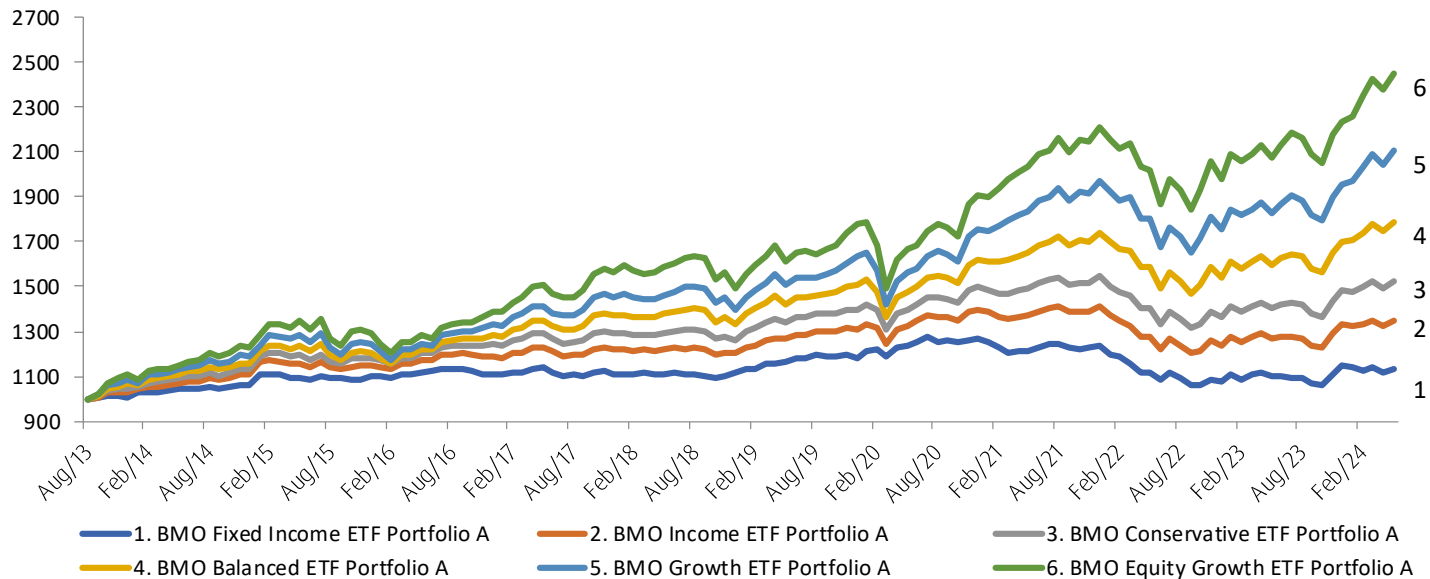
BMO ETF Portfolios (%) – as at May 31, 2024

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
Fixed Income							
BMO Aggregate Bond Index ETF	ZAG	10.9	16.4	18.2	11.3	4.6	-
BMO Mid-Term US IG Corporate Bond ETF (CAD Hgd)	ZMU	34.9	17.1	13.9	9.0	4.1	-
BMO High Yield US Corporate Bond (CAD Hgd)	ZHY	7.5	4.5	3.6	2.4	1.1	-
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	9.9	5.5	4.3	2.8	1.3	-
BMO Canadian MBS Index ETF	ZMBS	5.3	3.4	2.5	1.6	-	-
SPDR Portfolio Tips ETF	SPIP-US	4.8	-	-	-	-	-
BMO Long Federal Bond Index ETF	ZFL	11.2	6.1	5.2	3.1	1.0	-
BMO Ultra Short-Term Bond ETF	ZST	4.5	3.3	2.6	1.4	0.6	-
BMO Discount Bond Index ETF	ZDB	-	6.6	-	0.5	-	-
Cash & Cash Equivalents		5.3	1.9	1.7	1.0	0.7	0.7
TOTAL Fixed Income		100	71	57	36	16	1
Equity							
BMO S&P 500 Index ETF	ZSP	-	10.6	15.8	23.1	26.9	31.6
BMO S&P/TSX Capped Comp Index ETF	ZCN	-	7.3	10.5	15.8	21.2	20.4
BMO MSCI EAFE Index ETF	ZEA	-	5.5	7.1	12.1	16.7	17.2
BMO MSCI Emerging Markets Index ETF	ZEM	-	1.3	2.0	3.0	4.0	4.8
BMO MSCI Europe High Quality Index ETF	ZEQ	-	0.8	1.6	1.6	1.5	3.1
BMO Japan Index ETF	ZJPN	-	1.3	2.6	3.2	3.6	5.6
BMO Equal Weight Banks Index ETF	ZEB	-	0.2	0.6	0.9	1.2	1.4
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	0.6	0.8
iShares Gold Trust	IAU	-	0.5	0.8	1.2	1.7	2.1
Industrial Select Sector SPDR ETF	XLI	-	0.3	0.6	0.6	0.6	1.7
Technology Select Sector SPDR ETF	XLK	-	0.4	0.8	0.8	0.8	2.5
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
TOTAL Equity		0	29	43	64	84	99

Main Page

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



Time Lapse	Fixed Income	Income	Conservative	Balanced	Growth	Equity Growth
1 month	1.6%	2.0%	2.2%	2.5%	2.9%	3.1%
3 month	0.2%	1.2%	1.7%	2.6%	3.5%	4.1%
6 month	1.9%	4.5%	6.0%	8.4%	10.7%	12.5%
1 Year	3.0%	6.5%	8.5%	11.9%	15.1%	17.9%
3 Year	-2.3%	-0.6%	0.7%	2.7%	4.7%	6.4%
5 Year	-0.7%	1.3%	2.6%	4.6%	6.7%	8.5%
10 Year	0.8%	2.3%	3.4%	4.9%	6.3%	7.7%
Since Inception as of August 12, 2013	1.1%	2.8%	3.9%	5.4%	6.9%	8.3%

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

Main Page

This report has been prepared by the BMO Multi-Asset Solutions Team and is intended for informational purposes only. The viewpoints expressed by the Portfolio Manager represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time without any kind of notice. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. This communication is intended for informational purposes only.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. (“MSCI”), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

The Index is a product of S&P Dow Jones Indices LLC or its affiliates (“SPDJI”), and has been licensed for use by the Manager. S&P®, S&P 500®, US 500, The 500, iBoxx®, iTraxx® and CDX® are trademarks of S&P Global, Inc. or its affiliates (“S&P”) and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”), and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by the Manager. The ETF is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the Index.

Commissions, management fees and expenses (if applicable) may be associated with investments in mutual funds and exchange traded funds (ETFs). Trailing commissions may be associated with investments in mutual funds. Please read the fund facts, ETF Facts or prospectus of the relevant mutual fund or ETF before investing. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

For a summary of the risks of an investment in BMO Mutual Funds or BMO ETFs, please see the specific risks set out in the prospectus of the relevant mutual fund or ETF. BMO ETFs trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO Mutual Funds are offered by BMO Investments Inc., a financial services firm and separate entity from Bank of Montreal. BMO ETFs are managed and administered by BMO Asset Management Inc., an investment fund manager and portfolio manager and separate legal entity from Bank of Montreal.

BMO Global Asset Management is a brand name that under which BMO Asset Management Inc. and BMO Investments Inc. operate.

This material is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Particular investments and/or trading strategies should be evaluated relative to the individual’s investment objectives and professional advice should be obtained with respect to any circumstance.

“BMO (M-bar roundel symbol)” is a registered trademark of Bank of Montreal, used under licence.