Views from the Desk

Updates in the Equity and Fixed Income Market

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US CPI

April CPI print came in at 4.9% year over year, which is lower than expectations. Continuing the trend downward which is positive for markets. Headline CPI rose by 0.4%, leaving the annual total at 4.9%. Food prices were unchanged month over month and energy prices rose by 0.6%. Excluding food and energy, prices rose by 0.4% in April, leaving the 3 month and 12 month annualized rate at about 5.1% and 5.5% respectively. Well above the Feds target. The traditional measure of core inflation was boosted by highly volatile used car prices. If you look at Fed Chair Powell's preferred gauge of underlying price pressures, which is core services, excluding shelter, it is showing price pressures are coming down. That allows the Fed to continue to likely pause in their interest rate policy, and cements the fact that they have raised rates to a point where it is making a material impact on prices. One year inflation break evens dropped about 20 basis points to 1.9%, which maybe too optimistic. So from a portfolio perspective, I think there's still opportunity using TIPS in your portfolio. **BMO Short-Term US TIPS Index ETF (Ticker: ZTIP)** or **BMO US TIPS Index ETF (Ticker: TIPS)**, would provide inflation protection, because I do think the move from 4.9% to 2% is going to take longer than we expect.

Gold

The performance of **BMO Equal Weight Global Gold ETF (Ticker:ZGD)** since the beginning of November 2022 has been quite exceptional at 54%. There are a number of factors behind the strong performance of Gold. Consumers in China rushed in to buy more jewelry bars and coins during the first quarter. As well, Gold can act as a hedge against contagion risk due to the failure of the various US regional banks. Gold is now close to its all time high of $2,075, which was reached back in August 2020. Another factor is the record buying by Central Banks last year, over 1087 tons were purchased. Additionally, 228 tons were bought during the first quarter according to the latest quarterly report from the World Gold Council. The ongoing news regarding the standoff between the Biden administration and Republican lawmakers over the debt ceiling can continue to drive gold prices going forward.

Inverted Yield Curve

Yield curves in Canada in the US continue to be heavily inverted. The inversion only increased slightly YTD. We continue to see short end rates locked in and the rest of the curve fall. From a big picture perspective, at some point, we'll need to see some yield curve normalization. Normalization can happen in a couple of different ways. First, shorter rates set by the Bank of Canada and Fed policy, will have to come down. The market is pricing in that scenario now starting in late 2023. The 10 year minus the 2 year spread is 80 basis points, and using a traditional 25 basis point cut, it will take about three or four cuts to get to a flatter yield curve. That may not be the most likely scenario. The second way is that longer term yields rise. My view is we are probably going to remain inverted for the remainder of 2023. So we still see value in a barbell strategy. We value long government exposure with **BMO Long Federal Bond Index ETF (Ticker: ZFL)**. And then compliment this with short corporate exposure. You can get 4-5% yield in investment grade credit. With **BMO Ultra Short-Term Bond ETF (Ticker: ZST)**, **BMO Short Corporate Bond index ETF (Ticker: ZCS),** or **BMO Money Market Fund ETF Series (Ticker: ZMMK)**, all three provide short term durations allowing you to really lock in those short term rates.

BMO Exchange Traded Funds

May 10, 2023

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Energy Sector

The energy sector has been the S&P 500's worst performer YTD, which reflects the pullback in oil. Despite the poor performance of oil prices, oil companies themselves have underperformed less than the commodity itself. One factor behind this is the mountain of cash that gas companies have built up. If we look at the six companies that are often referred to as Big Oil, they reported collectively nearly $160 billion in cash and cash equivalents across their balance sheets at the end of the first quarter. So oil companies that are flush with cash would normally use that cash to pursue growth, instead they tried to be mindful of managing shareholder returns by boosting dividends and engaging in substantial share repurchases. As for oil price later this year, reading the tea leaves, certainly we know we're coming into the summer driving season. One can get exposure to oil via **BMO Equal Weight Oil & Gas Index ETF (Ticker: ZEO)** that focuses on dividends from the cash rich balance sheets that these oil and gas companies are currently sitting on.

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