Views from the Desk

Updates in the Equity and Fixed Income Market

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Inflation

Yesterday's release in Canada we saw CPI come down to 4.3%. A positive development in terms of the path of inflation. Some of the components that that drove the number, overall energy prices were lower, and we saw better relief on food prices. There's been quite a bit of relief on shelter as well. Indications are in Canada, that inflation is on the path to least that 3% to 4% window. This reaffirms the market view that in at least the near term, interest rates are likely to continue to be on pause. You're seeing fixed income trade much more than it typically does with bond yields being very attractive right now. **BMO Aggregate Bond Index ETF (Ticker:ZAG)** has an attractive combination of yield and duration that can hedge against equities. And on the equity side, I think about a couple sector ETFs that could benefit from rate normalization. **BMO Equal Weight Utilities ETF (Ticker:ZUT)** and **BMO Equal Weight REITs Index ETF (Ticker:ZRE)** are both sectors that are known to be rate sensitive.

US Banks

Investors are eyeing this round of bank earnings announcements and clues on the impact of the fallout from the regional banking crisis back in March. Regarding how it may affect the ETFs that we offer. **BMO Equal Weight US Banks Index ETF (Ticker:ZBK)** is approximately 35% major banks, 65% regional banks, within the regional banks there are multiple tiers. ZBK can be an opportunity if you believe the regional banking crisis is behind us and want exposure to those banks as they potentially bounce off the lows. They operate in a new environment with higher interest rates that generally should be more positive for their business model. For a more defensive posturing, **BMO Covered Call US Banks ETF (Ticker: ZWK)**, is slightly more tilted towards those majors, with about 50/50 exposure. It is not an index fund, so we have discretion on sector exposure. And of course, it has a cover call overlay on top of it, which gives you another layer of income.

Low Volatility

BMO Low Volatility Canadian Equity ETF (Ticker: ZLB) is a 10 year Lipper Award winner, it has outperformed the TSX by 5% in 2022, and is outperforming YTD in an up market. With low volatility, this is an exposure that can keep clients invested in equities, but take some of the risk off the table. With concerns of an potential economic slowdown later this year, this is an environment where low volatility strategies often have their strongest out performance versus the broad index. Investors can build a barbell of defensiveness and growth by using **BMO Low Volatility US Equity ETF (Ticker:ZLU)** and **BMO Nasdaq 100 Equity Index ETF (Ticker: ZNQ)**. Together they tend to perform quite well versus the S&P 500, while reducing risk. EAFE is a market that had a strong beta return this year. **BMO International Low Volatility Equity ETF (Ticker: ZLI)** is up 6.5% YTD. With regards to interest rate policy or economic weakness, low volatility strategies can offer investors the ability to stay invested and also be defensive.

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Gold

Multiple tailwinds are working in the favor of the price of gold, reflected in the price breaching the $2,000 level. The potential for sticky inflation, a slowing economy or negative equity markets, and possibly the lack of confidence in the monetary system with the recent bank failures. For exposure to gold in Canada, with **BMO Equal Weight Global Gold Index ETF (Ticker: ZGD)** you're investing in equities that are related to the gold industry including miners, refiners and distributors. These companies are levered to the gold price, and so the return can be a much higher percentage than just the gold price change itself. Additionally, if gold prices continue to move up, investors might think they're too late with pure gold, but the equity trade can benefit for a significant period of time after the price movement, particularly if it stays at an elevated level.

Source: Bloomberg, All returns and data points March 2023.