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Views from the Desk

Updates in the Equity and Fixed Income Market

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Fixed Income

Even with concerns around regional banks this week, it wasn't enough to keep the Fed from raising rates another 25 basis points. The Fed was noncommittal as to whether this is a pause, they will be data dependent going forward. It's too early to tie their hands by committing to keep rates on hold. We believe the Bank of Canada and the Fed, will likely stay on pause for the remainder of the summer and into the fall. We are starting to see some cracks in the job market. Interest rate stability is a positive for markets, especially in fixed income right now. It has had strong performance YTD, that type of stability will likely bring strong returns for the summer and then potentially into the fall.

Equities

Equity investors are definitely looking for a pause. The US rate market is pricing in 3 cuts by the end of the year. Seems to be out of context with Powell's outlook. The good news from an equity perspective is the labor market. The Fed does not see a strong recession, perhaps a soft landing or no landing scenario. With the current bank volatility it's important to be prudent with allocations to equities. We do continue to like dividend, low volatility, and quality strategies that can take some of the risk off the table. **BMO Canadian Dividend ETF (Ticker: ZDV)** and **BMO US Dividend ETF (Ticker: ZDY)** focus on blue chip dividend paying companies. These sustainable, high quality dividend payers, right now I think is a good place to lean into to help reduce volatility.

Banks

Over the weekend JP Morgan announced their acquisition of First Republic. FDIC did provide some aid to make sure that it went down smoothly. JP Morgan, was able to boost their own deposits by acquiring about $92 billion in deposits. If you look at all the bank failures thus far, that amounts to about $36 billion in the last six weeks. We see the First Republic episode to be more company specific, not systemic. We do see a strong opportunity in Canadian banks. The dividend yield on the big six banks is around 4.9%, earnings are trading at nine times and loan growth has been good. There also hasn't been too much bubbling from the commercial real estate side, like in the US. You can gain exposure through **BMO Equal Weight Banks Index (Ticker: ZEB)** or **BMO Covered Call Canadian Banks (Ticker:ZWB)** to increase income with the covered call strategy.

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Covered Call Technology

We talked about equity positioning and remaining defensive, **BMO Covered Call Technology ETF (Ticker:ZWT)** provides a potential barbell to that defensiveness. Should rate cuts come through, growth may likely continue to outperform, and this is where ZWT can come in. The Top 5 holdings are Apple, Microsoft, Alphabet, Amazon and Meta. They account for 45% of the ETF. Mega cap tech stocks had very strong earnings, which led to solid stock price performance. Exposure that can balance against more defensive tilts, such as a dividend strategy, ZWT can fit nicely against those components. It can give investors a hedge should the soft landing be achieved, and if we see an ease on interest rate levels over time.