Asset allocation compass

BMO MM Lifestyle Funds – Q3 2018

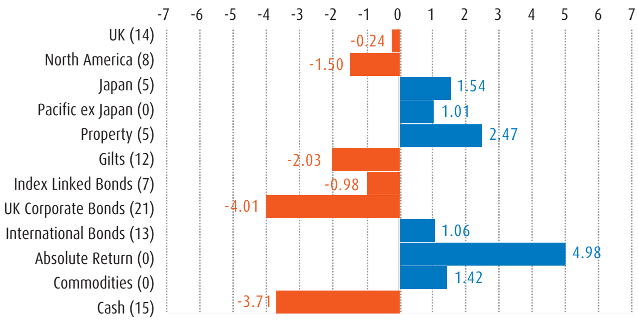
▽ Negative □ Neutral △ Positive

Equities		
US	▽	Whilst we continue to see good economic data in the US, with markets still close to record highs, it would appear much of the good news is priced in. For now, we remain slightly below neutral given the decent economic backdrop but we are conscious of relatively high valuation levels against international peers. Federal Reserve policy, political noise and concerns over protectionism could dampen sentiment.
UK	□	The UK continues to face uncertainty from the challenges posed by the Brexit process with a weak government trying to maintain unity whilst finding a policy for the future relationship acceptable domestically and to the EU. The economic data continues to hold up reasonably well, and sterling continues to act as a shock absorber for bad news. Many shares look relatively cheap and there are plenty of opportunities for stock pickers.
Europe	□	The economic data in Europe remains solid though we note elevated political risks not least around Italy, where the populist government is likely to clash with the EU over budget deficits. For the moment, markets have digested the news of an end to quantitative easing very well, thanks to the European Central Bank giving reassurance that interest rates will not rise until late next summer 2019.
Japan	△	The Japanese economy continues to build traction and corporate Japan remains in good shape with increasingly shareholder friendly policies. We think the stock market remains good value. Prime Minister Shinzo Abe continues to push structural reforms and the Bank of Japan remains committed to long-term loose monetary policy to achieve their inflation goals.
Asia	△	The region still looks to offer good value and exposure to some fast-growing economies. The key risk is a slowing Chinese economy but assuming it maintains a 6.5% growth rate our sentiment is likely to remain positive on the region. The measures taken by the Chinese to stabilise growth appear to be working well so far and further steps may be taken if the trade war escalates. Other economies in the region are growing strongly.
Emerging markets	△	Many of the issues in emerging markets are cyclical and not structural – these are being addressed by conventional monetary and fiscal policies and arguably political risks are priced in – something that cannot necessarily be said for many developed markets. Aggressive US rate hikes could cause issues for some countries with high levels of US dollar debt. Long-term positive trends in terms of strong demographics and lower levels of debt contribute to many emerging market economies looking in better shape that their western counterparts.
Fixed income		
Government	▽	Government bonds appear well supported despite alarming total levels of debt – this is thanks to the ongoing policies of the central banks. A sovereign debt crisis is unlikely but bonds are vulnerable to a pickup in economic growth or a change in investor expectations over interest rates and inflation. Even the hint of inflation has been enough to see bond yields rise swiftly off their recent lows.
Corporate	▽	Quality of issuance is deteriorating and secondary market liquidity continues to be a big concern. Central banks have now become a big player in this sector, which does offer some support – until they stop! Corporate Bonds have some vulnerability to interest rate rises and any reversal of flows into the sector. Offering a decent yield but limited capital upside and risk/reward appears unattractive.
Absolute/ strategic	△	Manager selection continues to be important but strategic funds have been delivering on the promise of delivering consistent returns through asset class volatility. This continues to be our favoured method of fixed income exposure and is likely to remain so for the foreseeable future.
High yield	▽	Unlikely to offer significant capital returns from here and the quality of issuance remains something of a concern. Risk/reward looking a little more compelling but yields on offer still remain very low. European High Yield looks less vulnerable than US thanks to ECB support – for the moment – but fundamentals are deteriorating at the margin not least in the US which is further along in the credit cycle.
Emerging markets	□	Attractive from a valuation perspective but manager selection remains important. Many countries have weathered the storm of a stronger US Dollar and the risk/reward looks attractive for those willing to take a longer-term view and ride out the inevitable patches of shorter term volatility that will be seen when the US is in a rate hiking cycle.
Other		
Property	□	We still have concerns over the liquidity mismatch between daily traded funds and illiquid underlying assets meaning the biggest funds have to hold plenty of cash, which acts as a drag on performance. We have a strong preference for specialist and uncorrelated property exposure such as Leisure Parks, Infrastructure and investments tied to long-term government contracts.
Protection	□	We see protection as making use of index futures to add or reduce market exposure. We are using protection currently to reduce portfolio equity exposure given a lack of conviction over further upside in markets.
Absolute/low beta	□	Whilst sceptical over the merits of some absolute return products, we believe that with carefully selected managers we can add value in this area. If we do foresee any significant market downside we will consider adding to this space along with increasing cash.

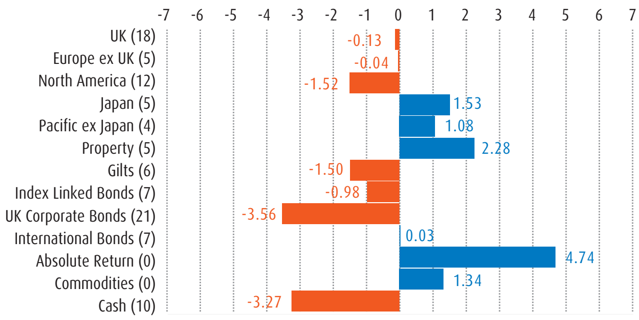
The team works to supplement the long-term strategic asset allocations independently determined by Distribution Technology with a shorter-term tactical overlay as they look to best position the portfolios from capital appreciation and preservation perspectives. The size of these tactical tilts is strictly limited to +/-5% around the neutral weightings – discipline that aims to ensure long-term alignment to each portfolio's defined volatility target.

Tactical tilts as at 30.09.2018 (neutral asset class % weighting in brackets)

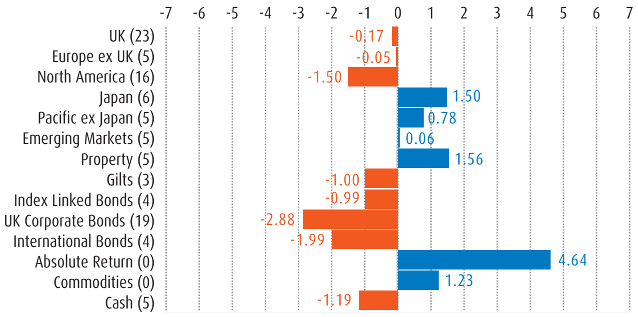
BMO MM Lifestyle 3 Fund (%)



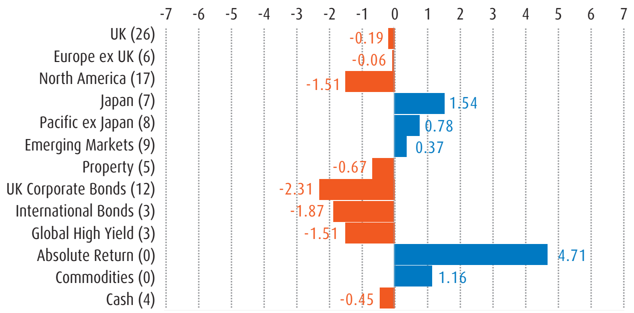
BMO MM Lifestyle 4 Fund (%)



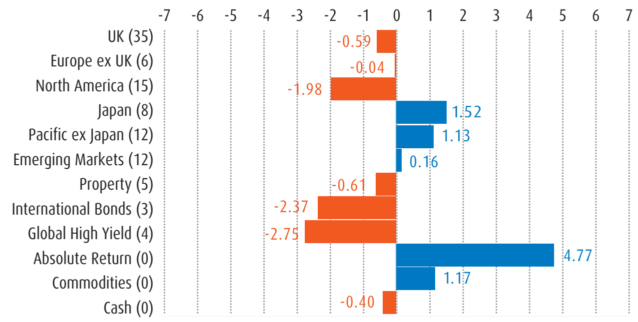
BMO MM Lifestyle 5 Fund (%)



BMO MM Lifestyle 6 Fund (%)



BMO MM Lifestyle 7 Fund (%)



Source: BMO Global Asset Management as at 30 September 2018.

Contact us

0800 085 0383

sales.support@bmogam.com

bmogam.com/lifestyle

Telephone calls may be recorded.

Stock market and currency movements mean the value of investments and the income from them can go down as well as up and investors may not get back the original amount invested.

BMO Global Asset Management