Views from the Desk

Updates in the Equity and Fixed Income Market

Chris Heakes and Matt Montemurro, Portfolio Managers, BMO ETFs

Shift Towards US Equities

Confidence is building in the markets overall, and investors are putting cash to work. There has been an uptick in US flows, and many are wondering when growth stocks are going to come back. Additionally, we have seen flows into international and Canadian equities as well. Valuations are looking great in Canada compared to US and bank earnings in Canada came back strong. We believe addressing the market in a balanced/diversified way is a safe way to go going forward to deal with the many potential uncertainties still to come. ZSP - BMO S&P 500 Index ETF, ZEQT - BMO All-Equity ETF, ZBAL - BMO Balanced ETF

Energy

Rising interest rates and supply chain interruptions have been a catalyst for Energy. Energy companies are very profitable at these current levels and we may see energy companies start to raise their dividends. ZEO - BMO Equal Weight Oil & Gas Index ETF is a great satellite tool if you need to adjust and finely tune the energy exposure in your portfolio. We are still very bullish on energy and we think that it warrants a market weight if not more in your portfolio.

Real Return and Inflation Protected

ZRR - BMO Real Return Bond Index ETF is linked to Canadian CPI and ZTIP.F - BMO Short-Term US TIPS Index ETF (Hedged Units) is linked to US CPI. ZRR is long term ETF with a duration of 15 years. ZTIP is focused on the short term and has a duration around 2 years. From a return expectation perspective, inflation is priced into the market by comparing the inflation expected security to a plain duration neutral government bond. The derivative of this is a breakeven level where an investor would be indifferent between owning inflation protected securities vs non inflation protected securities. As inflation breakevens move so do the inflation expectations that are priced into the market and also the return expectations into the market. If inflation breakevens go up that means the market is pricing in greater inflation expectations and those inflation expectations are rising. If breakevens are going down that means that those same expectations are falling. If you are buying inflation protective securities and breakevens are going down that leads to underperformance vs a regular government bond and vice versa. YTD, we have seen inflation expectations bounce around. If you believe inflation will come in more than 4.9% than protecting yourself with ZTIP would be prudent and you should see outperformance vs a regular gov bond. We believe that inflation will come in higher for a little longer and over the next 6 to 12 months and ZTIP to be an outperformer. ZRR is more of an equity market hedge as a replacement for long gov exposure that is still beneficial to a portfolio.

Bank Income ETF

ZBI - BMO Canadian Bank Income Index ETF is a unique offering that has 4.5 YTM with a duration of 2.5 offering clients high quality bank bonds. The portfolio is aimed to provide investors with exposure to non-equity exposure of the bank's capital structure such as traditional bonds, preferred shares and LRCNs. The portfolio offers 60% of the portfolio to a traditional bond allocation and 40% to preferred share and LRCNs. ZBI is performing well and going forward it has upside potential especially in a rising rate environment due to the rate reset preferred shares included in the portfolio.

Views from the Desk

Updates in the Equity and Fixed Income Market

US Banks

US Banks offer more growth and more volatility to an equity portfolio. US banks tend to outperform with a steepening yield curve…. For more on ZWK - BMO Covered Call US Banks ETF and ZBK - BMO Equal Weight US Banks Index ETF please see bmoetfs.ca/trade-ideas-podcasts.

To listen to BMO ETF podcasts please visit bmoetfs.ca.

BMO ETF podcasts are also available on

Listen on Apple Podcasts Spotify Listen on Google Podcasts

BMO Exchange Traded Funds