Views from the Desk

Updates in the Equity and Fixed Income Market

Chris Heakes and Matt Montemurro, Portfolio Managers, BMO ETFs

ZEB – BMO Equal Weight Banks ETF Fee Reduction

With Banks beating earning expectations over the last few quarters, trading volume has remained high. Canadian Banks are well diversified businesses. Wealth management is coming in strong and loan loss reserves are being released back into earnings as COVID related loan pressures were less than expected. Forward looking, most analysts on the street have price targets for Canadian Banks in the low teens over the next year. Right now, banks haven't been allowed to increase their dividends due to regulatory reasons and we believe that once the banks are allowed to (potentially in the next 3 to 6 months) they will increase them by 10-15% to take them back to that historical level of 4%. We view the increase in dividends as a catalyst and can possibly push bank prices even higher than where they are currently. Overall, banks have been a productive asset for investors to have in their tool kit.

BMO has recently announced a fee reduction on ZEB - BMO Equal Weight Banks Index ETF from 55bps down to **25bps** (management fee). ZEB uses an equal weight approach to balance its basket of bank stocks. This means that at each rebalance, our portfolio managers are trimming (taking profits) from the outperforming banks and buying the underperforming banks. This provides a value and size tilt. Taking an equal weight approach over a market cap approach in this sector has proven successful if we look at the historical returns. ZEB also pays our monthly distributions instead of quarterly distributions. For more on the benefits of ZEB please visit Benefits of ZEB - August 23rd, 2021

ZMI – BMO Monthly Income ETF Fee Reduction

In addition to ZEB we recently announced a fee reduction on our ZMI - BMO Monthly Income ETF from 55bps to **18bps** (management fee) to be more in line with the rest of our Asset Allocation ETFs. ZMI is a balanced ETF with a 60% equity and 40% fixed income split. The ETFs we use in this portfolio have a high focus on income generation. We use ZDV - BMO Canadian Dividend ETF, ZDY - BMO US Dividend ETF, ZDI - BMO International Dividend ETF, ZWG - BMO Global High Dividend Covered Call ETF and ZPAY - BMO Premium Yield ETF. ZMI is rated low to medium risk and has been performing very well year to date as there has been a shift toward dividend paying securities in the market. ZMI has delivered strong sustainable income of approximately 4% and can be used as a great tool to increase yield.

The fixed income side of ZMI focuses on corporate credit which allows us to enhance the income potential of the portfolio while still maintaining the key risk characteristics (such as duration) that we want from the traditional aggregate exposure. ZCB - BMO Corporate Bond Index ETF and ZMU - BMO Mid-Term US IG Corporate Bond Hedged to CAD Index ETF both provide significant yield enhancement over government bonds of 65bps to 85bps. ZMI also uses ZHP to provide further enhancement and diversification to the fixed income side of the portfolio with low correlation to both bonds and equities.

To read our press release on Management Fee Reductions please visit BMO Asset Management Inc. Lowers Management Fee on BMO Equal Weight Banks Index and BMO Monthly Income ETF

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Fixed Income Rotation

We've seen a flattening of the yield curve by 40bps in both Canada and the US. This can be attributed to several things (with the Delta variant being the center of many of them). Canada and US continue to push for "going back to the office" while COVID cases continue to rise with the unvaccinated. Some of the flattening has come from a correction and we think that earlier in the year the market overshot with overoptimistic recovery expectations. From a performance perspective we have seen longer duration bonds outperform and we continue to see assets flow into these long duration and aggregate exposures. We don't expect this current economic recovery to be linear and positions like ZAG - BMO Aggregate Bond Index ETF do remain prudent. ZAG provides exposure to the entire Canadian universe and gives the investor diversification/protection to their portfolios. If you do expect pull back in the market and you want to add more duration to your portfolio look to ZFL - BMO Long Federal Bond Index ETF and ZTL - BMO Long-Term US Treasury Bond Index ETF

Inflation has been at the top of every investors mind. Earlier this year inflation breakevens were predicting that inflation was coming. The Consumer Price Index (CPI) wasn't showing much proof of that at the beginning of the year and then as of April we have seen CPI move higher month over month (much above than what the FED and Canada like to see). ZAG continues to provide diversification to deal with uncertainty on where to be positioned on the yield curve. A good compliment to ZAG would be ZTIP - BMO Short-Term US TIPS Index ETF to provide inflation protection to your portfolio.

Emerging Markets

We believe it is important to use Emerging Markets (EM) to compliment your holdings. The long-term secular growth of EM is a great theme and inflows have been picking up into EM as of late. The return to normalcy will take longer in certain regions within EM due to COVID. RBC came out with a report this morning that EM is at a 20% low compared to developed countries. Valuations are looking attractive right now and there are a lot of great tech companies and consumer companies within EM. Many investors are starting to take notice and we are seeing more flows into emerging markets. We believe it is time for investors to take notice and look at ZEM - BMO MSCI Emerging Markets Index ETF which is the largest EM ETF in Canada. ZEM is only 25bps and is a very compelling option with a strong track record and consistent performance returns.

*To learn more about BMO ETFs, please contact your ETF Specialist.

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Source: Bloomberg, All returns and data points July, 2021.
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