Fixed Income
2025 Outlook

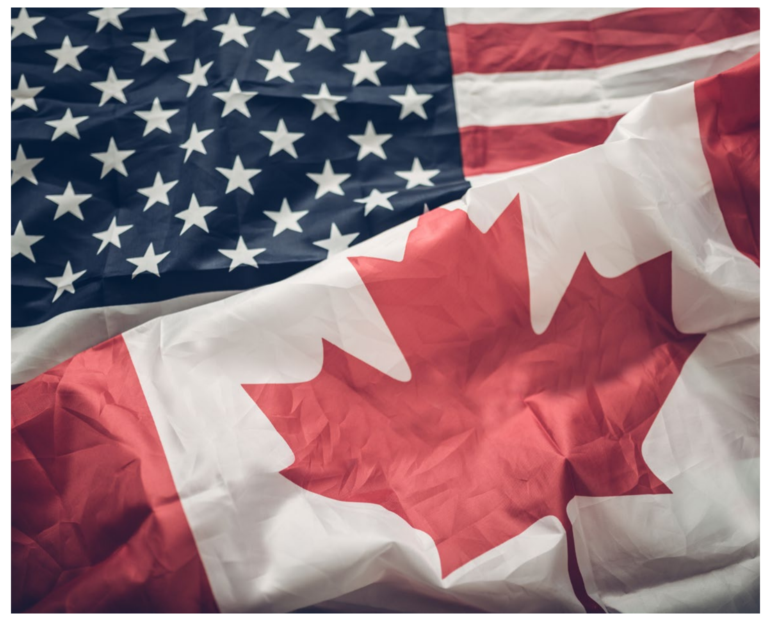
BMO | Global Asset Management

INTRODUCTION

Rate divergence, trade policy volatility are themes to watch

Earl Davis
Head of Fixed Income and Money Markets, Active Fixed Income

Through 2024, the **BMO Core Plus Bond Fund** strategy quietly outperformed guaranteed investment certificates (GICs)s.[1] We expect to see continued outperformance for 2025 given the aggressive easing policy that the Bank of Canada (BoC) has embarked upon combined with the attractive all-in yield of corporate bonds.



We believe that the economic backdrop for 2025 is conducive for increasing exposure to corporate credit assets, including Investment Grade and selective High Yield names. This view is anchored by the pro-growth policies of a Trump presidency in the United States. Although the risk of tariffs is non-negligible, we believe that the details and implementation will not be realized until the latter half of the year, thereby allowing the economic expansionary impulse to outweigh the possible inflationary impacts of tariffs.

Additionally, we will look for opportunities to extend Duration[2] in Canada as we believe that the Canadian yield curve[3] will be relatively contained due to the weaker domestic economic backdrop and the market's anticipation of further easing of monetary policy by the BoC as compared to the Federal Open Market Committee in the United States. Going forward we expect the BMO Core Plus Bond Fund to outperform.

Introduction
Positioning
Scorecard
Outlook
Footnotes
Disclaimers

POSITIONING

Positioning & allocations

Our highest conviction view for 2025 is persistent volatility.[4] The main driver of volatility will be the rolling threats stemming from the Trump trade policy agenda that will continue to put pressure on the tight valuations for corporate credit. Volatility is conducive to active management as it allows us to be both nimble and patient in pursuit of higher returns. Throughout the year, we will approach risk-off periods as an opportunity to add to High Yield credit[5] (given the very tight valuations entering 2025) and any move towards higher yields as an opportunity to extend Duration given the yields we are seeing above inflation.

Long real rates (U.S. Treasury Inflation Protected Securities, or TIPS) should remain attractive. U.S. 10-year real rates at 2% offers a compelling real return over inflation, especially given the uncertainty around the details of Trump tariff policies which may risk re-igniting an inflationary environment. In addition, we anticipate yield curve steepening in both Canada and the U.S. but have a higher preference for a Canadian curve steepening.[6]

Why? We anticipate more relative monetary policy easing by the BoC compared to the Federal Reserve. The upcoming Canadian election may also lead to an increase in the fiscal deficit due to increased spending, which will add to the supply of longer dated bonds.

SCORECARD

BMO GAM Multi-Asset Solutions Team (MAST) 2025 Fixed Income scorecard

DURATION

10-Year U.S.	Very Bearish	Bearish	Slightly Bearish	Neutral	**Slightly Bullish**	Bullish	Very Bullish
10-Year Canadian	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish

YIELD CURVE

2-Year/ 10-Year U.S.	Very Bearish	Bearish	Slightly Bearish	Neutral	**Slightly Bullish**	Bullish	Very Bullish
2-Year/ 10-Year Canadian	Very Bearish	Bearish	Slightly Bearish	Neutral	Slightly Bullish	**Bullish**	Very Bullish

10-YEAR TIPS

Real Yield	Very Bearish	Bearish	Slightly Bearish	Neutral	**Slightly Bullish**	Bullish	Very Bullish

CREDIT SPREADS

Investment Grade U.S.	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish
Investment Grade Canadian	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish
High Yield U.S.	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish
Emerging Markets	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish

CURRENCIES

Canadian dollar (CAD)/U.S. dollar (USD)	Very Bearish	Bearish	Slightly Bearish	**Neutral**	Slightly Bullish	Bullish	Very Bullish

Introduction
Positioning
Scorecard
Outlook
Footnotes
Disclaimers

OUTLOOK

Outlook summary

We prefer to start the year positioned long on the shorter end (the 2-year sector of the curve) given a combination of the recent sell-off in the short end and our anticipation of further easing in both Canada and the U.S.

We expect the terminal rate to be 2.75% in Canada and 4.00% in the U.S. with a risk of rates going lower.[7] Again, we will use any sell-off as an opportunity to extend Duration. Our target buying zone for 10-year U.S. Treasuries is 4.50%-5.00%. We see the potential for a yield curve steepener, driven by a rally in the 2-year sector.

We also maintain a small preference for Canadian Investment Grade (IG) as we enter the year, given better valuations than U.S. IG. We will, however, be looking for opportunities to buy High Yield on any risk-off periods as we believe that Trump's pro-U.S. growth policies will be supportive.

Lastly, we are neutral on the CAD at present given how much bad news is built into market assumptions at present levels. However, we will be looking for opportunities to go long the USD if we have episodes of CAD strength.

Introduction
Positioning
Scorecard
Outlook
Footnotes
Disclaimers

FOOTNOTES

[1] Bloomberg, as of November 30, 2024 (latest data before publication).

[2]Duration: A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise).

[3] Yield curve: A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. A normal or steep yield curve indicates that long-term interest rates are higher than short-term interest rates. A flat yield curve indicates that short-term rates are in line with long-term rates, whereas an inverted yield curve indicates that short-term rates are higher than long-term rates.

[4] Volatility: Measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

[5] High Yield Bonds: Corporate debt securities that pay higher interest rates than Investment-Grade bonds. High-yield bonds tend to have credit ratings of below BBB- from Standard & Poor's and Fitch, or below Baa3 from Moody's.

[6] Yield curve steepening: When the spread between short-term and long-term interest rates increases.

[7] Terminal rate: The ultimate interest rate level that a central bank sets as its target for a cycle of rate hikes or cuts.

Performance (%)

Fund	Year-to-date	1-month	3-month	6-month	1-year	3-year	5-year	10-year	Since inception
BMO Core Plus Bond Fund – Series F	5.6	1.7	2.8	6.7	9.2	0.1	0.6	2.0	2.1

As of November 30, 2024. Inception date November 13, 2014.

DISCLAIMERS

This communication is intended for information purposes only.

The information contained herein is not, and should not be construed as, investment advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc., BMO Investments Inc., BMO Asset Management Inc. and BMO's specialized investment management firms. BMO Mutual Funds are offered by BMO Investments Inc., a financial services firm and separate legal entity from the Bank of Montreal.

Commissions, trailing commissions (if applicable) , management fees and expenses all may be associated with mutual fund investments. Please read the fund facts or prospectus of the relevant mutual fund before investing. The indicated rates of return are the historical annual compounded total returns for the period indicated including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Distributions are not guaranteed and are subject to change and/or elimination.

For a summary of the risks of an investment in BMO Mutual Funds, please see the specific risks set out in the prospectus.

BMO Mutual Funds are managed by BMO Investments Inc., which is an investment fund manager and a separate legal entity from Bank of Montreal.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

The viewpoints expressed by the author represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. This communication is intended for informational purposes only.