BMO Retirement Portfolios

August 2024
Monthly Commentary

Market & Economic Commentary
BMO Managed Solutions

Portfolio Activity
as at Jul 31, 2024

Asset Allocation & Portfolio Data
as at Jul 31, 2024

Performance
as at Jul 31, 2024

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BMO Global Asset Management

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Special Report: Summer Sell-Off Rattles Risk Assets

It's not often one can complain about the timing of a holiday weekend but last week was certainly not ideal for Canadian investors. With Canadian markets closed for the August Civic Holiday, futures were down sharply in the U.S. following the sell-off of the last couple of weeks, which accelerated sharply following the disappointment in U.S. nonfarm jobs, (114k versus 175k expected). This led to fears of economic catastrophe, only days after the U.S. Federal Reserve Board (the "Fed") opted to pass on a July rate cut, pumping market pricing of a September 50 basis point cut to near-certainty, and even suggestions that an emergency between meeting cut should be done to fend off imminent unravelling of the economy. This in turn weakened the U.S. dollar on a relative basis, sending the Japanese yen higher, fuelling a brutal 12% sell-off of Japanese stocks and risk assets worldwide funded by the yen carry trade.

As of August 6th, the first three trading days of August have yielded a -6.1% fall in the S&P500 Index, and -8.0% for the Nasdaq Composite Index. Canadian equities have held up better, with the S&P/TSX Composite Index falling -2.6%, while MSCI Emerging Markets and EAFE Indices fell -6.3% and -7.4%, respectively (Bloomberg, 2024). Yields are down sharply globally, with the U.S. 10 year now at 3.83%, a level last seen last December when markets were pricing in 6-7 rate cuts for 2024.

What's Next: In any market drawdown, the key question is whether this is a short-term event or the beginning of something more nefarious. While valuations have certainly argued for some adjustment among technology stocks, the balance of the market, both within the U.S. and internationally, were barely running above longer-term averages. The abrupt shift from narratives of hard landing to soft landing to hard landing has been the more prominent driver of recent volatility, which was amplified by the sharp sector rotation initially driven by the highly volatile U.S. Presidential Election dynamic. Now, add on top the unwinding of yen carry trades and you have the perfect storm, which we are now in the eye of. Corrections often end with a whimper, not a bang, so the final weeks of summer will most likely see some sloppy trading across markets. We are already seeing indications of retail and institutional dip buying, but expect the sensitivity to any economic data to be heightened leading into the September Fed meeting.

Drawdowns are Common: Looking at the past three decades of drawdowns from peak levels, we certainly are not outside the realm of "normal" at this point. When one considers other factors, particularly the low level of volatility that dominated since the start of the year, and the degree of concentration on a sector and single-name basis (ie. "Magnificent 7" stocks), a valuation-driven correction during lower volume summer months is fairly reasonable. The notion that the Fed is behind the curve is hardly new either, but to expect a mid-meeting emergency cut seems premature.

What to Do? Sudden moves on unstable footing rarely are the best answer. While the sharpness of the correction is unnerving for investors, a look at historical pullbacks and a broader measure of the strength of the global economy indicated as slowing, not a stoppage. Reporting of second quarter earnings has for the most part been benign, and the Fed is on course to start lowering rates in September. With the broad diversification of our managed solutions, we can continue averaging into positions that offer attractive long-term value, while minimizing volatility from any one asset class or sector. One should not view this as an event that brings their long-term portfolio allocations into question, but rather, a healthy reality check for the more exuberant corners of the market where prices have exceeded fundamentals by too great a stretch.

Steven W. Shepherd, CFA
Director, Portfolio Manager, BMO Asset Management Inc.

Index	Canadian Dollar Return	Close
S&P 500 Index	2.20%	16,641.53
MSCI World Index	5.28%	21,213.09
FTSE Canada Universe Bond Index	2.79%	1,143.77
Canadian Dollar ($US/$CA)	-0.93%	0.72
Crude Oil	-3.52%	107.58 bbl/CAD

Index performance is shown for illustrative purposes only.
You cannot invest directly in an index.
Source: Bloomberg, from Jun 30, 2024 to Jul 31, 2024.

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Portfolio Activity

BMO Retirement Portfolios – Monthly Portfolio Commentary

- There has been a portfolio manager change on the BMO Retirement Portfolios as of August 2024. They will now be managed by Robert Armstrong and Steve Xu from the BMO GAM Multi-Asset Solutions team (MAST).
- In July there were some small trades made within the portfolios to align with the BMO MAST "5-lenses" strategy. These include:
    - Reducing EAFE exposure in favour of U.S. equities
    - Selling BMO MSCI Emerging Markets Index ETF (ZEM)
    - Increasing exposure to the existing holding, BMO Risk Reduction Equity Fund – this was done through an intra-equity change to reflect a more defensive outlook

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BMO Retirement Portfolios – as at Jul 31, 2024

Current Portfolio Composition Weights

Holdings	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
Fixed Income	74.5%	59.5%	39.5%
BMO Risk Reduction Equity Fund	19.4%	24.3%	29.2%
Global Equities[1]	6.1%	16.2%	31.3%

[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	4.55%	4.58%	4.60%
Equity Dividend Yield	1.64%	1.83%	1.96%
Total Portfolio Yield	**3.81%**	**3.47%**	**3.00%**
Duration	4.70	4.86	4.97

Currency Allocation

Currency Allocation	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
CAD	94.5%	85.8%	73.1%
USD	4.0%	10.0%	18.6%
EUR	0.4%	1.3%	2.6%
GBP	0.2%	0.5%	1.0%
JPY	0.2%	0.6%	1.2%
Other	0.7%	1.8%	3.5%

Total Fixed Income - Credit Breakdown

Total Fixed Income - Credit Breakdown	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
Sovereigns	30.3%	29.6%	29.4%
Provincials	20.5%	20.0%	19.8%
Corporates	49.2%	50.4%	50.9%

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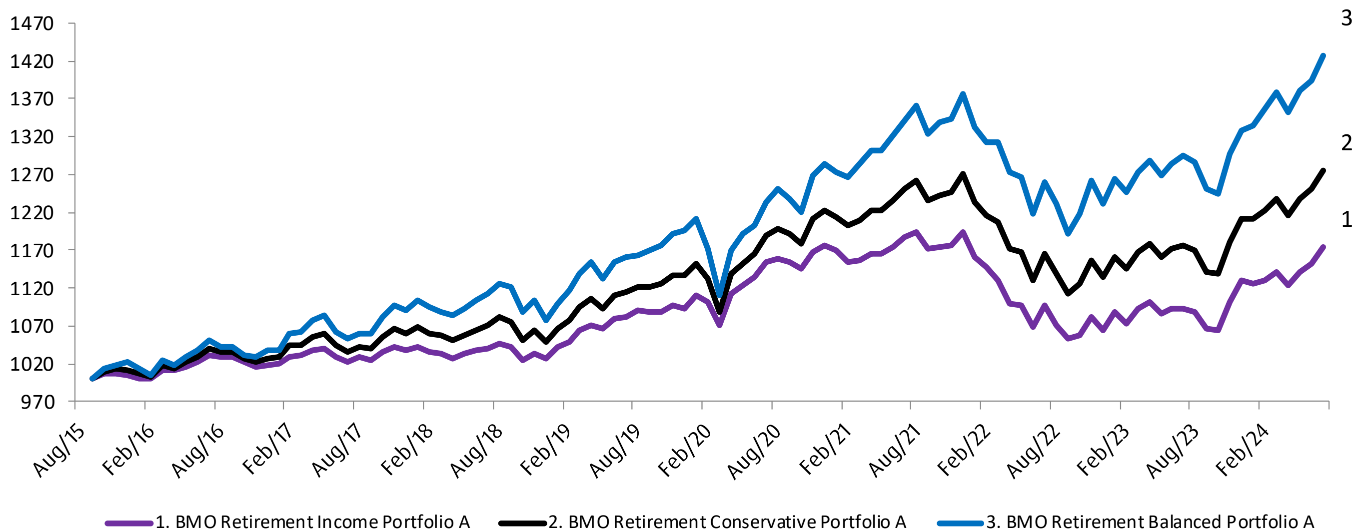
Source: BMO Global Asset Management

Performance

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



Time Lapse	BMO Retirement Income Portfolio	BMO Retirement Conservative Portfolio	BMO Retirement Balanced Portfolio
1 month	1.9%	2.0%	2.3%
3 month	4.5%	5.0%	5.5%
6 month	4.2%	5.3%	6.9%
1 Year	7.5%	8.5%	10.2%
3 Year	-0.4%	0.6%	2.0%
5 Year	1.6%	2.7%	4.2%
Since Inception	1.8%	2.9%	4.2%
3 year sharpe ratio	-0.58	-0.35	-0.11

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

[Advisor use only]: To view the Series F performance, click here and select the desired product.

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