

# Views from the Desk

## Updates in the Equity and Fixed Income Market



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### REITs market in Canada

While [ZRE - BMO Equal Weight REITs Index ETF](#) underperformed the broad market in 2022 ZRE is up approximately 9% YTD. We believe 2023 will be more constructive with interest rates expected to normalize. In higher inflationary markets, when rates are rising, there is a bit of push and pull when it comes to performance in REITs. On the bright side, real estate has the benefit of being a real asset that tends to hold value in periods of inflation. Furthermore, lease resets give REITs the ability to pass on inflation through reset rent agreements. On the negative side, however, higher interest rates impact the REIT's cost of capital and make the hurdle rate for new projects to be cash-flow accretive more difficult. The "bond-proxy" quality of REITs can be a negative. In any event, the condition of the economy does play a large role, so if rate increases occur during a state of economic prosperity, or an economic slowdown, impacts on valuations and markets will be different. For more on this trade idea please visit [Constructive on REITs](#)

### CPI Print

Last week we had a hotter CPI print in the US. We've seen the US terminal rate expectations soar as a result. It appears that the US will continue to raise rates until inflation is under control. All eyes were on the Canadian CPI print to see if we followed the same trend as the US however, January CPI year over year printed at 5.9%, versus consensus estimates of 6.1%. It is likely that we will see a pause on raising rates from the BoC in the next meeting. As of now it looks like the impact of an aggressive BoC is starting to make its way through the economy. We still have inflation above the BoCs target of 1-3 percent. Food prices are still trending higher, (we hope that higher rates will make its way through the supply chain) and Mortgage interest costs continues to see upward trajectory. As of now we still have to wait and see how the effects of higher rates play out. [ZTIP - BMO Short-Term US TIPS Index ETF](#) , [TIPS - BMO Short-Term US TIPS Index ETF](#), [ZRR - BMO Real Return Bond Index ETF](#)

### How to Play Technology

Overall, we are bullish on the Technology sector however, we believe that the "easy money" is done (when looking at the rebound from COVID). We expect this sector to continue to be profitable over the long term and we look to keep exposure to tech. When playing the tech sector we look at companies with high return on equity, low financial leverage and stable earnings growth using our Quality Factor ETF [ZUQ - BMO MSCI USA High Quality Index ETF](#). A more conservative approach is the [ZWT - BMO Covered Call Technology ETF](#) where we use the covered call overlay on the portfolio, and given the uncertainty in the market around tech you can get paid an above avg yield while you wait out the volatility.

### Terminal Rates

The market is expecting a peak terminal rate in Canada of about 4.72. In the US we expect 3 more rate increases of 25 bps to bring us to a terminal rate to approx. 5.4%. For the US we like short term credit [ZUS.U - BMO Ultra Short-Term US Bond ETF \(USD Units\)](#) and [ZSU - BMO Short-Term US IG Corporate Bond Hedged to CAD Index ETF](#) provide higher yield with low duration risk.

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

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