October 19, 2023

Views from the Desk

Updates in the Equity and Fixed Income Market

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Yield Curve

The natural state of the yield curve is upward sloping and over the last couple of months it has been trying to normalize. We may not see more additional rate hikes by central banks, so we're seeing repricing in the yield curve. The 5 and 10 years continue to move up as a result of this. Buyers of bonds at those duration levels are wanting some kind of a term risk premium in order to take on that duration risk. In terms of fixed income positioning, hugging the short end of curve has been a popular trade and overweighting investment grade credit is also something we've also talked about with **BMO Short Corporate Bond Index ETF (Ticker: ZCS)** or **BMO Short-Term US IG Corporate Bond Hedged to CAD Index ETF (Ticker: ZSU)**. In terms of interest rate sensitive equity sectors like utilities, a longer duration sector, with very predictable cash flows, it tends to almost act like a bond when longer term rates go up. If you are a long term investor, 3-5 years out, right now would probably be a good entry point. However in the short term if yields continue to rise, there may be continued volatility in the utility space. So one good way to play the space is going into **BMO Covered Call Utilities ETF (Ticker: ZWU)** to monetize that volatility. Because we are selling calls, as volatility goes up, we are able to collect higher premiums. We are not covering the entire portfolio, at 40-45%, you still get to participate in any growth in utility stocks. The yield is about 8.7% on that one right now.

Earnings Cycle

Goldman, JP Morgan, Bank of America, all had positive reporting, beating expectations. They seem to be shoring up their balance sheets, after taking significant draw downs earlier in the year. Underneath the hood they are noting that investment banking and deal making is weak, but their trading businesses have been very strong. This is more company specific, but when you look at a US Bank ETF like BMO Covered Call US Banks ETF (Ticker: ZWK), the upside price target on average is around 22%, and the ETF is yielding about 11%. ZWK can be a nice satellite position in a Canadian portfolio for high yield, getting paid to wait for a potential recovery in US banks. It is early in the earnings cycle, but high-quality businesses with strong brands are reporting solid results. Such as Proctor and Gamble and Johnson and Johnson. Quality matters again in investing. Two quality ETFs worth mentioning are **BMO MSCI All Country World High Quality Index ETF (Ticker: ZGQ)** and **BMO MSCI USA High Quality Index ETF (Ticker: ZUQ)** for global and US high quality exposure. With a backdrop of investors showing concern and the VIX creeping up higher, leaning into high quality companies makes sense.

Cash Management

With the overnight rate in Canada at 5% and 5.5% in the US, real yields in terms of cash are generating a positive return. We never like to say to move to cash because timing the market is very difficult, but if you have a small position in cash, in this kind of environment the opportunity cost of not being in equities would be a lot lower. Let's say having a 3-5% cash position in a portfolio, can give you a little bit of dry powder on hand to take advantage of potential future mispricing's in the market. You could almost view cash as an alternative asset class, it is giving you a non-correlated return to bonds and equity so it can improve the efficient frontier of your portfolio. Money market ETFs like **BMO Money Market Fund ETF Series (Ticker: ZMMK)** is yielding about 5.1% and provides liquidity benefits versus GICs. We also recently launched **BMO USD Cash Management ETF (Ticker: ZUCM)** that's yielding about 5.5%. Also available in US dollar - ZUCM.U.

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Long Short ETFs

These are liquid alternative strategies which provide a little more flexibility than a traditional fund. Alternative strategies in general have been recognized to give investors better tools to enhance income or reduce risk within instruments like ETFs that are liquid. The piece of flexibility in the ETFs that we've launched is the ability to short individual equities which allows you to hedge long equities and the ability to profit from stocks that do not have long term upside potential. We are targeting a 50% net equity exposure, meaning we're targeting 100% invested on the long side and about 50% on the short side. Aiming for much better performance in period of draw downs, more portfolio protection when markets sell off. This is a tool that can allow investors to stay invested in equities, but benefit if they go up or down and reduce risk. This is the first long short ETFs that we've launched: **BMO Long Short US Equity ETF (Ticker: ZLSU)** and **BMO Long Short Canadian Equity ETF (Ticker: ZLSC)**. We are excited to see how clients can incorporate them into building better portfolios.