

# Views from the Desk

## Updates in the Equity and Fixed Income Market



Alfred Lee & Chris Heakes, BMO ETFs

### Fixed Income & Currency

We've seen investors, especially institutions, starting to pile into long duration calling for peak rates. I think we're going to be in a more stable interest rate environment now that the curve is more normalized. For portfolio positioning I think the barbell trade is looking attractive again. Where investors hug the short end to capture attractive yields and complementing that exposure with long government exposure. In Canada, a popular pairing is **BMO Ultra Short-Term Bond ETF (Ticker: ZST)** yielding about 5.7%, and complementing with **BMO Long Federal Bond Index ETF (Ticker: ZFL)** for more duration exposure. In the US, if you are looking to add US Treasury exposure and duration you could use **BMO Long-Term US Treasury Bond Index ETF (Ticker: ZTL)**. We also offer a hedged version, **BMO Long-Term US Treasury Bond Index ETF (Hedged Units) (Ticker: ZTL.F)**. Currently there is a case for going unhedged the US Dollar at current levels. If we do see a recession, the US dollar will be a safe haven asset. Secondly, the US economy is better suited to withstand higher rates for longer than the Canadian economy. While I prefer hedging fixed income exposure, tactically, it would make sense to go unhedged ZTL in the current environment.

### Factors

Growth has been the main driver this year and we've seen that mostly with the NASDAQ. The NASDAQ 100 Index is up about 40%. In terms of complementing broad market growth exposures, there is a natural correlation between dividends and value. We'll reference **BMO Canadian Dividend ETF (Ticker: ZDV)** and **BMO MSCI Canada Value Index ETF (Ticker: ZVC)** as both good options. Lower prices lead to higher dividend yields and better value characteristics. The focus on ZDV is on growing and sustainable dividends backed by cash flow, not just high yielding dividend payers. Value tends to be a bit higher risk factor than dividends and value tends to outperform at the beginning of a cycle. For end of cycle, defensive portfolio positioning, I would choose dividends over value, particularly if it is being balanced against growth exposure.

### Tax Loss Harvesting Opportunities - Fixed Income

We'll start by saying we are not tax professionals, so we do recommend consulting with a tax professional to get tax advice before looking at any of these strategies. Tax loss harvesting is selling securities that have capital losses, that can be used to offset capital gains in your portfolio. The proceeds from the sale can then be reinvested in similar exposures to maintain your market exposure while you are taking advantage of the tax treatment. You must have sold the security for a minimum of 30 days and purchase a security that is not identical. This can apply to stocks, bond, preferred shares, ETF, and mutual funds. ETFs can be excellent tools for tax loss harvesting, because they can provide you with a similar exposure to allow you to stay invested. In terms of fixed income tax loss opportunities I would look at long term federal, provincial and Treasuries. Investors can use **BMO Long Federal Bond Index (Ticker: ZFL)**, **BMO Long Provincial Bond Index ETF (Ticker: ZPL)**, or **BMO Long-Term US Treasury Bond Index ETF (Ticker: ZTL)**. You could also look at our Discount Bond suite to maintain your risk exposure while reaping the tax benefits. **BMO Discount Bond Index ETF (Ticker: ZDB)**, **BMO Short-Term Discount Bond ETF (Ticker: ZSDB)**, and **BMO Corporate Discount Bond ETF (Ticker: ZCDB)**.

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## Tax Loss Harvesting Opportunities - Equities

Two sectors that are having worse performance than usual are Utilities and REITs. The higher interest rate moves have caught up to these sectors. So crystallizing some losses in these sectors and potentially going into something like **BMO Equal Weight Utilities Index ETF (Ticker: ZUT)** or **BMO Equal Weight Canadian REIT Index ETF (Ticker: ZRE)** can help you maintain exposure. As well Canadian and US banks are good tax loss opportunities since they have come down this year. For bank ETFs, you could look to **BMO Equal Weight Banks Index ETF (Ticker: ZEB)** or the covered call version, **BMO Covered Call Canadian Banks ETF (Ticker: ZWB)** for more of a yield focus. On the US side, **BMO Equal Weight US Banks ETF (Ticker: ZBK)** or **BMO Covered Call US Bank ETF (Ticker: ZWK)** can be used. We encourage investors to take look at our website for more tax loss selling resources: [BMO ETF Dashboard](#)



Source: Bloomberg, All returns and data points October 2023.

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