

# Views from the Desk

## Updates in the Equity and Fixed Income Market



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### U.S. CPI

Economic data has been volatile and inflation fears re-emerged yesterday as U.S. CPI numbers came in higher than expected. We may see inflation stay higher for longer than initially projected. The market repriced risk on the CPI print and a 75bp increase from the Fed seems more certain with a possibility of 100bp increase. We think advisors may want to increase their quality FI and use ETFs such as [ZQB - BMO High Quality Corporate Bond Index ETF](#) and [ZST - BMO Ultra Short-Term Bond ETF](#) to compliment on the short end of the curve. We feel that taking on risk by adding long duration right now might be a little too early to do. [ZBI - BMO Canadian Bank Income Index ETF](#) has the quality of Canadian banks and uses the entire capital structure such as bonds preferred shares and LRCNs (minus equity). ZBI has a 5.3% yield with a duration of 2.5. For equities we recommend a pairing such as [ZLU - BMO Low Volatility US Equity ETF](#) and [ZNQ - BMO NASDAQ 100 Equity Index ETF](#) - [BMO U.S. ETF Blended Strategy](#)

### Inflation hedge

Many investors are wondering why isn't gold up when inflation is? Gold's main drivers are inflation, geopolitical/economic risk and a weaker USD. The main reason we aren't seeing a big pick up in gold is because we are seeing a stronger USD. We see global infrastructure as an inflation hedge in this current environment [ZGI - BMO Global Infrastructure Index ETF](#).

For fixed income [ZTIP.F - BMO Short-Term US TIPS Index ETF \(Hedged Units\)](#) is a great way to protect your portfolio from the impacts of inflation. We have seen breakevens move from approximately 6% to below 2% in less than 6 months (as the Fed continues to raise rates the market is expecting inflation to come down). After the CPI print yesterday, we saw breakevens jump to approximately 2.5%. If one were to believe that inflation will be higher than 2.5% in 1 year, then you'd want to be in something like ZTIP. If you believe that inflation will be lower than 2.5% than you'd want to be in something like "regular treasuries". We believe inflation will come in higher than the current breakevens and we think ZTIP and ZTIP.F to be a great compliment to a fixed income portfolio. ZTIP can protect you from CPI print surprises.

### Banks

Banks are currently offering a 30% discount to the market. The big 6 Canadian Banks share price has underperformed the market YTD as banks have been increasing their loan loss provisions. Canadian Banks are independently regulated and prudently managed (capital tier 1 ratios are reflective of this). The forward earnings for Banks on average are 60% higher than the average TSX company. The earnings on banks are expected to remain strong. Overall, it is rare that the banks do get this cheap and looking at the banks as a long-term exposure right now is a great entry point with a high dividend. [ZEB - BMO Equal Weight Banks Index ETF](#), [ZWB - BMO Covered Call Canadian Banks ETF](#).

[Decoding Q3 Canadian Bank Earnings](#)

### Opportunities in the Market

There are some great opportunities in the market currently specifically.... *For more on this please listed to our podcast at <https://www.bmoetfs.ca/trade-ideas-podcasts>*

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

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