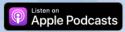
# Views from the Desk

Updates in the Equity and Fixed Income Market







Alfred Lee & Chris McHaney, BMO ETFs

#### **Treasury Yields**

US Treasury yields have seen some downward pressure. Both ADP and ISM numbers came in less than expected, indicating the economy is losing a bit of steam creating a risk off sentiment with bond yields. As well during a Treasury refunding announcement a surprise amount of issuance, less than what the market anticipated also helped lower yields. The Federal Reserve decided to keep its overnight rate unchanged for the second meeting in row. The Fed cited higher yields across the curve would allow them to rely less on increasing its overnight rate. Looking at where the yield curve is right now, bond yields probably need to go up a little more, if we believe the yield curve is going to normalize further. In terms of adding duration to your portfolio, I think it maybe a bit too early. But if you're looking further out, 3-5 years, that is probably not a bad time. One way of implementing duration into a portfolio is using a barbell strategy. Combing an overweight of BMO Short-Term US IG Corporate Bond Hedged to CAD Index ETF, (Ticker: ZSU) with BMO Long-Term US Treasury Bond Index ETF (Ticker: ZTL), can be a prudent way of adding duration.

#### Canadian GDP

The latest data from Stats Canada was not promising for Canada in terms of GDP growth expectations. The definition of a technical recession is two consecutive quarters of negative GDP growth. Canada's GDP in Q2 was slightly negative and now we're looking into Q3. The month over month data saw July and August also as flat. Stats Canada came out with a estimate for September that came in flat as well. If it does come in slightly negative, then that would mean a technical recession. We may be near the end of interest rate hikes and we might see a divergence in interest rates between the US and Canada. It's more likely that we see a rate cut with some members indicating the possibility, if inflation comes down. For equity investors, looking at defensive sectors can make sense. **BMO Equal Weight Utilities Index ETF (Ticker: ZUT)** is a rate sensitive sector can benefit if we do see a rate cut. And **BMO Low Volatility Canadian Equity ETF (Ticker: ZLB)** is generally exposed to rate sensitive sectors like utilities and consumer staples. So should we see a continued slowdown or recession, we like the utilities and low volatility equities as a defensive play.

#### Cash Management

OSFI, an independent regulator that governs financial institutions in Canada announced that money invested in High Interest Savings ETFs would need to be reclassified from retail deposits to wholesale deposits. Effectively meaning that the yield offered by these types of ETFs would have to drop. This will take effect on January 31, 2024. In terms of how it will impact yields, they will likely fall about 50 bps, bringing them roughly in line with Money Market ETF yields. So for investors looking at cash or a cash like ETF, somewhere to park money, you have the option of a money market ETF or a HISA account/ETF. We have BMO Money Market Fund ETF Series (Ticker: ZMMK) available for investors. As well as BMO USD Cash Management ETF (Ticker: ZUCM), For short bond exposure, we have BMO Ultra Short Term Bond ETF (Ticker: ZST) and the US equivalent, BMO Ultra Short-Term US Bond ETF (US Dollar Accumulating Units) (Ticker: ZUS).



## Views from the Desk

### **International Equities**

The Bank of Japan is the last central bank that is clinging to low interest rates. They go a step further to try to control the short and the long end of the curve. The BoJ has loosened the cap on their Japanese Government bonds, leading investors to believe that interest rates can move further than 1%. The market was expecting them to further loosen, when they didn't it caused the Yen to sell off and ended up getting a strong response from the equity market. Japan is an export-oriented market and so a weaker currency helps. If inflation does start to tick up and the need for rates to start to normalize that's a good sign for the economy and equities. For investors looking to get exposure to Japan, they can look to BMO Japan Index ETF (Ticker: ZJPN) or the hedged version BMO Japan Index ETF (Hedged Units) (ZJPN.F).







Source: Bloomberg, All returns and data points October 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.

