BMO Sustainable Portfolios

June 2024
Monthly Commentary

Portfolio Activity
as at May 31, 2024

Market & Economic Commentary
BMO Managed Solutions

Asset Allocation
as at May 31, 2024

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as at May 31, 2024

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BMO Global Asset Management

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Market & Economic Commentary

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 (SPXSFRCS 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 Sustainable Portfolios – Monthly Portfolio Commentary

Portfolio Activity

Equities

- Equities had a stellar month throughout the globe on the backdrop of a goldilocks scenario playing out and many U.S. companies continuing to report magnified positive earnings surprises.
- Across the Atlantic, U.K. equities continued their good run from April as economic data surprised to the upside which helped propel EAFE equity ETFs.
- BMO Sustainable Opportunities Canadian Equity Fund saw positive returns but fell behind its respective benchmark during the month as some of its names did not participate in the strong rally in May. The ESG factor and stock selection added value over the benchmarks in May.
- We saw some divergence in performance for ESG passive ETFs versus their respective broad market benchmarks in May - US & EAFE ESG ETFs performed similar to their market counterparts, Canada's ESG ETF lagged its market counterpart, while the EM ESG ETF beat its market counterpart.
- In our portfolios, we maintained our 'risk-on' stance by being over-weight equities as earnings have been strong. Geographically, we're tilting toward U.S. equities over Canadian as the U.S. economy has withstood monetary tightening better than Canada's.

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Portfolio Activity

BMO Sustainable Portfolios – Monthly Portfolio Commentary

Fixed Income

- Fixed Income had good performance for the month across both U.S. and Canada on the back of both regions' government bond yields falling between 10-20 basis points across the curve.
- Government bond funds – both in U.S. and Canada delivered roughly +1% to +3% return for the month aided by their higher duration across both active and passive mandates.
- On the credit side, BMO ESG High Yield US Corporate Bond Index ETF (Hedged) had a positive, albeit lackluster month (up < +1%), underperforming BMO ESG US Corporate Bond Hedged to CAD Index ETF. This was due to high yield's lower duration versus Investment grade (IG), and HY credit spreads widening versus the tightening observed in IG spreads.
- In our portfolios, we've been neutral fixed-income – not making any substantial tilts on duration or credit.

Responsible Investing Update

- RIA Webinar: we participated in a panel discussion entitled 'Road to Shared Prosperity – Indigenous Communities and Responsible Investors'
- RIA Annual Conference 2024: we participated in two panel discussions: 'Critical Minerals and Mining: Balancing Net-Zero Ambitions with Social Responsibilities' and 'Responsible Investment in Times of Populism'
- Sustainable Finance Summit 2024: we participated in a panel discussion entitled 'Regulatory Roadblocks and Catalysts: Creating a Conducive Environment for Positive Transformation'
- Ivey's Women in Asset Management program: we participated in an ESG panel discussion.

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Asset Allocation

BMO Sustainable Portfolios (%) – as at May 31, 2024

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	2.7	3.9	5.8	7.8	10.0
BMO Sustainable Opps Cdn Equity Fund	2.5	3.6	5.2	6.9	8.7
BMO MSCI USA ESG Leaders ETF	9.2	12.7	18.8	24.9	30.2
BMO MSCI EAFE ESG Leaders ETF	8.4	11.4	17.0	22.4	27.9
BMO Sustainble Opps Global Equity Fund	3.4	4.9	6.9	8.6	10.1
BMO Women in Leadership Fund	2.4	3.5	5.0	6.3	6.9
iShares MSCI EM ESG Leaders ETF	1.2	1.7	2.4	3.6	3.8
Royal Mint Responsibly Sourced Physical Gold ETC	1.2	2.0	2.6	2.9	3.5
BMO Brookfield Global Renewables Infrastructure F	-	-	0.8	0.9	1.4
Total Equity	**31**	**44**	**65**	**84**	**100**
Fixed Income					
BMO Sustainable Bond Fund	25.1	20.1	12.7	5.4	-
BMO ESG US Corporate Bond Index ETF	23.2	14.5	8.7	4.3	-
BMO Government Bond Index ETF	8.5	12.3	7.5	2.5	-
BMO ESG Corporate Bond Index ETF	3.7	3.1	2.3	1.1	-
BMO ESG High Yield US Corp Bond Fund	6.4	3.9	2.2	-	-
Other Fixed Income / Cash	2.4	2.3	2.2	2.5	-
Total Fixed Income	**69**	**56**	**35**	**16**	**0**

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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	-1.4	2.1	1.1	4.7	6.3	-1.5
BMO Sustainable Conservative Portfolio	0.3	2.3	1.7	6.2	8.6	0.0
BMO Sustainable Balanced Portfolio	2.7	2.8	2.6	8.7	12.1	1.8
BMO Sustainable Growth Portfolio	5.5	3.1	3.3	11.0	15.8	3.6
BMO Sustainable Equity Growth Portfolio	16.3	3.4	4.0	13.2	-	-

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.

Data as of May 31, 2024.

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

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