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Views from the Desk

Updates in the Equity and Fixed Income Market

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Oil Production Cut

Energy has been very topical since this news of cuts from OPEC+ (includes Russia) OPEC+ cut their production by 2 million barrels a day which is about 2% of oil demand. There is motivation by OPEC+ to maintain higher oil prices as it is more profitable however, OPEC came out with a statement saying that there is going to be a slow down in demand coming (which was forecasted) and this was the reason for the cuts. Looking at the futures curve, we see a tight market in energy. Oil prices sold off in the last few months. The next year or 2 we are pricing in about 70 to 75 dollars a barrel. Canadian oil producers can be very cash flow positive at a 70 to 75 dollars a barrel. We think energy will be tight throughout the winter. For investors wanting to participate in the energy sector we recommend ZEO - BMO Equal Weight Oil & Gas Index ETF for the short term. Over the long term we recommend ZCLN - BMO Clean Energy Index ETF as Europe and many other countries are focusing on clean energy sources.

Cash and Cash Alternatives

We are seeing a lot of demand in cash like products, and we've seen almost 300 million flow into ZST - BMO Ultra Short-Term Bond ETF**.** People are looking to either shorten their FI duration and also use ZST as a cash alternative. ZST will buy T-bills and investment grade corporate bonds, has an avg duration of 0.5, is very liquid with no lockup period and has a yield of more than 4%. The holdings within ZST are all held to maturity (mature at par). In a rising rate environment ZST will naturally have an increasing YTM. Furthermore, holding T-bills within the portfolio enhances liquidity to support large chunky flows. Lastly, doesn't make sense to take on more long duration in your portfolio due to the shape of the yield curve (flat and slightly inverted).

Global Slowdown

There are 2 more meetings from the Fed before then end of 2022 and we are seeing a 75bps rate hike priced in for the next meeting followed by a 50pbs hike. In Canada we are seeing a 50bps hike followed by a 25bp hike before then end of the year. There is no slowing down from central banks in the near future. IMF global expectation is signalling that the worst is yet to come in 2023. They are projecting a global growth rate of around 2.5% which is much slower than what we have seen. One of the sectors that tend to do well in a slow sluggish environment is consumer staples STPL - BMO Global Consumer Staples Hedged to CAD Index ETF.

Mortgage-Backed Securities

ZMBS - BMO Canadian MBS Index ETF is first of its kind in Canada and is a great spot for investors to protect their principle. NHA MBS are fully guaranteed by CMHC in Canada, both principal and interest payments, unlike savings accounts and GICs, there is no limit to the CMHC guarantee on NHA MBS. Combat the low yield environment with a regular monthly income stream. Yield pick-up over federal bonds while maintaining a AAA rating. ETF structure allows investors the efficiency of a one ticket solution to access this OTC market segment. As mortgage pools reach one year to maturity the proceeds are rolled into new five year to maturity pools. Effectively the portfolio will roll on an annual basis.

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