

Views from the Desk

Updates in the Equity and Fixed Income Market

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Factors

In the first half of 2021 the value and small cap factors outperformed. The second half of the year the value and small cap factors started to trade sideways, and Dividend and Quality factors started to pick up. The S&P 500 has done well throughout the entire year and has given us approximately 26% YTD. If we move past this pandemic phase and into an endemic phase it could move us into a goldilocks environment, to which we should see the small cap and value factors outperform the broad market again.

Over the last couple of months, we have started to see some slower growth. We think lowering equity risk is a smart thing to do right now. We have high conviction with the quality and dividend factors as core. Defensive factors such as dividends, low volatility and quality would sell off less if we see sharp downturns.

[ZUQ - BMO MSCI USA High Quality Index ETF](#), [ZDY - BMO US Dividend ETF](#), [ZLU - BMO Low Volatility US Equity ETF](#)

ZNQ and ZINN

We have seen some of these growth-oriented companies start to slow down the last few months based on potential headwinds such as Omicron. [ZNQ - BMO NASDAQ 100 Equity Index ETF](#) / [ZQQ - BMO NASDAQ 100 Equity Hedged to CAD Index ETF](#) and [ZINN - BMO MSCI Innovation Index ETF](#) do have similar top holdings however, once you look deeper into the portfolios, they are very different. The Nasdaq 100 started to trade sideways over the last month and we have seen a pull back in ZINN.

ZNQ/ZQQ is for investors looking for growth over the next couple of years and ZINN is an ETF that is expected to see growth over longer periods such as 5 to 10 years. Cathie Wood would say that any pullback in the innovation sector is a great opportunity to add to it with a longer-term time frame in mind. The Nasdaq 100 is an index that is focused on companies that are successful today whereas the Innovation index is focused on companies that are smaller with the hopes of potential growth over the long term. Investors should use the pull backs in the market as opportunities to add more to their ZNQ/ZQQ/ZINN holdings.

Short End of the Curve

Canada reported their CPI numbers at 4.7% for November. There is some volatility on the short end of the curve and expectations for the BOC went from 1 rate hike to 5 rate hikes throughout the year (2022 expectations). Assuming the BOC moves rates up 0.25% at a time, we see this as aggressive. If we see any lock downs, we may see the BOC take 1 or 2 rate hikes off the table. We will see a steepening of the yield curve. The short-term rates will move down, and mid terms would move higher.

[ZST - BMO Ultra Short-Term Bond ETF](#), [ZCS - BMO Short Corporate Bond Index ETF](#)

For more on this topic please visit [Trade Ideas & Podcasts | CANADIAN ETF DASHBOARD \(bmoetfs.ca\)](#)

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MSCI ESG Leaders

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MSCI ESG Ratings review controversies, which may indicate structural problems with a company's risk management capabilities. MSCI defines a controversy case as an instance or ongoing situation in which company's operations and/ or products allegedly have a negative environmental, social, and/or governance impact. A case is typically a single event such as a spill, accident, regulatory action, or a set of closely linked events or allegations such as health and safety fines at the same facility, multiple allegations of anti-competitive behavior related to the same product line, multiple community protests at the same company location, or multiple individual lawsuits alleging the same type of discrimination. Controversies are assigned ratings from "Minor" to "Very Severe" and are formed based on severity of their impact on society or the environment.

For more on ESG Investing please see [Understanding BMO ESG ETFs](#)

Top Sector Picks in Canada

We think the energy, industrials and banks are going to do well next year but we are more bullish on banks. We recently did a podcast featuring Chris Heakes where we talk about Canadian banks.

Please visit [Podcast: Decoding Q4 Canadian Bank Earnings](#) and [Canadian Banks Trade Report: ZEB and ZWB Dec 15th 2021](#).

To listen to BMO ETF podcasts please visit bmoetfs.ca.

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

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