# BMO Sustainable Global Multi-Sector Bond

Ticker: ZMSB

## Current State of the Market

### Overview

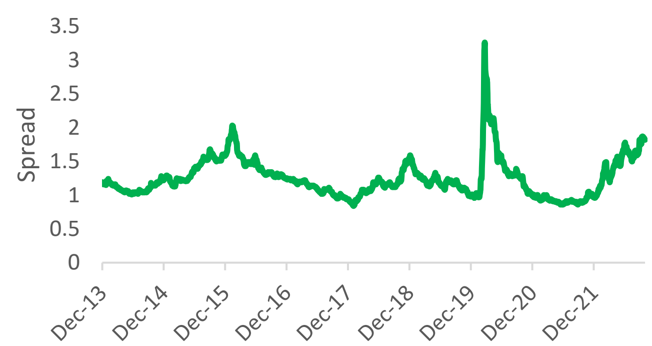
October was a mixed month for fixed income amid divergent performance in interest rate markets and a rally in credit markets. One question exercised investors in bond markets: when would the Fed pivot? Despite the aggressive pace of interest rate hikes in the US and clear signs that growth had begun to decelerate, US inflation remains elevated and the market continued to price in a 0.75% rate hike for the November FOMC meeting. Fed policymakers continued to give a consistent message that there was a greater risk in doing too little than doing too much. The ECB raised interest rates by 0.75% to 2% in their battle to control inflation. Many in the market, however, regarded comments that the ECB had already made substantial progress in withdrawing monetary policy accommodation as a dovish signal. This fed through to a wider debate in the market that central banks might be on the cusp of adopting a less hawkish stance, drawing support from recent decisions by the Australian and Canadian central banks to tighten monetary policy by less than the market had expected. In the UK, the reversal of expansionary fiscal policy, alongside a change in Prime Minister and chancellor, led to a rally in gilts, while US Treasuries and Eurozone bonds continued to generate negative returns. Credit markets benefited from a mix of relatively cheap valuations, subdued issuance and benign corporate earnings.

### Performance & Positioning

The BMO Sustainable Global Multi Sector Bond ETF returned +1.47% during October, largely reflecting exposure to higher beta corporate debt. Holdings in GBP-denominated assets also made a positive contribution to performance, as valuations benefited from greater stabilisation in the gilt market and a return to more fiscally orthodox policies. Portfolio activity saw us tactically increase exposure to credit by paring back credit hedges, so that the ETF could benefit from renewed market strength. Towards the end of the month, we began to rebuild portfolio hedges in the US high yield market. We maintain our core view that credit markets remain vulnerable to any reversal in risk sentiment as global economic growth continues to decelerate. A more defensive credit mindset saw us reduce exposure to economically-sensitive sectors such as autos and US home builders. Within interest rates, we marginally reduced exposure to the US at the 5-year maturity point while booking profits on a short-term tactical position in UK 10-year rates.

### Change in US 10-year bond yields


### Change in global credit spreads

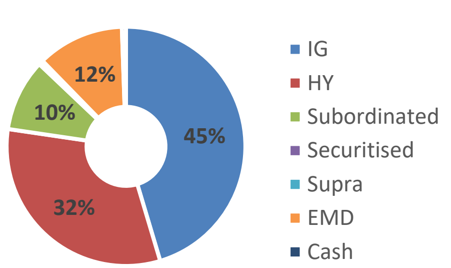



*Source: Bloomberg 31st October 2022*

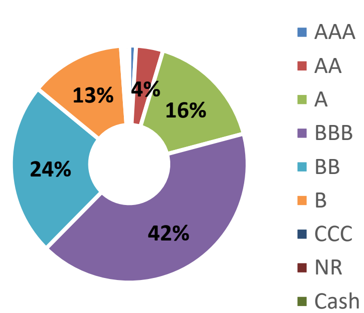
### Portfolio Statistics (ETF Series)

| Risk Rating | MER | Duration | Current Yield | Yield to Maturity |
|---|---|---|---|---|
| Low | 0.67% | 3.6 | 4.9% | 7.7% |

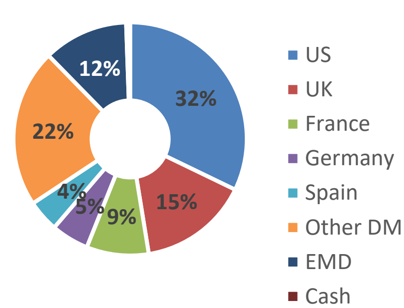
**Asset Allocation**




**Credit Quality**

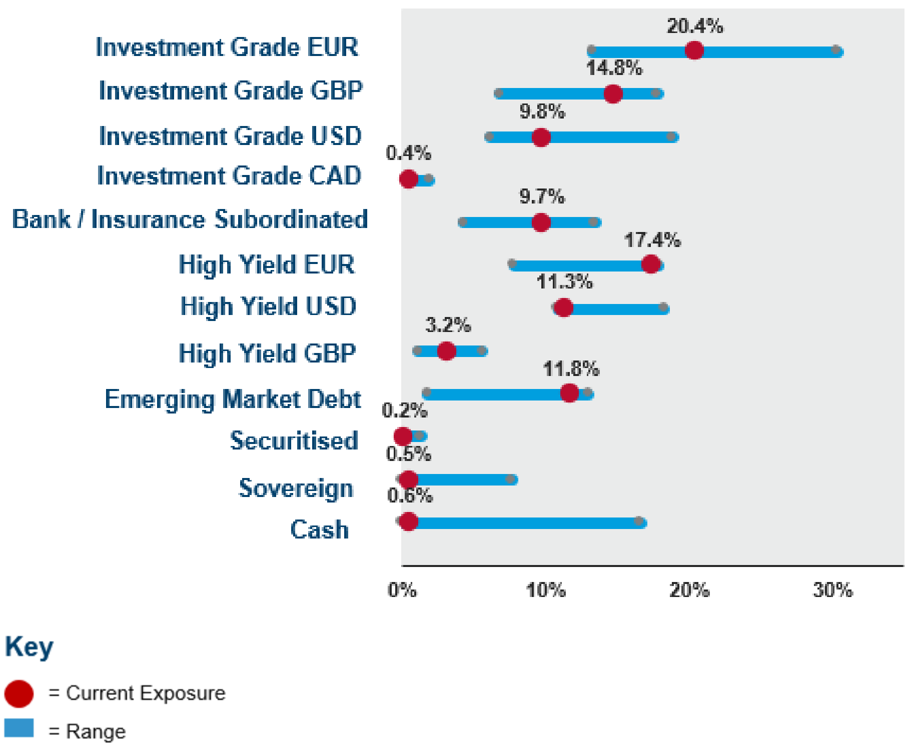



**Geographic Allocation**




EMD = Emerging Market Debt; NR = Non-Rated; Other DM = Other Developed Market

## Asset Allocation (September 2018 – October 2022)




**Investment Grade Credit** – We exited a position in US Healthcare company, Boston Scientific (BBB), to provide liquidity for portfolio management purposes.

**High Yield Credit** – We reduced exposure in the auto sector, exiting a position in Spanish autoparts manufacturer, Antolin (B-) while paring back exposure to US manufacturer, Adient (B-). This reflected the deteriorating outlook for discretionary spending globally, as consumers have experienced a reduction in real disposable income. In contrast, our decision to exit the ETF's position in US packaging company, Mauser (B-) reflected rising input costs, which has put margins under pressure

**Emerging Market Debt** – We lightened exposure to United Arab Emirates transport infrastructure company, DP World (BBB-), as the outlook for earnings has deteriorated

**Securitised Debt** – We maintained the position in UK leisure operator, Center Parcs. The bond is a whole of business securitisation, is BBB-rated, and offers an attractive credit risk premium for investing.

**Government Debt** – We traded tactically in the UK government bond market at the 10-year maturity point, while paring back interest rate exposure in the US at the more policy rate-sensitive 5-year maturity point

### Trailing Performance (%) as of October 31, 2022

| | 1-Month | 3-Month | YTD | 1-Year | 2-Year | 3-Year | Since Inception | Inception Date |
|---|---|---|---|---|---|---|---|---|
| ETF Series | 1.47 | -4.29 | -11.79 | -11.59 | -5.09 | -2.32 | 0.28 | 24/05/2018 |

### Calendar Year Performance (%)

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| ETF Series | -1.01 | 11.23 | 5.28 | 0.47 |

## Draw on the fixed income expertise and capabilities of a global investment team:

The fixed income team at BMO Global Asset Management is a global team with expertise in multiple credit geographies across multiple global fixed income sectors.

**Keith Patton**
Global Head of
Unconstrained Fixed Income

**Ian Robinson**
Global Co-Head of Income &
Head of Credit – EMEA

**Andrew Brown**
Fund Manager
Fixed Income

**Abigail Mardlin**
Fund Manager
Fixed Income

**Rebecca Seabrook**
Fund Manager
Fixed Income