BMO GAM Global Equity Sector Neutral Portfolio

A Global View Built on Sector Insights

Monthly Commentary

- Experienced PMs with a team that follows a sector process
- Our top ideas from each sector combined into one Global Equity portfolio
- Core Global Equity mandate that incorporates macro views

Global Equity Outlook:

If there is one thing we've learned about the psychology of the investor, it's this: people don't like to miss out on a run-up. If you sat on the sidelines in 2022 and 2023—perhaps opting for a guaranteed 5% return on a GIC—then you ended up missing out on significant gains. That creates an emotional pull to make a change and jump back into equity markets when the perfect opportunity arises. But here's the catch: the perfect opportunity doesn't exist, because precisely timing the market is virtually impossible.

What we do instead is stay invested, taking profits and rotating to areas with more potential upside when prudent. That's exactly how we've adjusted our positioning recently. Markets are continuing to show strength, but there are reasons to exercise some caution: U.S. election-related uncertainty is rising, earnings expectations are running high, the job market is softening, and consumers are continuing to shift their purchasing preferences as their financial health weakens.

To echo our comments last month: we don't believe it's the right time to take on additional risk, but we also don't think it's the right time to take significant money off the table either. There is nothing wrong with some profit taking in winning positions. This bullish-but-cautious approach has worked well for us recently, and it is our intention to stay the course and keep some protection in our portfolios for the remainder of the year.

Notable Transactions This Month

Sell: Embraer

Buy: Airbus, Apple

The portfolio holdings are subject to change without notice and only represent a small percentage of portfolio holdings. They are not recommendations to buy or sell any particular security.

Sector Views:

Sector	PM Views/Commentary
Information Technology (Malcolm White, Jeremy Yeung, Marco Iaboni & Adriana Buduru)	Tech underperformed the broader market in July, with the MSCI World Info Tech Index -1.1%. Megacap earnings did not meet elevated expectations, as cloud consumption results were mixed and while capex surprised to the upside and continues to increase (boding well for artificial intelligence [A.I.] capex beneficiaries), near-term enterprise A.I. adoption remains muted. A.I. theme fatigue coupled with negative macro datapoints fueled megacap + A.I. winner de-risking.
Financials (John Hadwen, Goshen Benzaquen & Kyle Mendyk)	The MSCI World Financials Index gained 5.8% during July, taking the year-to-date return to almost 17% in USD. During the month, positive performance was widespread geographically; however, the U.S. led with a significant move higher in regional banks and alternative investment managers. The insurance sector also performed very well although there were negative returns across a few global reinsurance names as we started hurricane season. Early in August the market has received weak economic and employment data which has resulted in dramatic equity market weakness, somewhat affiliated with carry trade unwinds following Japanese rate moves, and the sector has lost more than it had gained during July. With recent U.S. and European bank earnings reports supporting more upgrades than downgrades, and increased confidence that the U.S. Federal Reserve Board (Fed) will be reducing interest rates in coming months our conviction in sector upside remains high.
Healthcare (Jeff Elliott & Carmen Tang)	The Healthcare sector outperformed the broader markets in July amid macroeconomic concerns. Notably, hospitals led the rally after reporting strong earnings and upward revised guidance due to robust medical utilization. The Life Science Tools segment also saw significant gains as companies reassured investors that the bioprocessing recovery, though slower than expected, was on track. Managed care stocks attracted investor interest as a safe subsector in a volatile market. While most pharmaceutical companies reported strong Q2 results, Merck's lowered expectations for Gardasil sales in China unsettled investors. In the MedTech space, Edwards Lifesciences and Dexcom disappointed with reduced sales growth forecasts. Overall, Q2 earnings results were solid. We continue to believe that healthcare remains appealing due to its defensive nature and reasonable valuations, offering a solid investment option in uncertain times.
Consumer Discretionary (Ashley Bussin, Alex Payne & Nick Cevallos)	In July, the Discretionary sector slightly underperformed, driven by weakness among restaurants, leisure, and luxury. The sector's decline was also driven by a softening of highly crowded stocks, which have been a source of funds for recent market broadening. Despite ongoing consumer weakness, the market is increasingly willing to look through earnings misses in anticipation of interest rate cuts. This is evidenced by companies such as O'Reilly, McDonald's, Starbucks, Tractor Supply, and Genuine Parts Co. having traded up on disappointing prints.
Industrials (Massimo Bonansinga Janice Wong & Alex Yang)	Industrials delivered net gains in July although performance was neither smooth nor uniform. While demand continues to favour thematic growth trends (e.g. electrification, digitization, and aerospace), market positioning favoured cyclicals. Positioning changes reflect an easing U.S. rate outlook along with stretched premiums and high expectations in growth sectors (e.g., data centre capex). Global manufacturing PMI confidence indices trended flat to down and on balance, cyclicals seem more comfortable calling a bottom than an inflection. Still, earnings outperformed expectations for the most part thus far on healthy price and solid execution.

Sector	PM Views/Commentary
Consumer Staples (Ashley Bussin, Alex Payne & Nick Cevallos)	The Consumer Staples sector moderately outperformed in July as the market rotated more defensively. Companies that have been delivering volume growth amidst the challenging consumer backdrop are being rewarded. Likewise, companies with more international exposure have been catching a bid as investors are tepid about retailer pressure and pricing opportunities in the U.S.
Communication Services (Malcolm White, Jeremy Yeung, Marco Iaboni & Adriana Buduru)	The MSCI World Communication Services Index underperformed the broader market in July decreasing 2.3%. Alphabet's earnings during the month negatively impacted the rest of the digital ad landscape given weaker YouTube ad revenue. Overall, the digital ad landscape was mixed with brand advertising experiencing some softness in Consumer Discretionary verticals, along with ad price compression in connected TV, given higher ad inventories with Prime TV flooding the market. We continue to like pureplay media and entertainment players and digital ad companies exposed to performance marketing. On the rideshare and delivery segment, earnings far exceeded low expectations amid the overhang of consumer weakness. Telcos are mixed and should perform well in a defensive macro environment.
Energy (Hoa Hong & Hannah Ou)	Brent oil price trading has fallen by 7% this month due to weaker than expected demand in China. Near term, the geopolitical uncertainty surrounding Iran's response to Israel's attacks against Hezbollah and Hamas leaders is likely to provide some support for the oil price. A significant rally could be cushioned by the roughly 5% spare capacity, provided that major oil supplies are not disrupted by Middle East tension spreading.
Materials (Hoa Hong & Hannah Ou)	July saw weak base metal prices across the board due to weak demand concerns due to the weak Manufacturing PMI and continued weakness in housing in China. Gold price continues its upward trend as the market anticipates the U.S. central bank will start cutting.
Utilities (Massimo Bonansinga, Janice Wong & Alex Yang)	Utilities outperformed the wide market in July, as 10-year yields slid globally amid rising expectations for Fed to accelerate rate cuts. On a relative basis, regulated utilities and renewables outperformed while merchant generation lagged. Geographically, U.S. utilities performed stronger than their global peers, followed by European regulated names, while Emerging Markets was generally muted due to the weak Chinese market.
Real Estate (Kate MacDonald & Hussam Maqbool)	Global REITs outperformed broader indices in July, with all property types delivering positive returns for the month. By property type, Office, Industrial, and Retail led the group in July, while Multifamily Residential, Data Center, and Lodging/Resorts lagged. Q2 2024 earnings kicked off mid-month. To date, most REITs have met or exceeded consensus forecasts for the quarter, with most maintaining or increasing the mid-point of full year 2024 FFO per unit guidance.

Holdings Highlight: Prologis (NYSE: PLD)

Prologis reported strong second quarter results in July, exceeding consensus estimates for the quarter, while raising full year 2024 FFO[1] (funds from operations) guidance at the mid-point. While the U.S. market continues to digest new industrial supply and tenant decision-making timelines remain elongated, management noted improved tenant demand compared to Q1 levels, which was consistent with our discussions with market participants in June.

While market rent growth has taken a pause, Prologis' cash leasing spreads remained strong. Prologis achieved net effective and cash rent change of 73.9% and 51.4% during the quarter, up from 67.6% and 48.2% in Q1. Double-digit mark to market rent spreads (an important organic growth driver) continues to support visible growth as markets absorb new supply.

Going forward, Prologis expects flat to modestly positive market rent growth for 2024 through 2026, versus the prior guide of 4–6%. Solid results paired with lower rates propelled strong performance for Prologis, with the shares up over 13% in Canadian dollar terms in July. Given the sharp drop-off in development starts, we anticipate industrial vacancy rates will decline as new supply is absorbed into 2025, setting the stage for a return to market rent growth.

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[1]Funds from Operations per share (FFO) is calculated by adding depreciation, amortization, and losses on sales of assets to earnings and then subtracting any gains on sales of assets and any interest income. It is sometimes quoted on a per-share basis. FFO measures the business's operational efficiency or performance. A higher FFO amount is generally considered better.