BMO Exchange Traded Funds

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Views from the Desk

Updates in the Equity and Fixed Income Market

Chris McHaney & Chris Heakes, BMO ETFs

Jackson Hole

All eyes were on Jerome Powell’s Jackson Hole symposium speech. Post speech we've seen yields come down slightly, about 10 bps, while equity markets rebounded, but not quite back to levels where they were. Powell led off]bX]WUh]b[h\Uhsigns cZinflation haj Y moderated, but that it's still too high. This confirmed for the market that higher fUhYg for longer will continue, but not hc YI dYWmany more rate increases. So the market is comfortable expecting perhaps another 0.25% increase later this year, but not too much more beyond that. It’s really the longer term rates that have been moving more than the shorter term rates. Now of course if economic data continues to be very strong, which it has been overall, that]h might lead the Fed to continue raising rates. So a lot cZattention will be paid to economic data coming out, including July PCE next week, payrolls unemployment, and wage levels. Lastly, we will see another CPI reading for August in the next week or so. So the Jackson Hole speech really just gave investors overall confidence that bch too much has changed in terms of their views. And our message is, stick to your asset allocation and your strategy you’ve built for the long term. That will weather any storms. We don't see or expect too much continued volatility. Unless we see a lot of huge surprises coming out of future economic data.

Asset Allocation

There’s that famous phrase, cash is king, and there is no doubt an element of safety]b cash and fixed income in general right now, providing higher yields. But taking a longer term investing perspective with longer time horizons, if you’re objective is to achieve a long term growth potential, you don’t want to VY overly dependent on cash, and will need equities and longer term bonds in your asset mix. Longer term bonds or duration exposure in the portfolio can help offset some of the risks associated with equities. Equities Wb dfcj]XY U potential inflation hedge and capturY equity risk premiumg. Missing the best days in the equity market Wb cost investors. Running some numbers against the TSX, from 2000 ho 2020. If you missYX the five best daysža return of 318% goes down to 170%. Missing the best 10 days, that return goes down to 100%. We don't always know when those days are going to be, so by staying invested, you can get exposure to those best days. And finding that portfolio balance between equities, bonds, and even potentially alternatives, makes sense in the context of a long-term plan. Being on the theme of long-term investingžour Asset Allocation ETFs come to mind and we have a comprehensive suite, **BMO Balanced ETF (Ticker: ZBAL)** consists of approx 60% equities, 40% fixed income, **BMO Growth ETF (Ticker: ZGRO)** 80/20, **BMO Conservative ETF (Ticker: ZCON)** 40/60, and **BMO All Equity ETF (Ticker; ZEQT)** 100% equity, to help drown out some of the short term noise and stick to your long term plan.

US Dollar

For those that aren't aware, BRICS stands for Brazil, Russia, India, China, and South Africa. These nations have invited a few others to join the group, including Saudi Arabia, Iran, UAE and Egypt, as well as Ethiopia, and Argentina. That would mean five of the top 10 oil producing nations would be a part of this group. So particularly for energy policy, you could see a lot of clouds coming out of this group in the future, if they do continue to work together. At the same time, you have two of the biggest oil consumers in China and India. So for global energy pricing, you could see this group taking on more clout in the global economy. We've talked in the past about this de-dollarization effect, China and other countries wanting to move away, to some degree from the US dollar as the global reserve currency.

This step adds to the possibility of it happening. This is something that would take a really long time to develop. What it could potentially mean is that the US dollar become a bit less of a global reserve currency and potentially lose value over the long run. If you have this belief you may want to hedge over the very long run, could be a 15-20 year view. This could also mean emerging markets, plays a larger role in the global economy and may deserve a higher weight in overall equity market allocation. Within the MSCI All Country, World Index, emerging markets is right around 10%. With **BMO MSCI Emerging Markets ETF (Ticker: ZEM)**, you could match that weight in global portfolio or overweight if you hold the view that emerging markets will continue to grow their share.

Factors

The NASDAQ 100, it's up approx 41%. The **BMO NASDAQ 100 Equity Index ETF (Ticker: ZNQ)** gives exposure to the Quality factor that captures the growth in larger tech names. Despite defensive factors under performing this year, we've seen some good flows to those strategies, as well. Highlighting the importance of being balanced as an investor. Mixing, say a more growth factor like the NASDAQ with a lower risk factor could be a very good way to build a portfolio. Two more defensive ETFs and have seen good flows are **BMO US High Dividend Covered Call ETF (Ticker: ZWH)** or **BMO Low Volatility US Equity ETF (Ticker: ZLU)**. Pairing with the NASDAQ has performed quite successfully when you look at it measured against the S&P 500 over a longer period of time. So it is nice to see from the flow side, that they're coming in more balanced way and not just chasing growth which has certainly had a great run this year, but being prepared for potential weakness in the market.

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

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