

Views from the Desk

Updates in the Equity and Fixed Income Market

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Soft or Hard Economic Landing

The Fed announced a 75bps rate hike today which is what the market was anticipating. Currently, the market is a little uncertain and is pricing in something between a soft landing and a hard landing. Looking at the S&P 500 as a proxy we normally see a 32% drop when we have a recession. At the moment the S&P 500 is only down about 24%. Core CPI, we believe is the more important number when looking at inflation and that is around 5.5%. Core CPI has been starting to drop which is boosting investor confidence. We are starting to see supply chains evolve. We will need the central banks to become less hawkish before we start to see a true turning point. [ZSP - BMO S&P 500 Index ETF](#), [ZCN - BMO S&P/TSX Capped Composite Index ETF](#) and [ZEA - BMO MSCI EAFE Index ETF](#) are good cost-efficient ways of getting into the market.

Fixed income

It will be a challenge for the central banks to achieve a soft landing. We saw the Fed do a 75bps hike today. The market saw a bit of a rally after today's announcement. Overnight rates in Canada and U.S. are more aligned. Fixed income returns YTD have been hit across the curve and investors have done some mid year tax loss selling. We are starting to see investors look for buying opportunities as opposed to finding "places to hide" as many believe the worst is now behind us. We remain cautious about the long end however; we are monitoring an entry point. [ZQB - BMO High Quality Corporate Bond Index ETF](#) and [ZBI - BMO Canadian Bank Income Index ETF](#) hold quality bonds and provide short duration and protection within your fixed income portfolio.

The NASDAQ 100

It has been a big week for Nasdaq companies as the market is focused on earnings. Many major companies have already reported with mixed results. The markets are more focused on forward guidance as P/E multiples remain in focus. The Nasdaq is down approximately 25% however, when looking at the performance from the end of May, the Nasdaq 100 has outperformed the S&P 500 and the TSX Capped Composite. We may see a turnaround as investors anticipate a pause from the central banks (from raising rates). [ZNQ - BMO NASDAQ 100 Equity Index ETF](#) and [ZQQ - BMO NASDAQ 100 Equity Hedged to CAD Index ETF](#) could be a great position to be if we see peak inflation.

Oil Prices Coming Off

Commodity prices are starting to weaken off as countries are starting to reduce demand. Fed tightening has led to a stronger USD. Oil is pricing in a recession which is leading the way to lower prices. For the immediate timeframe, we see an economic slowdown and there will be some headwinds as USD continues to rise and the Fed continues to tighten. The longer timeframe over the next 3 to 5 years, many are talking about a commodity super cycle with supply shortages and lack of capital spending (since governments are transitioning into renewable energy). Companies going forward will be hesitant to put billions of dollars into traditional energy as the world looks for alternative energy sources. Furthermore, when we eventually see an end to the Russia/Ukraine war, we do not anticipate countries remove their sanctions against Russia right away. We will most likely see demand outstrip supply over the long run which will increase oil prices. [ZEO - BMO Equal Weight Oil & Gas Index ETF](#)

ETF Mid-Year Market Review & Outlook Report

To read about the BMOs review and outlook please visit [ETF Mid-Year Market Review & Outlook Report](#)

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

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