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Views from the Desk

Updates in the Equity and Fixed Income Market

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BoC Announcement

Last week we saw a surprise CPI print in Canada as we expected inflation to come down further than 6.9% YoY however, it appears that we may have hit peak inflation. The labour market is starting to soften and the BoC is starting to become effective with cooling prices. Interest rate hike impacts usually shows its effectiveness after 18 to 24 months. Today the BoC only did a 50bp hike (while the markets expected at 75bp hike) and the BoC mentioned there may be more rate hikes to come. Bonds are rallying in the immediate decision as the BoC hike was below expectations. Looking into 2023, the BoC expects inflation to be at 3% by the end of the year. Housing activity has retreated dramatically, and the economy is feeling the impact of the rate hikes. We think the market will raise rates somewhere between 50 to 25bps in December and the BoC will become even more dovish.

Technology Stocks

Earnings have not been the saviour of markets thus far and some major tech stocks have dropped significantly, but its not all bad. We look to stick with high quality tech companies and using such ETFs as ZUQ - BMO MSCI USA High Quality Index ETF and ZWT - BMO Covered Call Technology ETF. For those looking for cautiously optimistic approach, we recommend a pairing such as ZLU - BMO Low Volatility US Equity ETF and ZQQ - BMO NASDAQ 100 Equity Hedged to CAD Index ETF.... For more on this topic please visit BMO ETF Trade Ideas & Podcasts.

Liquidity in the Bond Market

We saw 10-year yields hit 1-year and 10-year peaks. There has been a reversal after the BoC announcement today. We have seen yields settling in around 3.25%. We have seen bonds sell off and spreads widen. Liquidity challenges are starting to present themselves. Dealer inventory is increasing as there aren't many buyers on the other side. Secondary trading is starting to come down however, we are nowhere near the March 2020 liquidity issues. It is very important to understand that dealers and buyers are still out there and willing to take risk. Many investors are interested in short term fixed income and short term FI ETFs as they wait on the sidelines to eventually make moves to the longer end of the curve or into equities.

Emerging Markets

Xi Jinping was re-elected on Monday. Markets reacted to this, and we saw some weakness in Hong Kong. China from a market perspective did not do well last week. ZCH - BMO MSCI China ESG Leaders Index ETF is a buy for the brave and presents a great attractive entry point for emerging markets. Other opportunities in emerging markets are ZID - BMO MSCI India ESG Leaders Index ETF (only down 6% YTD) and ZEM - BMO MSCI Emerging Markets Index ETF

Recent Rally

Housing market softened and labour market is slowing as inflation has most likely peaked. We think relatively we are still in a hiking phase and the rally we are seeing is fueled by strong U.S. earning season and strong technical buying indicators. The market has more conviction of a 75bp rate hike next month from the Fed. Growth stocks have come down however, we think that the market is starting to see the light at the end of the tunnel. We think that as the Fed becomes more dovish, we will see more rallies in the tech sector.

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