

Views from the Desk

Updates in the Equity and Fixed Income Market



Chris Heakes and Omanand Karmalkar, BMO ETFs

Fixed Income

We were seeing some moderation in inflation, giving investors some hope that the rate cycle was coming to an end. However over the past few months there has been a bit of a reversal. CPI came in a little hotter than expected in Canada yesterday at 0.6% for one month and 3.3% for the one year. Both in Canada and the US the 10 Year yields are at 15 year highs. This could be an opportunity to add some duration to the portfolio that can balance out against equities and also provide a strong level of yield. We gave no shortage of very precise fixed income tools in terms of ETF exposures. To highlight one that could potentially work very well is **BMO Corporate Bond Index ETF (Ticker: ZCB)**. It is the universe of Canadian investment grade corporate bonds, BBB and above, duration just under 6 years and a YTM of about 5.67%. So with yields this high, it can be an opportunity to add duration and increase yield to the overall portfolio.

Low Volatility

The low volatility factor has lagged versus the broad market on the YTD basis. We've seen a strong growth rally mainly driven by tech companies this year. Low vol strategies tend to lag during these type of market rallies because they hold less risky stocks, to accomplish less draw downs during market downturns. To win by not losing. Given there is still lot of headwinds in the equity market driven by monetary policy and inflation concerns, we are still constructive on the low vol factor as it can help balance that risk. Paring **BMO Low Volatility US Equity ETF (Ticker: ZLU)** with a growth factor ETF like **BMO NASDAQ 100 Equity Index ETF (Ticker: ZNQ)**, can help create a barbell approach to provide a better risk adjusted risk versus the broad market.

Canadian Bank Earnings

Earnings are right around the corner, and expectations are a bit of weakness with cash earnings down about 5%. The market is recognizing the risk with higher interest rates, putting pressure on loan books and the banks putting aside credit provisions. It is often a good time to buy banks when they are building those credit provisions. Right now Canadian banks are trading at a 9.5x forward P/E, an attractive level versus historical averages. The average dividend yield is about 5.2% right now. Investors can get exposure through **BMO Equal Weight Banks Index ETF (Ticker: ZEB)**

U.S Banks

Fitch Ratings Agency warned of a possible downgrade to US Banks, this is only a few months after we had significant volatility related to the regional banking crisis. So there is some sensitivity around US banks. They just went through an earnings season with strong results and fundamentals. We are cognizant of a hard landing, but we are still seeing that soft landing scenario. Overall, we think there's an opportunity with US banks, a satellite in terms of portfolio positioning. **BMO Covered Call US Banks ETF (Ticker: ZWK)** can be a good way to get exposure to help covert the price volatility into income and get US dollar exposure should we have an economic slowdown.

Views from the Desk

Oil & Gas

During the summer we've seen a record level of demand for oil, due to summer air travel, power generation and fueling the Chinese economy, especially in the petrochemical activities. Most importantly, OPEC cuts to maintain pricing power has also driven up prices. Another source of potential future demand is the US Strategic Petroleum Reserve (SPR). The SPR has been depleted last year due to supply constraints, so they will need to stockpile the reserve. For investors looking for exposure, **BMO Equal Weight Oil & Gas Index ETF (Ticker: ZEO)** holds an equal weight of blue chip energy companies. For more conservative investors who want more of an income tilt, they can look to **BMO Covered Call Energy ETF (Ticker: ZWEN)**.



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

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus. The viewpoints expressed by the Portfolio Manager represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time without any kind of notice. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. The statistics in this update are based on information believed to be reliable but not guaranteed. This communication is intended for informational purposes only. This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance. The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. (MSCI), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

Commissions, management fees and expenses (if any) all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently, and past performance may not be repeated. For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the prospectus. BMO ETFs and ETF series trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.

/ Registered trademarks/trademark of Bank of Montreal, used under licence.