

Views from the Desk

Updates in the Equity and Fixed Income Market



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Canadian CPI

The print in Canada came in lower than expected. Inflation is starting to slow down however it is still early to say how quickly inflation will come down to 2% target rate. Regarding the yield curve, there was no real change on the short term (2 year) however, there was a rally on the longer end of the curve and interest rates went down (10 year+). The market could be pricing in a slowdown and signaling a recession. Two defensive sectors we like for equities are Utilities and REITs. [ZUT - BMO Equal Weight Utilities Index ETF](#) and [ZRE - BMO Equal Weight REITs Index ETF](#). For growth opportunities we like [ZEO - BMO Equal Weight Oil & Gas Index ETF](#) and [ZEB - BMO Equal Weight Banks Index ETF](#).

Dividend Factors

Dividends have outperformed the broad market. BMOs dividend factors focus on companies that have a positive/flat three-year dividend growth and a five-year dividend payout sustainability. By focusing on a three-year dividend growth rate, a measure is created that is responsive to changing company conditions and doesn't react to small one-year declines. This also helps to lower portfolio turnover. When screening the five-year dividend payout sustainability BMO focuses on the four most recent years, as well as analyst forecasts for the next year. This ensures the dividend is funded by ongoing operations and is forward looking. Furthermore, the dividend income from the underlying holdings within [ZDY - BMO US Dividend ETF](#) and [ZDV - BMO Canadian Dividend ETF](#) can provide some extra cushion to combat the elevated volatility in the market.

Covered Calls

Volatility is elevated and the VIX is in the 25 to 30 range while pre-COVID VIX levels were around 12. The higher the volatility the more efficient it is to implement the option overlay within our covered call strategies. We typically only write on approximately 50% of our covered call strategies and write further out of the money when volatility is elevated. Currently on ZWB we are getting about a 3% yield from our option premium and all in [ZWB - BMO Covered Call Canadian Banks ETF](#) has a yield of approximately 7%. [BMO's Covered Call, Derivatives and Volatility Report](#)

Discount Bonds

[ZDB - BMO Discount Bond Index ETF](#), [ZSDB - BMO Short-Term Discount Bond ETF](#) and [ZCDB - BMO Corporate Discount Bond ETF](#) can help investors further reduce taxable interest income relative to traditional bond funds with similar exposures. BMO's Discount Bond ETFs invest in bonds where the current yield is near or below par value. By investing in lower coupon bonds and ensuring coupon and yield to maturity are more aligned, helps further improve tax efficiency. In a taxable account the higher the coupon, the higher tax the investor will pay. This does not impact the before tax total return, where coupons and price movement generally equal yield to maturity over time. For more on BMO's discount bond ETFs [Innovative Tax Efficient Low Cost Bond Solutions](#).

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

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