

# BMO Retirement Portfolios

June 2024

Monthly Commentary

## Market & Economic Commentary

BMO Managed Solutions

## Portfolio Activity

as at May 31, 2024

## Asset Allocation & Portfolio Data

as at May 31, 2024

## Performance

as at May 31, 2024

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Global Asset Management

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## 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.

- BMO Multi-Asset Solutions Team “MAST”  
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.

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## BMO Retirement Portfolios – Monthly Portfolio Commentary

- Minimal changes over the month of May; we have maintained a slight tilt away from Canadian equities in favour of U.S. stocks, given the better outlook for economic growth.



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# BMO Retirement Portfolios – as at May 31, 2024

## Asset Allocation & Portfolio Data

### Current Portfolio Composition Weights

Holdings	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
Fixed Income	74.9%	59.6%	39.3%
BMO Risk Reduction Equity Fund	19.0%	24.0%	29.3%
Global Equities <sup>1</sup>	6.1%	16.4%	31.4%

<sup>1</sup> 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	4.73%	4.75%	4.76%
Equity Dividend Yield	1.70%	1.90%	2.00%
<b>Total Portfolio Yield</b>	<b>3.64%</b>	<b>3.40%</b>	<b>3.45%</b>
Duration	4.64	4.82	4.93

### Currency Allocation

Currency Allocation	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
CAD	94.5%	85.7%	73.1%
USD	4.0%	9.9%	18.4%
EUR	0.4%	1.4%	2.6%
GBP	0.2%	0.5%	1.0%
JPY	0.2%	0.7%	1.3%
Other	0.7%	1.8%	3.6%

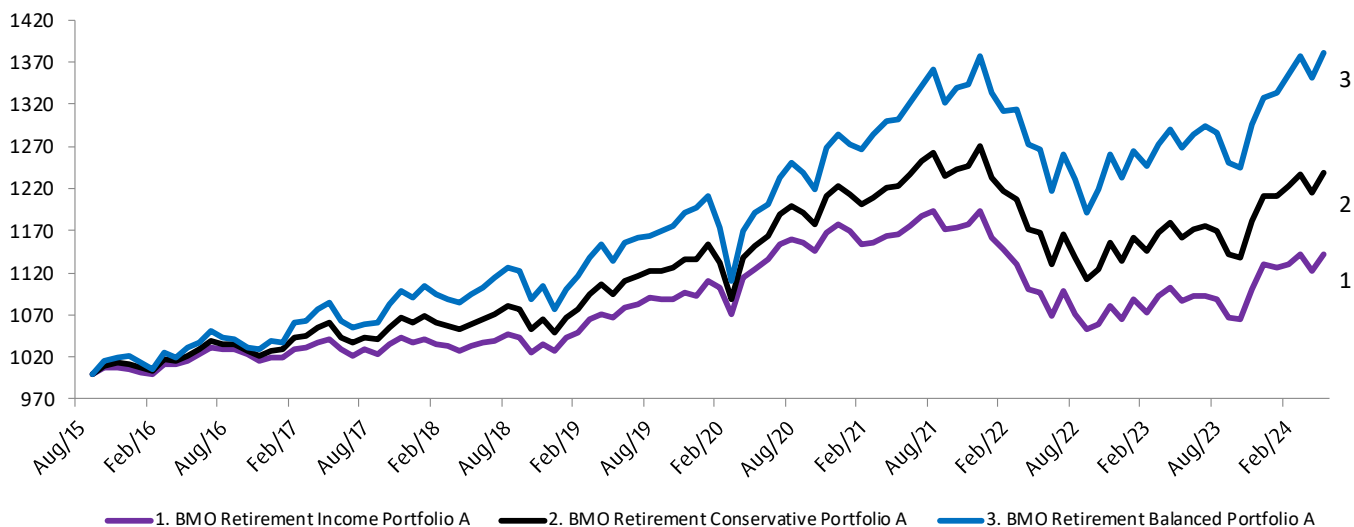
### Total Fixed Income - Credit Breakdown

Total Fixed Income - Credit Breakdown	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
Sovereigns	30.1%	29.3%	29.3%
Provincials	20.4%	20.0%	19.6%
Corporates	49.5%	50.7%	51.1%

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Source: BMO Global Asset Management

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



Time Lapse	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
1 month	1.6%	1.8%	2.1%
3 month	0.9%	1.3%	1.8%
6 month	3.7%	4.8%	6.5%
1 Year	5.0%	6.6%	8.9%
3 Year	-0.7%	0.4%	2.0%
5 Year	1.4%	2.5%	4.0%
Since Inception	1.5%	2.6%	3.9%
<b>3 year sharpe ratio</b>	-0.60	-0.35	-0.09

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

# Disclaimer

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