

BMO GAM Global Equity Sector Neutral Portfolio

A Global View Built on Sector Insights

Monthly Commentary

- Experienced Portfolio Managers with a team who 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

Events of the past month have highlighted that the global market environment remains uncertain. But through that cloud of uncertainty, we see a ray of light: strong economic fundamentals.

The conflict in Iran has understandably been at the top of investors' minds, and while it has persisted longer than many had anticipated, it does now appear to be on a path toward resolution. Corporate earnings still look good. The U.S. Federal Reserve (Fed) remains likely to cut interest rates at some point this year, though volatile markets and rising energy costs have likely given them a reason to delay. And while consumers are adjusting their habits at the margins, they are still spending—even the travel industry has held up relatively well despite higher oil prices. It remains to be seen what the global situation will look like next month, or the month after. But right now, we see no reason for investors to panic.

In light of these strong underlying indicators, we continue to prefer Equities to Fixed Income and expect stocks to finish positive by year-end. The Iran conflict may continue to have negative implications for some time. Emerging Markets (EM) countries' reliance on Middle Eastern oil meant that they were hit the hardest by higher prices. With tensions potentially easing, we do expect EM to have the strongest bounce-back. EAFE (Europe, Australasia, Far East) may also experience a nice rebound, though we don't believe their fundamentals are as sound as the U.S. or EM.

Of course, some headwinds do persist. In addition to the lingering consequences of the closing of the Strait of Hormuz, it is unlikely that the Bank of Canada (BoC) will cut interest rates again this year, and global central banks' tone appears to be shifting from a rate-easing regime to holding rates steady or even hiking them. But with economic fundamentals staying strong and the Iran conflict appearing to be closer to the end than the beginning, we believe markets' low point for the year has probably already passed.

Sector Views

| Sector | PM Views/Commentary |
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| <p>Information Technology (Malcolm White, Jeremy Yeung, Marco Iaboni & Adriana Buduru)</p> | <p>The IT sector outperformed the broader market in March, albeit monthly returns were still negative. Semiconductor/hardware subsectors lagged following risk-off market sentiment sparked by the war in the Middle East and potential global supply chain ramifications. Software/services subsectors slightly outperformed, after multiple months of material underperformance, as sentiment remains challenged by artificial intelligence (AI) disruption fears.</p> |
| <p>Financials (John Hadwen, Goshen Benzaquen & Kyle Mendyk)</p> | <p>The S&P Global Financials Index declined 6% in March, with global banks down 7% and declines just above 5% across diversified Financials and insurance companies. By geography, we saw North American Financials hold up better than international Financials, with declines of 3.7% and 9.1%. Our team has met with many bank management teams in recent weeks, and management sentiment is generally very positive in regard to current loan demand, credit risks, and market activity. Market participants, however, have more recently become alarmed and confused with the rapid development of AI, and its potential to significantly increase human productivity which will impact employment levels. Steep progress in AI tools has also generated significant anxiety in regard to business model disruption, which will need to be closely monitored in regard to future credit concerns. We view the near-term economic outlook for banks as remaining supportive, and believe improving loan demand will support improving sentiment. However, our confidence in this outlook has been significantly impaired with the Iran conflict.</p> |
| <p>Health Care (Jeff Elliott & Carmen Tang)</p> | <p>Health Care slightly underperformed the broader market in March, with macro events driving a significant positioning-driven mean reversion of subsectors. Within Health Care, drug distributors were the weakest performers, while life sciences tools outperformed. Medtech stocks (which have the highest correlation with 'risk-on' sentiment) were also weak. Meanwhile, pharmaceuticals and large-cap biotechnology continued to perform well, reflecting their defensive characteristics and earnings visibility amid the elevated macro uncertainty.</p> |
| <p>Consumer Discretionary (Ashley Bussin & Alex Payne)</p> | <p>The Consumer Discretionary sector underperformed the market in March amid broad-based weakness. Stocks were pressured by higher oil prices and elevated interest rates, which effectively "wiped out" the benefit from tax-refund stimulus. Textile and apparel were the weakest-performing subsectors, reflecting meaningful exposure to European earnings, greater sensitivity to discretionary spending, and their prior status as key beneficiaries of tax-refund inflows. Despite rising gas prices, overall discretionary spending has remained relatively resilient, supported by still-robust wage growth.</p> |
| <p>Industrials (Massimo Bonansinga, Janice Wong & Alex Yang)</p> | <p>Industrials have turned negative in March. Notably contracting subsectors were construction, industrial automation, airlines, and shipbuilding. One of the best performing subsectors was waste management, which delivered on its defensive characteristics. Profit-taking was observed on some of the segments that had outperformed in the first two months of the year 2026. Overall, the discourse has entirely shifted towards the Middle East war and the risks it introduces for the economy at large. Some industrial companies, in their previews of Q1 earnings, have mentioned disruption in their logistical supply systems as the first observable impact of the war outside energy prices. We expect information on the impact for the rest of the year to begin forming during the Q1 reporting, and contribute to shape the direction of the sector for the remainder of 2026.</p> |

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| <p>Consumer Staples (Ashley Bussin & Alex Payne)</p> | <p>The Consumer Staples sector slightly underperformed the broader market in March, dragged by household & personal care (HPC), where a substantial portion of input costs is petroleum-related. Tobacco and staple retailers performed relatively better, with lower direct exposure to oil prices, though secondary impacts from elevated inflation and a weakening consumer backdrop remain a risk.</p> |
| <p>Communication Services (Malcolm White Jeremy Yeung, Marco Iaboni & Adriana Buduru)</p> | <p>The MSCI World Communication Services index underperformed the broader market in March, with underperformance largely coming from internet while gaming and rideshare & delivery were more mixed. Internet underperformed following a risk-off market sentiment due to the war in the Middle East. Meta and Google were also impacted by a negative jury verdict relating to one of the bellwether cases in Los Angeles, that found both companies liable for designing addictive products which led to harmful behaviour by young users. Social media companies have historically faced protection from liability through Section 230; however, we await the verdict for the next two bellwether cases and the appeals process to better understand risks. On the other hand, telcos and media outperformed as they remain the relative safe haven within the sector.</p> |
| <p>Energy (Hoa Hong & Jack Chen)</p> | <p>The MSCI Energy Index rose 11% in March, but materially lagged the more than 50% surge in oil prices. Past geopolitically-driven supply shocks have conditioned investors to fade oil rallies, which likely explains the muted response in Energy equities. However, the heavy concentration of global supply through the Strait of Hormuz—through which roughly 20 million barrels per day of oil and a significant share of global LNG (Liquefied Natural Gas) flows—represents a critical vulnerability. Any prolonged disruption would strand Middle Eastern production and spare capacity, rapidly erode inventory coverage, and expose the market to a highly convex price response the longer the conflict persists.</p> |
| <p>Materials (Hoa Hong)</p> | <p>The MSCI Materials Index declined 11%, underperforming the broader market. Elevated energy prices have been a headwind for the sector—particularly for base materials—where energy-intensive production is facing rising cost pressures, while demand and industrial activity are being dampened by a higher inflationary environment. Even gold has struggled to gain traction, weighed down by a stronger U.S. dollar and by central banks prioritizing liquidity to help fund subsidies aimed at offsetting higher Energy and food costs.</p> |
| <p>Utilities (Massimo Bonansinga, Janice Wong & Alex Yang)</p> | <p>Utilities have been mildly negative in the month of March. Independent power producers (IPPs) have outperformed in Europe, based on the volatility of gas prices caused by the war in the Middle East. Conversely, in the U.S.A., IPPs have been penalized for their high valuation and the pre-close disclosure (Constellation Energy Corp. CEG) of slower than expected impact on their growth of the data centre (DC) deployment. Defensives fully regulated have performed well, but the best stocks continued to be the integrated and especially the large caps. Affordability is likely to continue to be a powerful thematic in the U.S., and will become prevalent if energy costs continue to be elevated. In Europe, the European Union has implemented weak measures to contain prices and further action may be necessary in the coming months.</p> |

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| Real Estate (Kate MacDonald & Hussam Maqbool) | March saw a sharp rise in government bond yields due to the onset of the Middle East conflict, which weighed on real estate performance. As a result, Real Estate Investment Trusts (REITs) underperformed the broader market for the month. By property type, data centre REITs was the only segment to post positive returns, while multifamily residential, self storage, and Diversified REITs lagged. |

Focus Holding – Alphabet (NASDAQ: GOOGL)¹

Alphabet's fundamentals remain strong, supported by accelerating innovation, product rollout, strong talent, significant resources, and leading positions across Search, YouTube, and AI. With competitive advantages across the AI stack—chips via TPUs, models through Gemini, and distribution through its core platforms—Google is well positioned to monetize AI via accelerating Search engagement and growing Cloud adoption. Search should continue to benefit as AI-driven queries increase, with better targeting and relative resilience of Search budgets within an uncertain macro environment. Google Cloud continues to see accelerating revenue and backlog growth as share gains persist across new and existing customers. With additional compute capacity coming online, we expect this momentum to translate into meaningful Cloud segment growth. Given the reasonable valuation, strength in Search and Google Cloud, and potential upside from Waymo, we continue to like Alphabet.

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