

Views from the Desk

Updates in the Equity and Fixed Income Market



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Market Rally

Economic sentiment appears to have picked up off of its lows. U.S. CPI last week came in at 8.5% (lower than its forecast of 8.7%), commodity and energy prices are cooling, and the market is expecting CPI to come in at 8.3% on its next print. In Canada, CPI came in at 7.6% (lower than expectations) and the market is expecting it to be lower on the next print. We still have to remain cautious as these print numbers are still far away from the 2% inflation target. We believe it is better to have “cautious optimism” and hold both defensive and growth exposures such as [ZLU - BMO Low Volatility US Equity ETF](#) and [ZDY - BMO US Dividend ETF](#) with [ZSP - BMO S&P 500 Index ETF](#) and [ZNQ - BMO NASDAQ 100 Equity Index ETF](#).

Aggregate Bond

Fixed income (FI) investors are starting to see some light at the end of the tunnel. The market is starting to price in a slowdown in rate increases going into 2023 and a possibility of some future rate cuts. A reversal in negative sentiment is positive for bonds and recently bonds have started to rally. We have seen increased demand for [ZAG - BMO Aggregate Bond Index ETF](#), [ZFL - BMO Long Federal Bond Index ETF](#) and [ZLC - BMO Long Corporate Bond Index ETF](#) in the last couple of weeks. Many believe that rate increases have peaked at this point however, we remain cautious as inflation is still a concern. We are hopeful that this “rate increase cycle” will continue to cool inflation. It will be interesting to see how the central banks continue after September on how they will be increasing rates if at all. We think ZAG is a great way to play FI as you are not only well diversified across the yield curve but diversified between corporate and federal bonds as well.

Balanced ETFs

We offer a full suite of Asset Allocation ETFs and we believe that these types of ETFs are great for investors looking for that “one ticket solution” such as ZGRO. The Asset Allocation ETF weights are monitored regularly. The portfolios are reviewed quarterly and also during periods of volatility where we will do “intra-period rebalances”. These solutions will offer a well diversified basket of investments and can work as great core solutions for smaller accounts across numerous investor risk tolerances. [ZCON - BMO Conservative ETF](#), [ZBAL - BMO Balanced ETF](#), [ZGRO - BMO Growth ETF](#), [ZEQT - BMO All-Equity ETF](#)

Gold

[ZGD - BMO Equal Weight Global Gold Index ETF](#) is coming off a 2-year low. Gold is typically used as an inflation hedge but hasn't shown up in this recent market environment mainly due to a strong USD. Gold is at an interesting level right now and we believe risk is pointing more to the upside than the downside. We don't expect the USD to stay at these current high levels and we believe gold to be a great tactical play at the moment.

Low Volatility

Over full market cycles low volatility has offered/offers alpha to portfolios. We think that due to its defensive nature it is important to hold some low volatility to your portfolio. Growth has recently started to take off and we've always viewed low volatility as a great compliment to growth portfolios. [ZLU - BMO Low Volatility US Equity ETF](#), [ZLB - BMO Low Volatility Canadian Equity ETF](#)

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

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