

Views from the Desk

Updates in the Equity and Fixed Income Market

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Fixed Income Uncertainty

Generally speaking, an inverted yield curve can lead to a recession. However, there are a few other leading indicators that are important to look at such as the ISM manufacturing PMI below 45, tighter financial conditions, housing starts starting to decline, labour market weakness and positive inflationary trends which most of these indicators aren't a factor at the moment. Out of the aforementioned we believe the Positive Inflationary Trends to be the one indicator that stands out the most in this current environment.

We do think that this may be a unique anomaly with the inversion of the yield curve right now. It is our belief that it is unlikely that we will see a recession in 2022 and more possible in late 2023 if anything. It depends on how we see the market react to these rate increases. The Fed and BoC are expected to hike rates by 50 bps for the next 2 meetings. Central banks are prioritising inflation, and we want to stay away from long duration and staying on the short end of the curve [ZCS - BMO Short Corporate Bond Index ETF](#), [ZQB - BMO High Quality Corporate Bond Index ETF](#), [ZSDB - BMO Short-Term Discount Bond ETF](#) and [ZCDB - BMO Corporate Discount Bond ETF](#).

Update: The Bank of Canada today increased its target for the overnight rate to 1%.

Nasdaq Entry Point

In the current interest rate environment, there has been headwinds for growth stocks. As we enter into earnings season the market is expecting it to be much slower. The market is expecting a 50bps rate increase for the next 2 meetings (which are being priced in right now). It is hard for equities to outperform while rates are rising. Once the dust settles on rate increases, we will see our growth equities start to go back to normal. We think that the long-term equity holders are at an attractive entry point for ETFs such as [ZNQ - BMO NASDAQ 100 Equity Index ETF](#) and [ZQQ - BMO NASDAQ 100 Equity Hedged to CAD Index ETF](#).

Emerging Markets

There hasn't been much of a change when it comes to Russian securities in EM (foreign investors are locked out of Russian markets). Russian securities have been closed to foreign investors and the valuation of these securities have come into question. We've seen some index providers eliminate these securities altogether. Within [ZEM - BMO MSCI Emerging Markets Index ETF](#) Russian securities have been valued at zero (in-line with the index). There have been no real movements in terms of opening up the Russian market for foreign investment to dispose their securities. We are going to have wait for moderation in the war, which seems to be far off.

Rate Reset Prefs

Over the last 2 years Preferred Shares have been outperforming significantly however, there has been a sell off in 2022. The rate reset preferred shares are linked to the Canadian 5 year. Preferred shares are interest rate sensitive and credit sensitive products. Since the Russian invasion there has been a widening of credit spreads which outpaced the interest rate impact in [ZPR - BMO Laddered Preferred Share Index ETF](#). We have seen the credit selloff dwarf the impact of rising rates resulting in investors exiting the preferred share asset class, take profits and wait for more attractive entry point.

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Gold

There has been a lot of price action in gold this year and we have seen [ZGD - BMO Equal Weight Global Gold Index ETF](#) do well..... for more on this topic please listen to our podcast at bmoetfs.ca

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Source: Bloomberg, All returns and data points April, 2022.

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