

Views from the Desk

Updates in the Equity and Fixed Income Market



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Inflation Reduction Act

Despite the name of the act, it is believed that it will have minimal impact on inflation and popular belief is this bill could actually increase inflation modestly in the short term. For fixed income, we did see an increase in short term rates and a decrease in long term rates. CPI came out this morning lower than expectations at 8.5% vs expectation of 8.7%. Energy, food, and housing will be driving inflation in the short term. The majority of the stimulus from this bill will happen in the early years as it is front loaded. The revenue from this bill will only come in the later years which could reduce inflation long term but not short term. If you are still worried about the impact of rising rates [ZBI - BMO Canadian Bank Income Index ETF](#) keeps duration short and if rates are going to be going up in the short term you want to have bonds and preferred shares to be held to maturity. While inflation continues to move around in the short term you have a solution that can shield you from the impact of rising rates.

Clean Energy and Infrastructure

85% of the "Inflation Reduction Act" is going to support clean energy related companies. This will move the U.S. on the pathway to their 2030 goal to reduce coal emissions by 40% from 2005 levels, along with its Paris accord goal which is net zero emissions by 2050. We believe this trend is going to be played out over the long term. Having the U.S. on board with this type of stimulus towards clean energy is good news since the U.S. is the second largest carbon emitter in the world. [ZCLN - BMO Clean Energy Index ETF](#) [GRNI - BMO Brookfield Global Renewables Infrastructure Fund ETF Series](#)

Regulation on Drug Prices

The recent bill that was passed in the U.S. will also allow the control of health care costs by putting a cap on what pharmaceutical companies can charge. For consumers, in the long run should be beneficial and would help bring down inflation. Some detractors are that this bill could actually impact profits for innovative healthcare drug solutions. Analyzing this bill, the impact is small as only 15 of 100 new drugs may not come to market in the next 30 years. Keep in mind most drug companies spend more money on marketing than innovative research. We are expecting minimal impact to the healthcare sector [ZUH - BMO Equal Weight US Health Care Hedged to CAD Index ETF](#), [ZHU - BMO Equal Weight US Health Care Index ETF](#).

High Jobs Number

This jobs market is like no other in history. The U.S. has technically entered into a recession as GDP growth has declined over 2 quarters. The National Bureau of Economic Research is the group that labels if we are in a recession or not... *for more on this topic please listen to our podcast at [bmoetfs.ca](https://www.bmoetfs.ca)*

Technology

Inflation is starting to cool, and growth is starting to come up again. Tech is a major growth engine in the economy. Recent earning results were very good for tech companies and many major companies in this sector are up as much as 20% since their earnings were reported. [ZWT - BMO Covered Call Technology ETF](#) can be a great way to play the tech rally.

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Source: Bloomberg, All returns and data points Aug 2022.

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