BMO Core Plus Bond Fund

Ticker: ZCPB

Current State of the Market & Portfolio Impact

Interest Rates

Rates rose across the curve in September, with real rates driving most of the move. Central bankers struck a united, hawkish tone during the month. FOMC members Bowman and Mester suggested that more hikes were on the way, with the more dovish Bostic suggesting that rates would need to remain at current levels for a long time. The Bank of Canada, meanwhile, released minutes from its July meeting and they noted that "the Governing Council agreed that the lack of progress in underlying inflation remained a significant concern." The minutes also revealed that they did not want to raise expectations of a near-term reduction in interest rates, given that they only considered keeping the policy rate where it is or raising it further. US retail sales beat expectations, tempered slightly by downward revisions to the prior month. Industrial production increased and ISM manufacturing surprised to the upside edging closer to the dividing line between contraction and expansion. Labour market data was mixed, with the unemployment rate rising to a still tight 3.8% but jobless claims surprising lower. US price pressures were, on balance, slightly higher than expected. On a monthly basis headline CPI expanded at 0.6% and Core at 0.3%. YOY CPI sits at 3.7% with Core at 4.3%. The Canada inflation release was a bigger miss and the market reacted with yields up double-digits on the day. CPI MOM was 0.4% vs 0.2% expected on higher energy prices, and YOY came in at 4.0% vs 3.8%. The average of the Core measures also beat significantly to the upside, at 4.0% vs 3.7% expected, on high shelter costs and a reacceleration of core goods. In Canada, the 10Y rose 47bps, from 3.56% to 4.03%. The US 10Y increased by 46bps, from 4.11% to 4.57%. Canada and the US both experienced significant curve steepening between 2s and 10s; 23bps in Canada and 28bps in the US.

The portfolio's curve positioning and underweight to duration / interest rate sensitivity contributed meaningfully to performance versus the benchmark during the period.

Credit Spreads

Credit spreads ended the month in line with their beginning levels. FTSE Canada corporate spreads tightened by 1bps overall, with short-term corporate spreads widening by 3bps, mid-term in 2bps, and long-term spreads out 1bp. Long-Term Provincial Index (maturities > 10-years) spreads widened by 3bps during the period. US investment grade spreads increased by 3bps, and high yield spreads by 18bps.

The portfolio's overweight to corporates contributed to return through higher carry, though this was offset by negative security selection.

Market Expectations & Portfolio Implications

Interest Rates

Price pressures and secularly tight labour markets continue to cloud the rate outlook, however economic growth has been tempered with Canadian GDP tracking modest-to-flat heading into Q4. Long duration bets came under further pressure during September with markets continuing to add risk premia back into the curve, especially at longer term-to-maturities. Higher market conviction of a soft landing / no landing ahead for the US economy, elevated US Treasury issuance, central bankers reinforcing a 'higher for longer' message and little recent progress made on Canada CPI have all contributed to higher term premia and significant curve steepening. No end yet in sight with respect to elevated bond market volatility; central banks remain firmly data-dependent and markets similarly reactive.

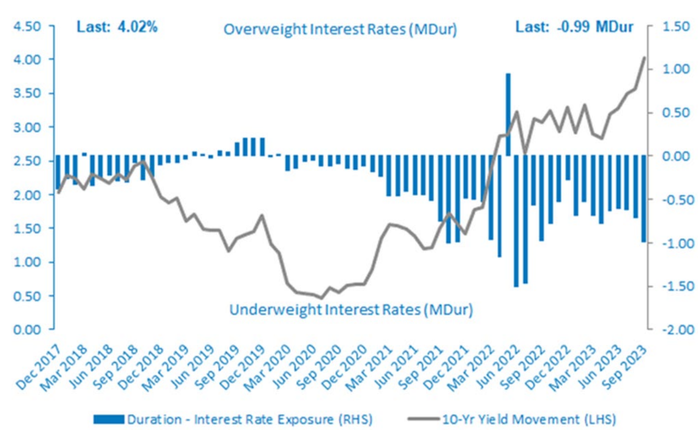
Bias: Underweight to duration / interest rate sensitivity versus the benchmark. Tactically opportunistic amid volatility.

Credit Spreads

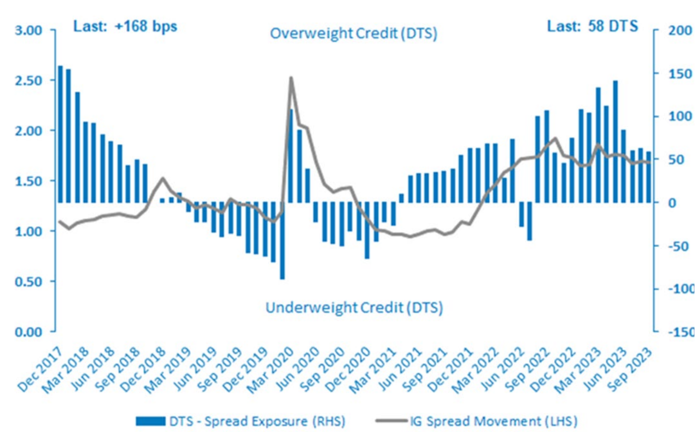
Canadian credit spreads were relatively stable overall during the month, though short-term spreads widened and continue to reflect a certain level of economic softening ahead. In particular, the short- and mid-term (<10-year) segments remain relatively attractive from a historical perspective. The CDX IG Index and S&P 500 implied volatility as measured by the VIX Index increased during the month. We remain modestly overweight spreads but would look to potentially add back exposure upon any significant weakness. We continue to emphasize carry & roll-down within the portfolio by maintaining our overweight to the areas of the credit curve that offers the best yield enhancement with the best breakeven protection against credit spread widening, especially short- and mid-term (<10-year maturities), investment grade corporate credit and selective high yield exposure where permitted and relevant. Our overall positioning to credit spreads is modestly overweight.

Bias: Modest overweight to credit, with an emphasis on the short-term and mid-term segments of the yield curve.

Historical Interest Rate Exposure



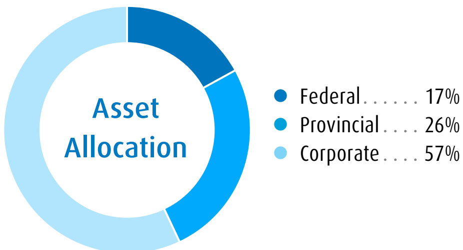
Historical Spread Exposure

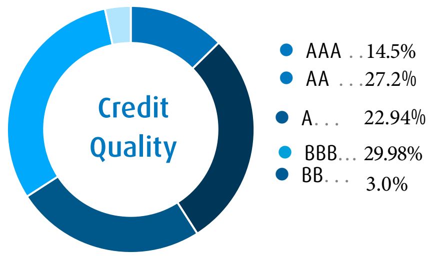


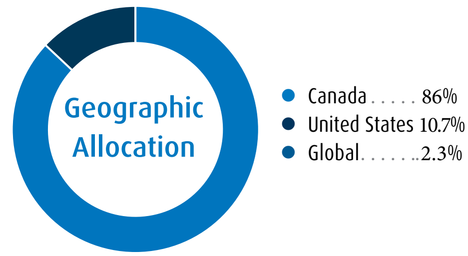
Source: BMO Global Asset Management

Portfolio Statistics (October 30, 2023)

Risk Rating	Yield-to-Maturity	Current Yield	Duration	Average Credit Rating	MER
Low	5.28%	3.09%	6.05	A-	0.56%







		Max Bearish				Neutral				Max Bullish	
Core	Interest Rates			■							Overall duration has been reduced further Yield curve exposure: Bear Steepener (long end under-performs)
Core	Provincial Credit		■								Remain underweight at both the short and long end of the yield curve
Core	Investment Grade Credit							■			Overweight Investment Grade credit. Portfolio maintains more yield & roll-down versus benchmark.
Plus	High Yield Credit						■				Continue to add to HY exposure Favour BB over both B & CCC ratings on valuation / historical
Plus	Emerging Market Debt					■					Given current spreads, prefer to add HY over EM.
Plus	Currency Exposure					■					All non-CAD exposure is currently being hedged back to CAD. CAD credit spreads more favourable than USD credit spreads
Plus	Overlay					■					No overlay positions at the moment.

Trailing performance as at November 30, 2022

Annualized Performance	1Y	2Y	3Y	5Y	Since Inception
NAV	1.99%	-4.17%	-4.14%	0.54%	0.40%

Calendar year performance

Calendar Performance	YTD	2022	2021	2020	2019	2018
NAV	3.43%	-12.53%	-2.97%	8.78%	6.07%	0.89

BMO Exchange Traded Funds

Source: BMO Global Asset Management and Morningstar Direct.

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