# Views from the Desk

## Updates in the Equity and Fixed Income Market

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### Canadian CPI

This week in Canadian markets CPI came in at 4% ahead of expectations of 3.8%. The second consecutive print showing that inflation is potentially re-accelerating. Taking a closer look majority of the gains came from the shelter component again. Mortgage costs for example continue to rise. The other big contributor this month was rising energy costs. Oil tends to be used as a factor in shipping cost, so the market is concerned how those second order effects feed into inflation down the road. There were some silver linings, the consumer did see discounts, especially in travel. The question now is what will the Bank of Canada do at this point. It presents a case for them to remain hawkish for a longer period of time. Interest rates futures are now pricing in 50% chance of a quarter point move. Keep in mind the BoC has quantitative tightening happening in the background, which isn't expected to end until 2025. The next meeting is October 25, so the BoC will be focused on GDP and unemployment numbers from now until then.

### Fixed Income Positioning

The US Fed just announced they will be holding rates steady. US CPI nudged slightly higher at 3.7 versus an expectation of 3.6. The Fed noted that the economy is surprisingly strong and resilient, which is both a good and bad thing. It creates a scenario where they may have to keep their foot on the gas with respect with rate increases. 12 board members anticipate one more rate hike this year. The US 10 Year is now at 4.3%, the highest since 2007. Good thing now is bonds can be used to fulfill their traditional purpose. Providing yield and diversification to offset equities. **BMO Mid Term US Treasury Bond Index ETF (Ticker: ZTM)** invests in US Treasuries 5-10 years in maturity, with a YTM 4.4% and 7 year duration. The duration can be used for that diversification against equities. If we do get an economic slowdown and the Fed is forced to cut rates, longer term bond exposure can benefit a portfolio.

### Oil Prices

WTI prices are up about 30% since the end of June. Looking at potential threats to global markets, that's probably one of them. Oil prices tend to go higher before potential market sell offs and can potentially reignite inflation. Brent crude is trading even higher than WTI at $95/barrel. Driven by supply side issues with OPEC reducing output. Saudi Arabia recently indicated that they do not intend on changing course. If oil prices continue to go up from here, you probably want to avoid things like transport or airline stocks, but the broad market could face challenges too if the broader economy cannot support higher oil prices. From a portfolio perspective, there can be a couple ways to play it. **BMO Low Volatility US Equity ETF (Ticker: ZLU)** can take some risk off. The more obvious **BMO Equal Weight Oil & Gas ETF (Ticker: ZEO)** invests in the top 10 Canadian oil and gas companies equally weighted. Current dividend yield is about 4.6%. Lastly **BMO Covered Call Energy ETF (Ticker: ZWEN)** includes both US and Canadian energy companies. 50% of the portfolio is covered, using out of the money call options paying about 8.4%, for more income oriented investors.

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## Zero Day Options

Options that are zero-day expiry (DTE) are a US product. It has caused a real surge in retail activity. US firms like Robin Hood make it very easy to trade options, which can be a good or bad thing. Zero DTE does sounds a bit like a roulette table, to be fair, some investors are using it that way. There are concerns of what potentially damaging effects it can have on markets. However the Chicago Board of Option Exchange (CBOE) recently came out with a report concluding that they are predominately being used for hedging purposes, not speculation. Dispelling the notion that they are negatively impacting markets. That being said, this differs from what we do at BMO ETFs. When we sell a call option against an underlying stock, we're essentially hedging that position and turning potential upside into income. So for most investors is probably better to stay away from zero DTE options unless you have very deep understanding of potential gains and losses on these products. Our **BMO Covered Call Canadian Banks ETF (Ticker: ZWB)**, is not a one day product, it is a buy and hold strategy for investors who need income, yielding close to 7.5% currently.



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



BMO Exchange Traded Funds