Views from the Desk

Updates in the Equity and Fixed Income Market

Alfred Lee and Chris Heakes, Portfolio Managers, BMO ETFs

Renewed focus on ESG investing

Our ESGG - BMO MSCI Global ESG Leaders Index ETF exposure to Russia is zero and the overall screening process for ESGG has been great. Overall, ESG mandates are expected to underperform when energy is doing well and to no surprise, ESG performance was detracted due to underexposure in energy and oil companies. There is no blanket approach to the screening process to our ESG ETFs. Given where oil prices are most of the energy companies that get screened out likely have a higher beta to oil prices.

The outlook for ESGG is positive and it's a good one ticket solution for investors to get equity exposure. ESG compliance will become more relevant in the upcoming years and governments are going to be more punitive to companies who aren't ESG friendly going forward.

Interest Rates Pushing Higher

Interest rates have been making significant moves over the last few months. We are going to see higher interest rates in the coming weeks and a 50bps rate hike is looking more and more likely. Furthermore, the market has started shifting its focus away from the Russia and Ukraine war to inflation and central bank tightening. There's a clear indication that the central banks are well behind the curve at this time, and it paves the way for them to be more aggressive going forward. Moreover, economies are starting to learn to live with COVID and there is less disruptions in the economy which should lift interest rates higher. Buying long term bonds can make sense from a "total portfolio" point of view however, we think ZBI - BMO Canadian Bank Income Index ETF is a perfect solution for today's climate. ZBI not only addresses, yield and rate protection but it invests exclusively in arguably the highest quality corporate sector (Canadian banks).

Covered Calls in Canada

Canadian equities are more value oriented, and the rotation from growth to value has favoured our Canadian dividend factor ETFs. YTD our ZWC - BMO Canadian High Dividend Covered Call ETF has outperformed the broad market by about 4%. Our covered call ETFs focus on dividend companies, and with the recent market volatility we can generate a higher option premium. Furthermore, in higher inflation regimes the value and dividend factors outperform, and we believe current outperformance in the dividend factor will continue into next year. BMO Covered Call ETFs Methodology.

Premium Yield

ZPAY - BMO Premium Yield ETF uses option strategies (put-write and covered calls) combined with some long stock exposure to provide an enhanced income product that has less volatility, more diversification, higher yield, and partial market exposure. In ZPAY, equities are currently at 40%. OTM put options are written on quality U.S. stocks with a 1–2 months expiration. If the stock declines the option is exercised at an attractive, lower cost entry point. If a call option is exercised, the portfolio is "covered" meaning it owns the stock and will deliver it to the counter-party. If the put option is exercised, the fund holds sufficient cash to cover this position. ZPAY has proven to be a great alternative ETF that provides a smooth ride through volatile markets.

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Oil

There's still upside potential for ZEO - BMO Equal Weight Oil & Gas Index ETF even though we saw oil prices pull back…… for more on this topic please listen to our podcast at bmoetfs.ca

Upcoming Event

Actionable Insights: ETF Ideas to Smooth Out the Market Ride with Chris Heakes and Rene Dinter

THIS 15-20 MINUTE SESSION WILL BE AVAILABLE TO STREAM FOR 3 MONTHS STARTING MARCH 31ST, 2022

Investors have experienced unparalleled levels of volatility and uncertainty in recent times. From the pandemic, to rising inflation, rate hikes, and geopolitical tensions, advisors are looking for new ways to mitigate investment risk and manage financial expectations.

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