Views from the Desk

Updates in the Equity and Fixed Income Market

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Inverted Yield Curve

We saw back in July the yield curve invert in both the U.S. and Canada which indicates an economic slowdown in the future. If 2-year yields are higher than 10 year yields the market is pricing in rate cuts at some point around 2 years. More recently in Canada we saw a "full yield curve inversion" which implies the 3-month yield being higher than the 10-year yield. A full yield curve inversion indicates a recession is highly likely in the near future. Currently we are seeing a 60bps differential in the U.S (3-month over the 10 year). And in Canada, we are seeing a 90bps differential (3month over the 10 year). We are starting to look at long term FI right now (on the possibility of a rate decrease in the near future) but are still recommending having some safely on the short end.

Short End: ZST - BMO Ultra Short-Term Bond ETF, ZUS.U - BMO Ultra Short-Term US Bond ETF (USD Units), ZMMK -BMO Money Market Fund ETF Series ZMMK

Long End: ZFL - BMO Long Federal Bond Index ETF, ZTL - BMO Long-Term US Treasury Bond Index ETF, ZTL.F - BMO Long-Term US Treasury Bond Index ETF (Hedged Units)

China's Zero COVID Policy

There is a shift in sentiment on Chinese equities as the government appears to be getting ready to open up. China has seen a large gain in equities in the last month (up approx. 25%). The widespread lockdowns have slowed economic activity. China is looking to increase vaccinations and increase ICU capacity. The vaccination rate still remains low among the elderly in China and cases could surge which is part of the reason why China has been weary on reopening the economy. When China does open up it should be a positive to Chinese and Asian GDP growth. There will be upward pressure on the Energy sector, and we expect supply chain disruptions to reduce dramatically. China is a supplier of 15% of the world's goods. China's supply chain opening up again will put downward pressure on inflation.

ZCH - BMO MSCI China ESG Leaders Index ETF, ZEM - BMO MSCI Emerging Markets Index ETF

Canadian Banks

ZEB - BMO Equal Weight Banks Index ETF, ZWB - BMO Covered Call Canadian Banks ETF

RBC announced that they are buying HSBCs Canadian operations. This continues a trend on Canadian banks continuing to deploy excess capital to acquisitions in order to fund future growth potential. BMO is looking to acquired Bank of the West and TD is looking to acquire First Horizons. We are expecting Canadian banks to have a little slowdown in growth on the short term due to these acquisitions. Regarding earnings, there has been mixed results so far from the banks due to loan loss provisions and acquisitions. Banks have sold off about 15% off of their highs which is twice as much as the TSX avg. P/Es are looking attractive and we see this as a great entry point for ZEB. Banking on Banks Trade Idea

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Technology Sector

Many technology stocks have been hit hard by an aggressive Fed and overall growth stocks have struggled as the cost of borrowing increased dramatically. Big blue chip growth companies that have high return on equity, low financial leverage and stable earnings growth within the technology/growth sector will do well over time and during a rate increase cycle (as compared to cyclical growth stocks). ZEQ - BMO MSCI Europe High Quality Hedged to CAD Index ETF, ZUQ - BMO MSCI USA High Quality Index ETF, ZGQ - BMO MSCI All Country World High Quality Index ETF

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