

BMO SelectTrust® Portfolios

March 2023
Monthly Commentary

Market & Economic Commentary

BMO Managed Solutions

Portfolio Activity

as at Feb 28, 2023

Asset Allocation

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.

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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.

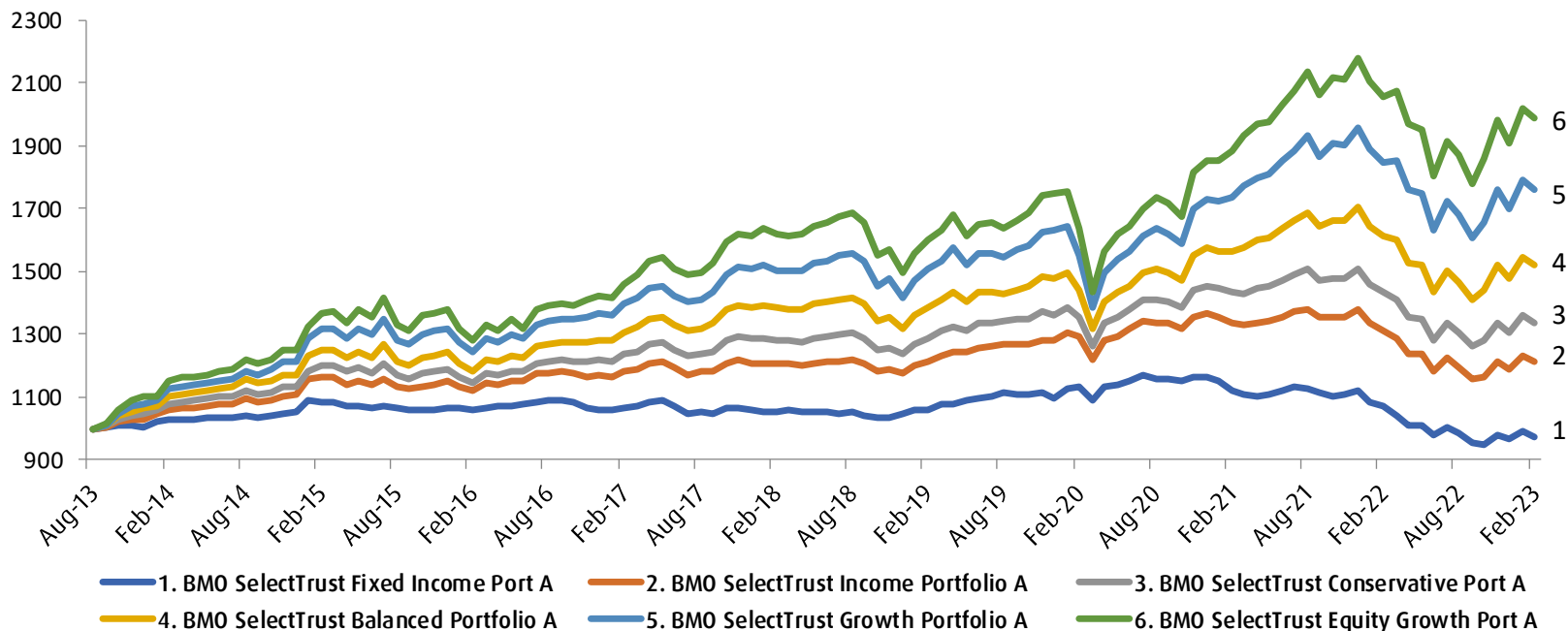
Source: Bloomberg, from Jan 31, 2023 to Feb 28, 2023.

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BMO SelectTrust Portfolios (%) – as at Feb 28, 2023

	BMO SelectTrust Fixed Income Portfolio	BMO SelectTrust Income Portfolio	BMO SelectTrust Conservative Portfolio	BMO SelectTrust Balanced Portfolio	BMO SelectTrust Growth Portfolio	BMO SelectTrust Eq. Growth Portfolio
Fixed Income						
BMO Core Bond Series I	22.3	26.3	20.0	-	-	-
BMO Crossover Bond Fund Series I	16.2	5.3	1.2	4.9	-	-
BMO U.S. Corporate Bond Fund	9.9	9.2	7.2	2.8	2.6	-
PIMCO Canadian Total Return Bond Fund Srs I	5.2	6.7	3.8	2.2	2.7	-
BMO Long Federal Bond Index ETF	3.6	1.9	1.5	1.3	-	-
BMO Mid US IG Corp Bond Hedged to CAD	9.8	4.4	7.2	2.8	2.7	-
BMO Aggregate Bond Index ETF	3.9	4.4	6.2	1.7	2.0	-
BMO Emerging Markets Bond Series I	-	3.3	5.3	3.5	1.9	-
BMO Emerging Markets Bond Hdg to CAD Index ETF	10.9	2.7	-	-	-	-
BMO Core Plus Bond Series I	-	-	-	17.8	7.9	-
SPDR Portfolio TIPS ETF	5.2	-	-	-	-	-
BMO High Yield US Corporate Bond Hedged	10.0	5.5	4.5	3.0	1.5	-
Other Fixed Income / Cash	3.1	3.7	6.2	1.4	0.7	0.6
Total Fixed Income	100	73	63	41	22	1
Equity						
BMO Multi-Factor Equity Fund	-	2.1	4.2	8.5	7.9	15.2
BMO European Fund	-	3.2	4.5	7.4	8.8	11.3
BMO Canadian Equity Fund	-	4.5	10.0	13.1	18.1	13.6
BMO Canadian Large Cap Equity Fund	-	-	-	3.3	2.6	14.4
BMO S&P 500 Index ETF	-	3.5	1.5	5.2	7.8	9.6
BMO S&P/TSX Capped Comp Index ETF	-	4.1	1.0	0.5	0.9	1.9
BMO Japan Fund	-	3.0	4.1	6.5	8.2	10.4
BMO Global Equity Fund	-	2.5	3.6	5.3	6.3	8.4
BMO Emerging Market Fund	-	1.2	1.2	1.8	2.6	1.8
BMO MSCI Emerging Markets ETF	-	-	0.3	0.7	0.7	2.2
BMO Growth Opportunities Fund	-	-	1.0	1.9	3.3	1.4
Other Equity	-	2.6	5.5	4.5	10.8	9.3

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



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

Time Lapse	BMO SelectTrust Fixed Income Portfolio A	BMO SelectTrust Income Portfolio A	BMO SelectTrust Conservative Portfolio A	BMO SelectTrust Balanced Portfolio A	BMO SelectTrust Growth Portfolio A	BMO SelectTrust Equity Growth Portfolio A
1 month	-2.0%	-2.0%	-1.9%	-1.7%	-1.6%	-1.4%
3 month	-0.5%	-0.2%	-0.1%	0.1%	0.2%	0.3%
6 month	-1.2%	1.1%	2.2%	3.7%	4.8%	6.4%
1 Year	-9.6%	-7.9%	-7.0%	-5.7%	-4.7%	-3.4%
3 Year	-5.0%	-2.2%	-0.6%	1.7%	4.3%	6.6%
5 Year	-1.7%	-0.1%	0.8%	1.8%	3.2%	4.1%
Since Inception as of August 12, 2013	-0.3%	1.9%	3.0%	4.4%	6.0%	7.3%

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