

Trade updates

BMO GAM Global Equity Sector Neutral Portfolio - Architect

July 25, 2024

RECENT TRADES

New Buy	Airbus SE (EPA: AIR)
Increase Weight	Apple Inc (NASDAQ: AAPL), Information Technology
Decrease Weight	-
Full Sell	Embraer SA (BVMF: EMBR3)

The portfolio holdings are subject to change without notice. They are not recommendations to buy or sell any particular security.

PORTFOLIO MANAGERS

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RATIONALE

Within the Industrials sector we are selling the position in Embraer and adding Airbus as a replacement. A portion of the Embraer proceeds have been reinvested in Apple in order to rebalance sector weights, trimming Industrials following recent outperformance and topping up Information Technology following very recent soft relative performance.

This Industrials trade reduces portfolio risks as Embraer is facing demanding expectations with risk of disappointing while Airbus has already reset its expectations and experienced a share price correction.

Embraer's commercial delivery and order intake remained very solid in 1H24, but we start to see more restraints especially supply chain disruptions from engines and interiors, as indicated by its peers. On defense side, the company was progressing very well in enlarging KC-390 backlog towards more export customers, which we believe have been largely priced in. Investors already established high expectation on the company's near term upsides, though risks of achieving all of them are also rising. Therefore, we decided to exit and take profit.

Airbus officially cutback its production targets in late June, which had reset the expectations on its delivery schedule in coming years and led to significant correction on its share price. However, given abundant pent-up demand for its bestselling A320neo, and strong momentum of A350 with less interruption from Rolls-Royce engine delivery, we believe the company is still in a very favourable position versus Boeing. While Boeing is struggling to make up its delivery losses and may not be able to catch up with Airbus any time soon, Airbus is poised to continue generating strong cash flow in coming years.

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