

Views from the Desk

Updates in the Equity and Fixed Income Market

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A Place to Park Cash

Advisors require the ability to be nimble in this current environment. [ZMMK - BMO Money Market Fund ETF Series](#), [ZST - BMO Ultra Short-Term Bond ETF](#) and [ZUS.U - BMO Ultra Short-Term US Bond ETF \(USD Units\)](#) will have rates naturally rise if yields go up compared to a GIC which has a fixed rate. Advisors like using these solutions for liquidity purposes to move back into the equity market to take advantage of opportunities. ZMMK has a yield of 2.08%, ZUS.U has a yield of 2.85% and ZST has a yield of 3.20%. For ZST and ZUS.U the bonds held in the portfolio are held until par value. These solutions provide rate protection as yields rise, and naturally buy bonds at a lower price. [A Place to Park Cash - ZMMK, ZST, ZUS](#)

Markets Finding Direction

There has been a little bit of a bounce off the bottom in the last few weeks. The concern from the markets have moved from inflation and into growth and a potential recession. The jumbo rate hike from the BoC was a surprise as many were expecting a 75bps hike vs 100bps. There is more consumer confidence that inflation is going to be controlled. We may be in a holding pattern until there is evidence of a hard landing, or a soft landing. The upcoming earnings season and the outlook from these companies going forward will be a key indicator. If we see inflation continue to move higher and higher, we expect a hard landing in the future. While we wait for this to play out a good strategy is to “average in” (or dollar cost average) to avoid timing risk. Another solution is to invest in high distribution solutions such as Covered Calls and get paid while you wait. On a factor basis you can use low volatility solutions or quality solutions. [ZWC - BMO Canadian High Dividend Covered Call ETF](#), [ZWH - BMO US High Dividend Covered Call ETF](#), [ZLB - BMO Low Volatility Canadian Equity ETF](#), [ZLU - BMO Low Volatility US Equity ETF](#), [ZUQ - BMO MSCI USA High Quality Index ETF](#), [ZGQ - BMO MSCI All Country World High Quality Index ETF](#).

Oil and gas

Biden had gone to the middle east to try and regenerate the relationship between the Saudis and U.S. There is an Aug 3rd OPEC meeting coming up where we may see an incremental increase in oil production. In December European sanctions will kick into Russian energy which may be a turning point (to see if Europe will be less reliant on Russian oil). The forward curve for WTI oil through to the rest of 2023 is between \$70 - \$80 per barrel. Canadian producers are still very profitable around those prices. We should see the companies in [ZEO - BMO Equal Weight Oil & Gas Index ETF](#) provide a comfortable return for a few more years.

Banks as Rates Increase

There will be an impact on housing because of rate increases. Extra supply on cottages are starting to pick up again as people are starting to work less from home. Primary housing supply is starting to pick up as well and we expect to see stress on housing prices as mortgage terms come due. Canadian household debt is still at historical levels and we believe this may impact the banks. There is a lot of froth coming off of the Canadian housing markets which at this point. The Canadian housing markets are still strong when we look at the excess demand vs supply. [ZEB - BMO Equal Weight Banks Index ETF](#) is trading at 8.7 times earnings compared to the TSX at 14.7 times earnings. The yield on ZEB is 4.8% and historically when the banks are paying dividends around 4%, we see this as an attractive entry point. We have already seen 850million flow into ZEB this year. Historically, the back half of the year tends to be the better half for performance from Canadian Banks.

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

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