Views from the Desk

Updates in the Equity and Fixed Income Market

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Canadian Bank Earnings

Canadian banks as whole had pretty decent earnings. However, you had one bank so far that disappointed versus street expectations. Scotia reported net income of $1.85 per share, notably lower than the $2.03 expectation. When you invest in banks through an ETF, you get that diversification, since generally banks as a group are strong performers. Historically since 2000 the Canadian banks over this period was up 11.6 times versus the TSX at 3.3 times. They are currently trading at about a 25% discount to the TSX. **ZEB – BMO Equal Weight Canadian Banks ETF** is a good way to get equal weight exposure to Canadian banks. **ZWB – BMO Covered Call Canadian Banks ETF** may be a better choice if you believe they will be trading sideways this year. The Canadian banks are paying about a 4.7% dividend yield, with ZWB you're getting an additional 3% from the covered call overlay. We write on 50% of the portfolio, which does allow the portfolio to participate if the market rallies. Banks are looking attractive at this point from a valuation perspective.

USD vs CAD

If there is one central bank globally that has done the most to get out front of fighting inflation by raising interest rates, it has been the Bank of Canada. The BoC has indicated they will pause for now. South of the border, expectations are for three more rate hikes at 0.25%. So, there is a little window to be tactical in your currency exposure. The US dollar could potentially appreciate, simple because rates may keep rising in the US a bit more than they are in Canada. US CPI is not coming down to the same degree as Canadian CPI. For hedged or unhedged USD exposure, I might lean on **ZSP – BMO S&P 500 Index ETF**, which is unhedged to allow the USD exposure to play out over the next six months or so, a tactical position where we may see a higher US dollar in the short term. But there is the expectation of a weaker US dollar in the longer term, this is where **ZUE – BMO S&P 500 Hedged to CAD Index ETF** can be useful.

International Equities

Well constructed portfolios should have strategic allocation to both US and International securities. Tactically I would overweight US at this point. The US is well ahead of fighting inflation versus the international region. UK CPI for example most recent reading was 10.1%. Europe and Asia have very similar stories as well. It's likely we'll see more rate hikes from the Bank of Japan, and with China reopening, that will potentially put further upward pressure on inflation. From what we can tell right now, the Russia and Ukraine conflict may be long and drawn out. So, you may want to look at those mega cap companies that are global in nature that are best insulated from these concerns. Many are headquartered in the US. **ZSP – BMO S&P 500 Index ETF** top holdings are Apple, Microsoft, Google, Visa, and P&G. These are all companies based in the US but derive their revenues globally. So, US equities do provide a lot of global exposure. **ZCN – S&P TSX Composite Index ETF** and **ZDM – BMO MSCI EAFE Hedged to CAD Index ETF** are also good building blocks to build a global portfolio and improve overall efficiency. If you are interested in European or US exposure, **ZEQ – BMO MSCI Europe High Quality Hedged to CAD ETF** and **ZUQ – BMO MSCI USA High Quality Index ETF** both apply the same screening metrics, where we are looking companies with high return on equity, low earnings variability, and low financial leverage as well. Good way to get blue chip companies from around the world into your portfolio.

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US Healthcare Sector

The US healthcare sector displayed defensive characteristics in 2022, outperforming the broad market. The S&P 500 was down about 18%, and the healthcare sector within the S&P was only down about 2%. A slower start for the sector in 2023, but this could be a good entry point for those that believe in the longer term trends driving healthcare. Trends that include an aging US demographic and more government investment, since COVID has highlighted the important of innovation and investment in healthcare. We offer both currency options if you are bullish on the healthcare sector with **ZUH - BMO Equal Weight US Healthcare Hedged to CAD Index ETF** or **ZHU – BMO Equal Weight US Healthcare Index ETF**. For more income-oriented investors, you may want to look to **ZWHC – BMO Covered Call Healthcare ETF**, which offers similar underlying exposure as ZUH, but adds our covered call overlay on top of it. You may get a dividend yield of 1.5% from the sector, by adding 4-5% on top of that from the covered call overlay, you're getting a larger income stream from a defensive sector. We've published this trade opportunity on our BMO ETF Dashboard – **BMO's New Enhanced Income Health Care ETF (ZWHC).**

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