

Views from the Desk

Updates in the Equity and Fixed Income Market

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Navigating Central Banks

The massive stimulus to help keep the economy going during COVID along with the Russian War and Supply Chain issues have caused inflation to lift significantly. We saw the U.S print come in over 9% today and the BOC raised rates by 100bps. We continue to recommend dividend paying ETFs since the holdings have strong profit streams, good current earnings and tend to do well in an inflationary environment [ZDV - BMO Canadian Dividend ETF](#). Low Volatility ETFs such as [ZLB - BMO Low Volatility Canadian Equity ETF](#) tend to do well in the current environment and is outperforming the TSX by 7% currently.

Short Term Fixed Income

Investors have started to take more of an interest in the short end of the curve. In 2022 credit spreads widened significantly which caused the short end to sell off. Historically, we are seeing one of the widest prolonged periods of short-term credit spreads since 2011. We believe that the short end is oversold, and we should see some tightening. We are looking at some attractive levels with good yield premium. [ZSB - BMO Short-Term Bond Index ETF](#), [ZCS - BMO Short Corporate Bond Index ETF](#).

Energy

WTI price has come down from its \$130/b peak to \$95/b. Western Canadian Select oil is around 85/b. Energy is a cyclical sector that underperforms in a recessionary environment. We don't expect oil to stay over 100/b. Oil companies are significantly profitable right now and would remain profitable around 70/b. Investors may want to reduce their portfolios to a "market weight" position. We anticipate energy companies to do well into next year. [ZEO - BMO Equal Weight Oil & Gas Index ETF](#)

Mid and Small Cap U.S Equities

[ZSML - BMO S&P US Small Cap Index ETF](#) and [ZMID - BMO S&P US Mid Cap Index ETF](#) have kept up to the [ZSP - BMO S&P 500 Index ETF](#) YTD. There is a different composition of ZSML, ZMID and ZSP. The similar performance is mainly due to the overweight in tech in ZSP and underweight in ZSML and ZMID. The small and the mid do have higher standard deviation over time. We are in a hiking cycle at the moment, and we will eventually see an ease in interest rates and large cap/large cap tech would then outperform. Small and Mid caps do have a place in your portfolio however, we are favouring large cap going forward.

ESG Leaders ETFs

Integration of ESG (Environment, Social, and Governance) factors in the investment process enables a deeper understanding of a company's return and risk profile. A good ESG score implies that management is exerting positive influence, guiding its capital in a responsible manner to meet shareholder and stakeholder interests. ESG integration is a way to uphold an advisor's fiduciary duty and improve a client's risk adjusted returns. Investors are transforming the investment world from the bottom up through their growing interest in ESG investment solutions. With greater scrutiny on companies and emerging ESG risk factors that may impact a company's profitability, there is a greater understanding of the impacts of corporate ESG incidents. Investment professionals are recognizing that there is a potential financial benefit to investing in ESG, as evidence shows this data can help make better informed investment decisions and improve risk adjusted returns. [Understanding BMO ESG ETFs](#)

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

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