Perspectives from the Multi-Manager People

Asset allocation compass

BMO MM Lifestyle Funds – Q2 2021

▽ Negative □ Neutral △ Positive

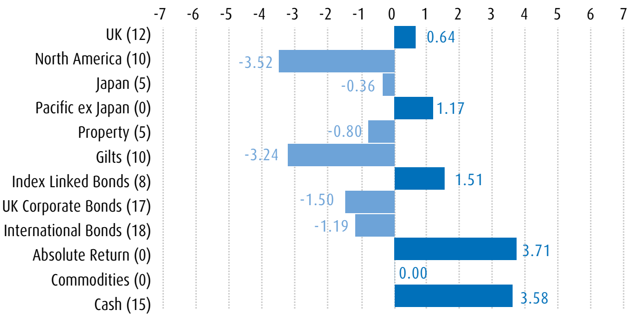
Equities		
US	▽	US equities have led the global market rebound but continue to look relatively expensive particularly some of the tech and growth names, despite recent pullbacks. We see positive upside to economic growth under the Biden administration but believe a lot of the good news is 'priced in'; we see better opportunities elsewhere.
UK	△	UK equities appear good relative value; concerns over Brexit fallout have faded, and the country is emerging from the most recent Covid-19 lockdown with a rapid rollout of vaccines. Growth is likely to be strong as pent-up demand feeds into the economy. We still think there are plenty of opportunities in some of the value and cyclical sectors that have underperformed until recently.
Europe	▽	Europe is set for the same recovery as the UK, albeit with a slight lag as the vaccine rollout catches up. Near-term political risks have eased though the German and French elections will begin to make headlines later in the year. The cyclical nature of the market makes European assets more attractive, but we prefer UK assets in the short term.
Japan	▽	Japan has been less impacted by Covid-19 thanks to well established hygiene protocols and a swift government response. The economy has suffered all the same and questions remain over the Olympics. Corporate Japan is in reasonable shape with increasingly shareholder friendly policies and the Bank of Japan remaining supportive. The new Suga-led government looks set to build on the reforms of the Abe era. However, in the short term we see better opportunities elsewhere in Asia.
Asia	△	The region suffered first from the coronavirus pandemic but has seen a reasonable recovery helped by strict measures to control the virus. Equity valuations in the are relatively attractive. We are positive given the potential growth rebound from more effective intervention to contain the pandemic at an early stage and whilst we are still overweight, we have trimmed positions.
Emerging markets	□	We are broadly neutral on emerging markets and prefer to allocate to Asian equities. Whilst the weakening dollar has been a tailwind, concerns over the impact of the pandemic remain, particularly in Brazil and India where lockdown measures have been light, but the economic impact has still been substantial. China's recovery has been robust but financial conditions are relatively tight meaning that the momentum in growth could slow unless we see an increase in stimulus.
Fixed income		
Government	▽	Sovereign debt is well supported despite alarming total levels of debt – this is thanks to the ongoing policies of the central banks, policies that look set to continue. Government Bonds will continue to see demand and it appears central banks will step in with support if needed. "Yield Curve Control" appears likely, even if central banks do not admit it is a policy. Longer term risks will follow if the 'reflation' theme gathers traction in 2021 the deflationary impact of the pandemic should keep a lid on yields for now but a strong economic recovery will likely see markets test central banks resolve to keep yields at extremely low levels.
Corporate	△	We took a more positive view on corporate bonds with spreads having widened as markets sold off over pandemic concerns, though with the strong recovery, we continue to take profits. Central bank asset purchases of the asset class remain supportive.
Absolute/ strategic	△	We still prefer the nimbler funds in this space and manager selection remains important, but we continue to see opportunities for strategic bond managers to navigate volatile markets using the flexibility available to them in their mandates.
High yield	△	Much like corporate bonds, we have seen a more attractive risk/reward from this asset class and added a High Yield fund to selected portfolios. However we have seen a strong rally from the lows and have pared back our exposure.
Emerging market debt	□	Value on offer looks attractive but manager selection remains very important. Paying a relatively attractive yield and with the right managers the risk/reward is still compelling.
Other		
Property	□	Broadly neutral on property in general – this remains a highly cyclical sector and the recent volatility and products being suspended yet again is a stark reminder of this. 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 remove portfolio beta. We are continuing to use such tools to express short term views in what we expect to be continued volatile 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. We continue to very selectively hold managers in this space though expect exposure to be reduced as we find more opportunities in credit – both investment grade and high yield.

Compass contains forward-looking statements which can be identified by the use of terminology such as 'may', 'should', 'expect', 'anticipate' or 'believe'. These do not constitute investment advice or recommendations to buy or sell investments and you should not place undue reliance on such returns and statements, as actual returns and results could differ materially due to various risks and uncertainties.

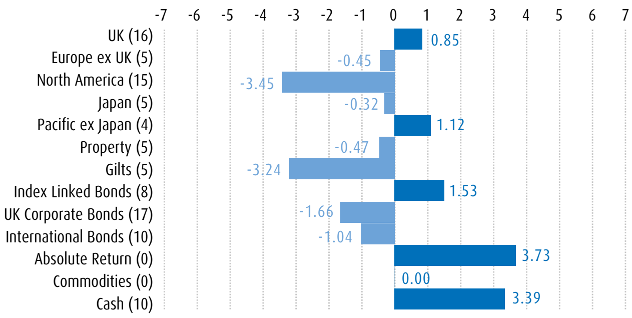
The team works to supplement the long-term strategic asset allocations independently determined by Distribution Technology with a shorter-term tactical overlay as they look to best position the portfolios from capital appreciation and preservation perspectives. The size of these tactical tilts is strictly 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 31-Mar-21 (neutral asset class % weighting in brackets)

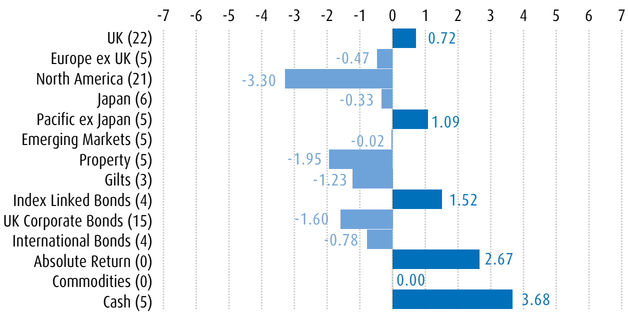
BMO MM Lifestyle 3 Fund (%)



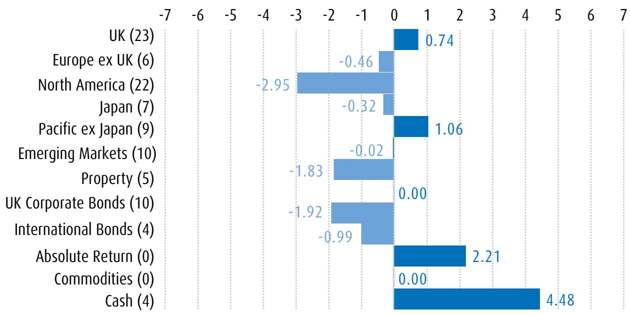
BMO MM Lifestyle 4 Fund (%)



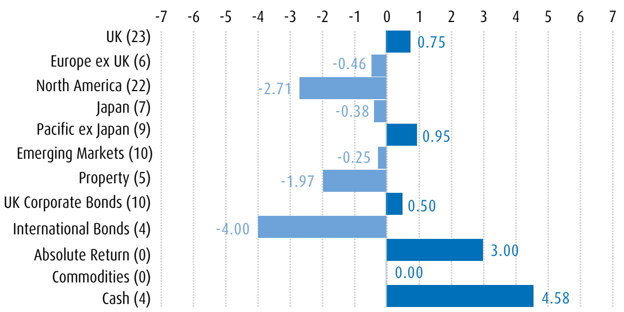
BMO MM Lifestyle 5 Fund (%)



BMO MM Lifestyle 6 Fund (%)



BMO MM Lifestyle 7 Fund (%)



Source: BMO Global Asset Management as at 31-Mar-21

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Telephone calls may be recorded.

The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested.

BMO Global Asset Management

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