

Views from the Desk

Updates in the Equity and Fixed Income Market

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Bear Market

It's been a challenging market for U.S. equities. US CPI print coming in at 8.6% resulted in a sell off Friday of last week and into the beginning of this week. The market is now expecting a 75bps rate hike by the FOMC. Inflation needs to be tamed and become less hawkish for equities to come back. As we move away from lockdowns, we expect demand to increase faster than supply. Inflation may be even more resilient once supply chains fully open up however, we will eventually come to an equilibrium in supply and demand. In terms of your portfolio, we believe staying invested is very important and looking at inexpensive ETFs like [ZSP - BMO S&P 500 Index ETF](#), [ZCN - BMO S&P/TSX Capped Composite Index ETF](#), and [ZEA - BMO MSCI EAFE Index ETF](#) over the long term (5 to 10 years) should be the correct decision to make.

Note: The Fed today raised its benchmark rate by 75bps.

Fixed Income and inflation

Typical expectations from the central banks is lowering rates when we head into a recession however, inflation is the primary concern right now and the central banks don't have that option. There is a lot of pressure on the bond market. The yield curve over the 5, 10 and 20 are all yielding approx. 3.5% and you aren't being rewarded for taking on term risk. It does make sense to shorten up duration for a portion of your portfolio since you aren't being rewarded for long duration (especially since we are seeing higher yields on the short end closer to the mid and long). [ZCS - BMO Short Corporate Bond Index ETF](#), [ZBI - BMO Canadian Bank Income Index ETF](#). When looking at a balance portfolio having some small exposure to cash such as [ZMMK - BMO Money Market Fund ETF Series](#) can improve portfolio efficiency and provide "dry powder" to take advantage of low valuation equity opportunities.

Low Volatility

Low volatility ETFs have been holding up through market volatility. [ZLU - BMO Low Volatility US Equity ETF](#), [ZLB - BMO Low Volatility Canadian Equity ETF](#) and [ZLI - BMO Low Volatility International Equity ETF](#) have been outperforming. Key drivers for these ETFs are Consumer Staples, Utilities, and being underweight Information Technology. Within some of the other sectors, stocks such as Dollar Tree, Dollar General as well as insurance companies are standouts. Going forward, having exposure to consumer staples can be of benefit as they are less sensitive to CPI and have more pricing power. The low volatility ETFs tend to be steady and might not pick up all the upside when markets rally however, protecting on the downside is important in today's environment.

Fintech

Companies that are cash generative today, are benefiting more than those companies that have growth potential out into the future (in the current economic environment). The type of companies that are in the fintech space tend to be companies that will do well over longer periods. However, it is not just smaller companies in the fintech space. It is important to note that some large cap companies are also changing the way they want to interact with their consumers such as Apple, Visa and Mastercard. If you believe in this megatrend the portfolio does present some great entry points. [ZFIN - BMO MSCI Fintech Innovation Index ETF](#)

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Gold

Gold has been staying relatively high [ZGD - BMO Equal Weight Global Gold Index ETF](#) for more on this topic please listen to bmoetfs.ca/trade-ideas-podcasts.

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

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