Views from the Desk

Updates in the Equity and Fixed Income Market

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Consumer Price Index

Canadian CPI came in at 6.9% with expectations of 6.7%. Even though we came in over expectations it is still lower than the previous month. The overall CPI number is very stubborn right now. Leading indicators are shipping rates and inventory. Shipping rates have come down and inventory is increasing, and this is good for inflation as we may see "supply side healing" down the road. Looking at the services side, we view this as "stickier" when it comes to inflation. Minimum wage increases and mortgage rates will contribute to this "stickiness". It will be unrealistic to expect inflation to come down in a straight line, we expect inflation to be higher for longer however, inflation is headed in the right direction ZLU - BMO Low Volatility US Equity ETF , ZTIP - BMO Short-Term US TIPS Index ETF,

US Bank ETFs

US Banks have been outperforming. JP Morgan, Bank of America Goldman Sachs, Citi Group has had some great returns since they've announced earnings. Net interest margin increasing with higher interest rates is where a lot of profits are coming from. We are seeing higher loan loss provisions with expectations of bad loans in the future. Overall, US bank CEOs have been giving positive review of where the economy is at this time. Capital ratios have fallen a little bit as the market value of the bonds that are held selling off in concert with higher interest rates. ZBK - BMO Equal Weight US Banks Index ETF, ZUB - BMO Equal Weight US Banks Hedged to CAD Index ETF, ZWK - BMO Covered Call US Banks ETF.

Bank of England Quantitative Tightening

The BOE announced that it was going to buy its own long-term bonds as a bailout for pension programs. Being in a low interest rate environment, a lot of pensions in order to meet their liabilities had to leverage up their long bond exposure to enhance yield. The long bonds started to rise and pension programs were getting margin calls. Our view on positioning of the FI side of the portfolio is to overweight the short end of the curve. ZCS - BMO Short Corporate Bond Index ETF, ZBI - BMO Canadian Bank Income Index ETF

Dividends with a Covered Call Overlay

There is an importance around companies that are cash generative today than companies that are more cash generative in the future in a high inflationary environment and dividend companies can provide this to you. As an equity investor we have ETFs such as ZDV and ZDY with are providing you around 4.5% dividend yield. For those clients looking for more than the 4%, adding on a covered call overlay can be beneficial in this inflationary environment. ZWC - BMO Canadian High Dividend Covered Call ETF and ZWH - BMO US High Dividend Covered Call ETF are providing distribution yield over 7%.

Emerging Markets

Looking at 2022 EM has sold off just as much as developed markets. Looking further, EM was lagging developed. Main reasons were China and the economic slowdown with is about a 30% weight in most EM solutions. In terms of the broader EM market, most countries borrow in USD and have to pay back in USD, and we've seen a big rally in the USD so, USD interest pmts are higher (along with higher interest rates). For long term investors most view this as a great time to buy as most downside is already priced in. ZEM - BMO MSCI Emerging Markets Index ETF

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Exchange Traded Funds

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