

Views from the Desk

Updates in the Equity and Fixed Income Market



Alfred Lee & Chris Heakes, BMO ETFs

Yield Curve

The yield curve is the most inverted that we've seen in a long time. It typically has a good track record of predicting an oncoming recession. It signals that the market expects central bank's will be cutting rates at some point in the future, in order to stimulate the economy. It also indicates that inflation at some point will be brought under control. Currently there is still strong economic data, unemployment is still low and GDP is still positive. In the US and Canada, over the last couple of weeks, real rates have become positive again. With the huge increase in supply for T-bills, it may draw liquidity from different assets, bonds and equities. In terms of portfolio positioning, we believe investors should take a more defensive approach with a combination of Quality and Low Volatility factors. For example, combining ETF's like **BMO MSCI USA High Quality Index ETF (Ticker: ZUQ)** with our **BMO Low Volatility US Equity ETF (Ticker: ZLU)**. Cash is also an asset investors may want to look at. Our **BMO Money Market Fund ETF Series (Ticker: ZMMK)** is currently yielding 4.9%. And **BMO Ultra Short-Term US Bond ETF - USD Units (Ticker: ZUS.U)** for US dollar cash, also has 4.9% net yield at the moment.

Factor Positioning

For growth equities, technology is top of mind. **BMO NASDAQ 100 Equity Index ETF (Ticker: ZNQ)** is up 35% YTD, and the **BMO Covered Call Technology ETF (Ticker: ZWT)** is up 42% YTD. So tech is certainly leading the growth rally. Quality as another factor has been also outperforming this year due to it's exposure to growth. Key considerations navigating this market is the Fed's recent hawkish messaging and there is also the potential recession risks down the road. So, in the absence of a crystal ball, balance is the key for investors at this moment. A growth component, such as the ZQQ or ZWT and balanced off against something more defensive, like **BMO US Low Volatility ETF (Ticker: ZLU)** or **BMO US Dividend ETF (Ticker: ZDY)** can give you that give you that balance. Growth with defensiveness is something that can potentially benefit investors going forward.

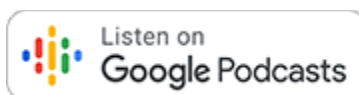
Currency

The US Dollar Index has been surprisingly relatively flat. Perhaps the US Dollar Index hasn't moved that much because the market doesn't necessarily believe the two rate hikes communicated by the Fed will happen. The Fed's game plan, is to signal that there is more tightening to come in order to fight inflation, so that investors or consumers put off those large ticket items and spending in general. The Canadian dollar has had some legs behind it over the last couple of weeks because of the 25 bps rate hike. There is a likelihood that we may not get the full two rate hikes in the US, maybe one, or maybe none at all. If you're thinking long term, we always like having US dollar exposure, especially because the US dollar tends to rally during economic slowdowns. But from a tactical standpoint, you may want to consider a US currency hedged exposure right now. Some examples of currency hedged ETFs that we favour; **BMO S&P 500 Hedged to CAD Index ETF (Ticker: ZUE)**, **BMO Low Volatility US Equity Hedged to CAD ETF (Ticker: ZLH)**, and **BMO MSCI USA High Quality Index ETF - Hedged Units (Ticker: ZUQ.F)**

Views from the Desk

Covered Call Strategies

We are continuing to expand on our covered call ETF lineup. We started the covered call ETF space in Canada when we launched the first ETF back in 2011, with **BMO Covered Call Canadian Banks ETF (Ticker:ZWB)**. With our new **BMO Global Enhanced Income Fund ETF Series (Ticker: ZWQT)**, you'll notice the similarities with **BMO All-Equity ETF (Ticker:ZEQT)**, however it's composed of all covered calls ETFs. So essentially, it is going to provide the benefits and the exposure of a broadly diversified asset allocation equity ETF, as well as enhanced income. It offers a higher yield, robust portfolio construction, lower volatility, and tax efficiency. We're excited for investors who want a one ticket solution to get global and sector diversification. ZWQT is the same price point as any of our individual Covered Call ETFs, but with re-balancing at no additional costs. So at a 65 basis points management fee, we're excited to see it list on Friday, June 23, 2023.



Source: Bloomberg, All returns and data points May 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.