

Views from the Desk

Updates in the Equity and Fixed Income Market

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Omicron Variant

The market was showing some signs of bouncing back today. We had a market shock on Friday once the news of the COVID-19 Omicron variant started. The market is at a fragile inflection point dealing with tapering and potential rate hikes in 2022. We think sticking to your asset allocation is key when looking at your portfolio. We believe quality and dividend stocks are a good place to be allocating your portfolio. Quality is overweight in technology however, the tech companies that are cash generative such as Apple Google and Facebook (they get their money up front) are the tech companies that should do well in any type of environment since they have strong balance sheets, high return on equity and stable earnings. To get access to our latest dividend trade ideas please visit [Getting Exposure to Increasing Dividends in Canada](#).

For more on dividend and quality factors please visit [BMO Dividend ETFs Methodology](#), and [BMO Quality ETF Methodology](#)

US Health Care and Genomics

Health care is a sector that has benefited from the Omicron news. Moderna is up significantly and is more of a pure play on the mRNA vaccines given that they're less diverse with their product line compared to a company like Pfizer. It is still unknown weather the current vaccines provide any protection against the new strains. The typical incubation period for the virus is about 2 weeks so we may not know how effective the current vaccines are going to be.

When looking at the short-term, medium-term and long term we believe the Health Care sector presents great opportunities. In short the Health Care sector is going to do well on the short term due to COVID/COVID variants, on the medium term due to the infrastructure bill recently passed (Medicaid is going to be expanded over the new infrastructure bill) and over the long term with the aging demographic. A great way to get access to health care is by using [ZUH - BMO Equal Weight US Health Care Hedged to CAD Index ETF](#)

Furthermore, within the Health Care space, [ZGEN - BMO MSCI Genomic Innovation Index ETF](#) is an innovation ETF that presents a lot of opportunity over the next 5 to 10 years. A lot of the smaller companies in this ETF have increased dramatically.

For more on innovation ETFs please visit [Disruptive Innovation Whitepaper](#)

Positioning around Banks

Office of the Superintendent of Financial Institutions (OSFI) relaxed their pandemic restriction on buy backs and dividend increases. Three Banks reported in the last few days and they have all increased their dividends an avg of 15%. Scotia beat expectations and has seen a resurgence in their international businesses. Royal Bank and National Bank had "in line" type of performance numbers and we think that analysts have finally caught up to where the stocks are currently. We have seen the provisions for bad loans come in smaller than expected, credit risk seems to be contained and trading revenue has come down while wealth management has grown strong. Three more Canadian big banks are still to report, and we expect more good news.

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To get access to Canadian Banks please see [ZWB - BMO Covered Call Canadian Banks ETF](#), and [ZEB - BMO Equal Weight Banks Index ETF](#)

Consumer Discretionary Sector

Consumer Discretionary has been getting a lot of tailwinds and have been benefiting from Black Friday and Cyber Monday. Companies like Amazon, Walmart and Target specifically have been doing well. Using an ETF such as [DISC - BMO Global Consumer Discretionary Hedged to CAD Index ETF](#) is a good way to play the economic trends. Consumer confidence has translated over to consumer spending which has been benefiting the Consumer Discretionary Sector. In Canada there is only 3.4% exposure to consumer discretionary (in the TSX) and using DISC can be a great way to add some of the best consumer discretionary companies in the world to your portfolio.

Short-Term Parking

Cash is a very useful asset class in a portfolio. Many investors will use cash as a parking spot before they decide to move into an investment. We just launched [ZMMK - BMO Money Market Fund ETF Series](#) today which holds cash and cash like instruments. For those looking at tax loss harvesting ZMMK can be used as a great tool because you can sell securities trading at a loss and apply the losses to capital gains in your portfolio without forcing it into a stock right away. A cash like instrument can provide investors with an alternative to short term bonds or stocks while they decide on where they need to invest their money.

Volatility

With an elevation in volatility we view a covered call strategy to be a great way to generate income. By applying a [Covered Call Overlay](#) on top of our dividend paying ETFs it will enhance the monthly distributions. There is uncertainty in the market right now around the Omicron variant and playing the market with covered call strategies or quality companies is a great way to navigate this type of market. Covered call ETFs are also a great way to save time instead of writing them on your own.

For a great way to navigate volatility we recommend using [ZPAY - BMO Premium Yield ETF](#).

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

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