BMO Sustainable Portfolios

August 2025

Monthly Commentary

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as at Jul 31, 2025

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BMO Global Asset Management

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Market & Economic Commentary

Summer Heatwave Continues

Markets continued to grind higher through July, with a month-end shock of wildly sub-consensus U.S. job creation, compounded by a massive revision to prior month's reported U.S. job growth, essentially flatlining employment for the past few months. Tariff rhetoric continued, with rates, countries and sectors all in flux as the U.S. administration announced "deals" (or more accurately, frameworks for potential future agreement) that remain foggy at best, and certainly nowhere near what anyone would consider a stable trade environment. Tuning out some of this with a hope of focusing on the comfort of fundamentals was slightly therapeutic, as earnings season continued to deliver earnings per share (EPS) growth above expectations, and margins that continued to track near historically high levels. Summer movie goers might have chosen an alternative to red-caped heroes by watching a modern western, "The Magnificent 7* Rides Again", showing in glorious laptop screen Bloomberg-Vision.

We are in a very momentum driven market—for good reasons. First, second quarter earnings season was reasonably benign, with low expectations for EPS growth at the beginning of the quarter handily beat, almost threefold. Second, increasing expectations for U.S. Federal Reserve Board ("Fed") rate cuts, which the market is reacting positively toward. Third, inflation pressure remains relatively contained, despite continued fears of yet-to-be seen significant tariff impacts. U.S. valuations are admittedly high, but not universally, and positioning is still not to the manic levels we've seen in the past. One area of caution: When you look at the concentration of Tech as a sector, and more specifically the four biggest names (Apple, Microsoft, Nvidia and Alphabet), all of a sudden, your largest asset allocation call—the S&P 500 Index—comes down to watching four companies like a hawk. Where they go, so goes the Index. From purely an arithmetic indexing point of view, if those stocks go down, the myriad of ETFs that are indexed to them have to start selling. That can become an issue, if one is not properly diversified or applying other defensive hedging strategies.

With respect to bonds, the July U.S. payrolls report put our +1 (slightly bullish) scoring on Fixed Income in bold font, with September expectations for a Fed cut now essentially fully priced in by the market and probably a second one by year-end. On a tactical basis, having some exposure to the yield curve[1] versus cash is a good idea, as U.S. two-year rates moved sharply lower after that shockingly low July U.S. jobs report. If we see any more politically driven developments that point toward more aggressive rate cuts (namely, continued pressure and restaffing of the U.S. Federal Reserve board of governors), we want more fixed income over cash right now.

The remainder of the summer should prove relatively quiet, as earnings season winds down, although Nvidia's numbers later in the month will be key to the present AI-focused tech rally. The imminent appointment of Stephen Miran to a U.S. Federal Reserve seat will almost certainly tilt the vote further in favour of interest rate cuts beginning in September, particularly if we see further weakness in August job numbers.

*Apple, Microsoft, Google parent Alphabet, Amazon.com, Nvidia, Meta Platforms and Tesla

[1] Yield Curve: A line that plots the interest rates of bonds having equal credit quality but differing maturity dates.

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

Index	Canadian Dollar Return	Close
S&P 500 Index	3.91%	19,415.53
MSCI World Index	2.65%	24,672.66
FTSE Canada Universe Bond Index	-0.74%	1,176.95
Canadian Dollar ($US/$CA)	-1.80%	0.72
Crude Oil	8.11%	95.91 bbl/CAD

Index performance is shown for illustrative purposes only. Index returns do not reflect transaction costs or the deduction of other fees and expenses. You cannot invest directly in an index.

Source: Bloomberg, from Jun 30, 2025 to Jul 31, 2025.

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BMO Sustainable Portfolios – Monthly Portfolio Commentary

Equities

- We were slightly overweight equities and slightly underweight fixed-income in the portfolios, with an explicit allocation to gold funded from fixed-income.
- Equities continued their relentless rally from April lows as economic data and quarterly earnings stayed resilient. Mega-cap tech & strengthening USD boosted U.S. to the top this month, followed by Emerging Markets, Canada, and EAFE with EAFE equities being down as others were up. BMO MSCI China Selection Equity Index ETF - ZCH was the best performing equity holding for the BMO Sustainable Portfolios in July.
- The ESG factor's performance was mixed, again, – adding value in U.S. & Canada ETFs, while detracting value in EAFE & Emerging Markets ETFs.
- One of our new thematic positions BMO Global Innovators Fund Active ETF Series – BGIN added value on top of BMO MSCI USA Selection Equity Index ETF - ESGY – the best performing regional equity ETF, as the Tech sector had a great month.
- Active equity mutual funds all had a positive return month, but they detracted value against respective beta-1 ESG ETFs.
- In the portfolios, we were slightly overweight equities and had a slight preference for U.S. and Emerging Markets equities (specifically, China) over EAFE equities.

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BMO Sustainable Portfolios – Monthly Portfolio Commentary

Portfolio Activity

Fixed Income

- Fixed income funds were mostly down for the month, with a few exceptions.
- The duration trade was painful this month with BMO Long-Term US Treasury Bond Index ETF (Hedged units) – ZTL.F being the worst performing fixed-income fund. On the Canadian government bond side, BMO Sustainable Bond Fund, BMO Government Bond Index ETF - ZGB and BMO Short Federal Bond Index ETF - ZFS were all negative for the month.
- On the credit side, PHYD – Putnam ESG High Yield ETF - was the best performer, followed by BMO ESG US Corporate Bond Hedged to CAD Index ETF - ESGF and BMO Short Corporate Bond Index ETF - ZCS – as tightening credit spreads over-compensated for rising yields.
- Gold was flat, but being priced in U.S. dollars (USD) added value as USD had a comeback month after months of losses against the Canadian dollar.
- In the portfolios, we maintained status quo – not making any substantial tilts on duration or credit.

Responsible Investing Update

- Review of proxy season 2025: Our RI team concluded their review and vote execution for the 2025 proxy voting season on June 30. Key themes for shareholder proposals this season included calls for hybrid shareholder meetings, calls for third-party racial equity audits, the disclosure of energy supply ratios, reports on forced and child labour in lending portfolios, and AI-related proposals pertaining to requests for voluntary codes of conduct, reports on the human rights impacts of AI-driven targeted advertising, and reports on the risks of the use of unethical external data to develop AI products.

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Asset Allocation

BMO Sustainable Portfolios (%) – as at Jul 31, 2025

Equity	BMO Sustainable Income Portfolio	BMO Sustainable Conservative Portfolio	BMO Sustainable Balanced Portfolio	BMO Sustainable Growth Portfolio	BMO Sustainable Equity Growth Portfolio
BMO MSCI Canada ESG Leaders ETF	3.5	4.9	7.3	9.7	11.6
BMO Sustainable Opps Cdn Equity Fund	2.5	3.6	5.3	7.1	8.2
BMO MSCI USA ESG Leaders ETF	8.5	12.0	17.4	23.0	27.9
BMO MSCI EAFE ESG Leaders ETF	7.9	11.3	16.3	21.6	26.5
BMO Sustainble Opps Global Equity Fund	2.5	3.5	5.2	7.0	7.4
BMO Women in Leadership Fund	2.7	3.8	5.6	7.5	8.9
iShares MSCI EM ESG Leaders ETF	0.9	1.0	1.6	2.1	3.4
Royal Mint Responsibly Sourced Physical Gold ETC	2.7	2.7	2.7	2.7	2.4
BMO Brookfield Global Renewables Infrastructure Fund	-	-	0.7	0.8	-
Other Equity	0.9	1.5	2.2	2.9	3.9
Total Equity	**32**	**44**	**64**	**84**	**100**
Fixed Income					
BMO Sustainable Bond Fund	22.1	18.3	11.5	5.0	-
BMO ESG US Corporate Bond Index ETF	22.4	14.2	8.9	3.9	-
BMO Government Bond Index ETF	8.3	10.5	6.6	2.9	-
BMO Short Federal Bond Index ETF	4.9	4.0	2.5	1.1	-
Putnam ESG High Yield ETF	5.7	4.0	2.5	1.1	-
BMO Long Term US Treasury Bond Index ETF	2.0	1.6	1.0	0.5	-
Other Fixed Income / Cash	2.6	3.1	2.7	1.3	-
Total Fixed Income	**68**	**56**	**36**	**16**	**0**

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The portfolio holdings and allocations are subject to change without notice. They are not recommendations to buy or sell any particular security.

Performance (Series A)

BMO Sustainable Portfolios – Performance

Series A Performance (%)	Since Inception	1 Month	3 Months	6 Months	1 Year	3 Year
BMO Sustainable Income Portfolio	0.4	0.2	2.5	0.7	4.5	4.2
BMO Sustainable Conservative Portfolio	2.2	0.5	3.7	1.0	6.4	6.1
BMO Sustainable Balanced Portfolio	4.6	1.0	5.8	1.9	8.8	8.7
BMO Sustainable Growth Portfolio	7.2	1.5	7.9	2.8	11.2	11.2
BMO Sustainable Equity Growth Portfolio	15.9	1.9	9.8	3.5	13.3	-

Inception date of BMO Sustainable Equity Growth Portfolio, Series A, as of June 16, 2023.
Inception date of the Income, Conservative, Balanced, and Growth BMO Sustainable Portfolios as of September 14, 2020.

Source: Morningstar. Performance is as of July 31, 2025 for Series A mutual Funds in Canadian dollars, and is net of fees and taxes.

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