

BMO Retirement Portfolios

March 2023

Monthly Commentary

Market & Economic Commentary

BMO Managed Solutions

Portfolio Activity

as at Feb 28, 2023

Asset Allocation & Portfolio Data

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.

- BMO Multi-Asset Solutions Team (“MAST”)
BMO Asset Management Inc.

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 Retirement Portfolios – Monthly Portfolio Commentary

- As mentioned last month, we added an allocation to U.S. fixed income across the BMO Retirement Portfolios. Given the relationship of the stock market to the yield curve, we wanted to have exposure to the U.S. curve in order to provide the best correlation benefit against our U.S. equity exposure.
- We have also slightly increased the duration of the fixed income allocation in the BMO Retirement Portfolios in order to provide some potential protection against equity market weakness.
- Lastly, we continue to hold our allocation to U.S. TIPs, in order to provide protection against inflation staying elevated. Given recent macro economic data, it seems the risk of inflation staying persistently high is a real one, and so we continue to maintain our allocation in this area.



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BMO Retirement Portfolios – as at Feb 28, 2023

Current Portfolio Composition Weights

Holdings	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
Fixed Income	74.6%	59.9%	39.0%
BMO Risk Reduction Equity Fund	19.5%	24.1%	29.1%
Global Equities ¹	6.0%	16.1%	31.9%

¹ Includes Canada, U.S. and international low volatility, high quality and broad market equity ETFs

Portfolio Yield

Portfolio Yield	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
Fixed Income Yield to Maturity	4.65%	4.65%	4.66%
Equity Dividend Yield	2.02%	2.17%	2.28%
Total Portfolio Yield	3.98%	3.65%	3.21%
Duration	4.73	4.76	4.79

Currency Allocation

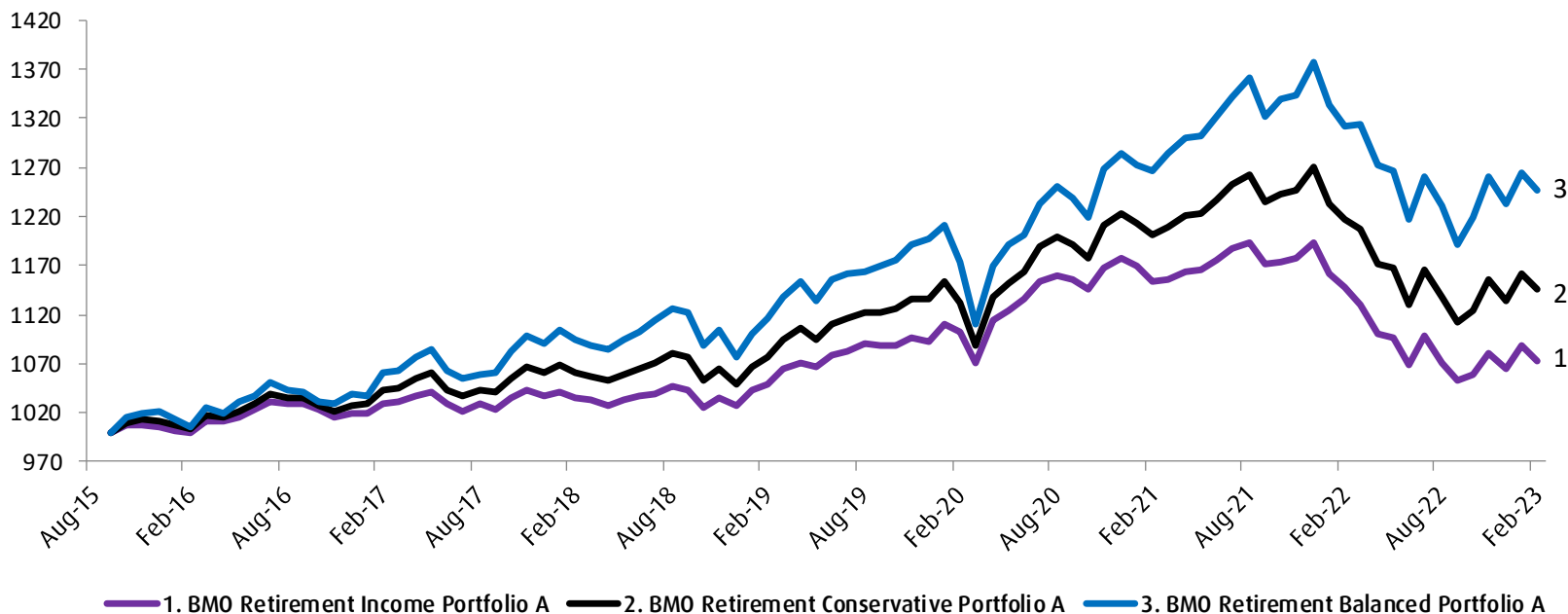
Currency Allocation	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
CAD	94.2%	85.5%	72.1%
USD	4.1%	9.9%	18.6%
EUR	0.5%	1.5%	2.9%
GBP	0.2%	0.6%	1.1%
JPY	0.2%	0.7%	1.4%
Other	0.7%	1.9%	3.9%

Total Fixed Income - Credit Breakdown

Total Fixed Income - Credit Breakdown	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
Sovereigns	28.9%	30.0%	31.8%
Provincials	22.4%	22.2%	21.7%
Corporates	48.6%	47.8%	46.5%

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



Time Lapse	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
1 month	-1.5%	-1.4%	-1.3%
3 month	-0.8%	-0.9%	-1.1%
6 month	0.1%	0.6%	1.3%
1 Year	-6.6%	-5.9%	-4.9%
3 Year	-0.9%	0.4%	2.1%
5 Year	0.7%	1.5%	2.7%
Since Inception	1.0%	1.9%	3.2%
3 year sharpe ratio	-0.29	-0.05	0.17

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

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