

# BMO Canadian Income & Growth Fund

## All-in-One Canadian Balanced Fund

### Quarterly Commentary

#### Market Commentary

Global markets were volatile in first quarter of 2025 ("the quarter") with risk assets underperforming safe-haven assets. International equities outperformed the U.S. on Germany's fiscal spending plan on defense and infrastructure. China's reveal of its own AI model, DeepSeek, had investors question the rich valuation assigned to U.S. large technology stocks. The biggest wildcard of all is U.S. President Trump's tariff policy. Specifically, steel, aluminum, and auto tariffs which we believe will particularly hit Canada. As a result, global equities pulled back as investors sought safe-haven assets. Bond and gold outperformed as uncertainty increased. The Canadian Dollar was also volatile as trade tensions with U.S. increased.

In Q1, the Fund outperformed the benchmark\* (30% FTSE Canada Universe Bond Index, 10% Bloomberg U.S. High Yield Very Liquid Index (Hedged to C\$), 40% S&P/TSX Composite Index, 20% MSCI World Index (C\$)), ranking in the top quartile of Morningstar category. Cross-asset allocation and security selection added value.

#### Attribution Comments

Over the quarter, we gradually dialed back our equity exposure and held our gold overweight which added to performance.

From an asset allocation perspective, gold overweight / slight equity underweight added to performance.

From a sector allocation perspective, underweight Canadian Financials added while overweight Canadian Industrials detracted.

From a security selection perspective, selection in both Canadian and Global equity added.

#### Outlook for Market/Fund

We downgraded equities further this month, now at a modest underweight as we don't expect a rapid easing of trade tensions while the global economic outlook is likely to cool rapidly.

We are raising the odds of a recession to about 50% if trade tensions do not ease soon.

Our cautious market outlook leaves us overweight fixed income, we think the Fed (U.S. Federal Reserve Board) and Bank of Canada (BoC) would have to cut interest rates later this year if the recession brings job losses.

Our overall cautious posture on equities should benefit the Fund as recession risk increases. Our fixed income overweight should benefit as the Bank of Canada cuts interest rates in a slower growth environment. Lastly, we continue to favour gold for its safe-haven characteristics and increased inflation risk.

\*Index returns do not reflect transactions costs or the deduction of other fees and expenses and it is not possible to invest directly in an Index. Past performance is not indicative of future results.

## Buys/Sells

The weight of our position in **Pru** increased in the quarter as the company announced its intention to IPO part of its Indian asset management business. The market has assigned little value to fast growing and profitable businesses like the Indian AM JV, and the IPO announcement helped investors realize that. Looking at our SOTP analysis we believe there are other businesses that are still being undervalued, offering an attractive upside from current valuation levels.

We initiated a new position in **Alibaba** given (1) a broader China economic recovery, (2) potential estimate upside in their cloud business particularly with the introduction of new AI models and use cases, (3) attractive valuation with a wide valuation gap between the U.S. & China internet names, and (4) to obtain further geographic diversification within tech.

We sold our position in **Reddit** amidst a market unwind of high multiple, crowded stocks and softer advertising brand budgets, given the uncertainty in the macroeconomic environment and the fear of consumer spend softening. We continue to believe the platform remains under-monetized and has upside to recent estimates, but have decided to de-risk near-term in the current environment.

Hold: We reduced our position in **Boston Scientific** following its significant outperformance relative to the market. While we remain positive on the company's long-term prospects, the stock now trades at a higher multiple and is a crowded long, making the risk-reward less attractive. Additionally, with the Trump administration considering tariffs on medical goods produced outside the U.S., Boston Scientific could face cost pressures, as existing supply contracts with hospitals may limit its ability to pass on price increases.

We will opportunistically hedge foreign currencies based on our currency views. Currently our U.S fixed income exposure is fully hedged. In Q1, we hedged a portion of our U.S. Dollar exposure as its move vs. the Canadian Dollar over-extended and the ultimate tariff policy was friendlier than expected.

## Fund Codes & Fees

Series	Fund Code	MER (%) <sup>*</sup>
<b>Advisor CAD\$ / US\$</b>	BM099163 / BM079163 (USD)	1.72
<b>T6</b>	BM034268	1.72
<b>Series F CAD\$ / US\$</b>	BM095163 / BM040163 (USD)	0.61
<b>Series F6</b>	BM036163	0.61

<sup>\*</sup>Annual Management Expense Ratios (MERs) are as of September 30, 2024.

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