

Views from the Desk

Updates in the Equity and Fixed Income Market

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Sectors for Current Volatility

When looking at sectors we like Financials and Energy. [ZEB - BMO Equal Weight Banks Index ETF](#) has broke out through its 50-day moving average and the technicals are looking really good. Canadian Banks historically have performed very well in a rising rate environment and are geared for economic growth. Furthermore, Canadian Bank P/E ratios look very attractive vs the broad market and typically as their share prices increase, so should their dividends. If you are looking for a Financials sector ETF that provides above average distribution yield look at [ZWB - BMO Covered Call Canadian Banks ETF](#) and our newly launched [ZWB.U - BMO Covered Call Canadian Banks ETF \(US Dollar Units\)](#) which is available on the TSX.

For the Energy Sector, having some cyclicity in your portfolio can be of benefit. Oil and Gas structural imbalances don't appear to be resolving any time soon and demand for oil and gas continues to grow. OPEC mentioned they would start to increase oil production by 400 barrels per day (by the month of March) however, OPEC has been falling short of expectations as of late. [ZEO - BMO Equal Weight Oil & Gas Index ETF](#)

The Technology sector is rate sensitive and over the last month a lot of big names sold off. We view the sell off as a great buying opportunity. With [ZWT - BMO Covered Call Technology ETF](#) you will get 30 large cap tech companies (such as Microsoft, MasterCard, Amazon) and with the volatility in the tech space. With the increase in volatility there may be a chance this ETF delivers above average option premiums [Covered Call, Derivatives & Volatility Report](#).

Low Volatility ETFs in a Rising Rate Environment

[ZLU - BMO Low Volatility US Equity ETF](#), was only down about (-2.4%) compared to the S&P 500 being down approx. (-4.3%) (CAD) in the month of January. Low vol has shown its characteristics by protecting the downside on an intramonth/intraday. Low Volatility strategies tend to be interest rate sensitive and when rates are moving, we do expect it to affect the low vol strategy however, it is important to consider portfolio construction and holding low vol ETFs in your portfolio can smooth out the ride when volatility picks up.

For more on low volatility ETFs please visit [BMO Low Volatility ETF Methodology](#)

ZGRN – BMO MSCI ACWI Paris Aligned Climate Equity Index ETF

Many companies are making announcements to become carbon neutral over the next 5-10-20 years. From an investment perspective we do want to invest in companies that have the least amount of risk globally. We would want to look at companies that have a credible mandate to become carbon neutral. We will want to watch these companies and how they deal with roadblocks along the way. Our new [ZGRN - BMO MSCI ACWI Paris Aligned Climate Equity Index ETF](#) tracks the MSCI ACWI Climate Paris Aligned Index which aligns with a 1.5°C temperature change climate scenario by integrating climate data into the investment process. MSCI's methodology uses state-of-the-art MSCI Climate analytics data with models including forward looking metrics with the goal to reduce the weight of companies that are high greenhouse gas emitters based on their complete carbon footprint. Reduce exposure to physical risk arising from extreme weather events by at least 50%. Shift from brown to green; move from fossil fuel related businesses with the goal to double green revenue exposure. Shift towards companies exposed to climate transition opportunities and underweights those exposed to climate transition risks. Selects and overweights companies with credible carbon-reduction targets and track records.

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For more on ZGRN please visit [BMO MSCI ACWI Paris Aligned Climate Equity Index ETF \(ZGRN\)](#)

Discount Bond ETFs

For those investors who have to hold bonds in their non-registered accounts, it is important to think about which type of bonds you would want to hold. With bonds you are taxed at your coupon rate when you receive your YTM. For instance, you may own a bond with a coupon rate of 4% and your YTM is only 2%, if that is the case, you're being taxed at a higher rate of 4% than the 2% income you've received. With [ZDB - BMO Discount Bond Index ETF](#) (which is your discount bond aggregate) we are buying bonds that have a coupon closer to its YTM. Last week we just launched 2 more discount bond ETFs [ZSDB - BMO Short-Term Discount Bond ETF](#) and [ZCDB - BMO Corporate Discount Bond ETF](#). We've recognized that advisors want more than the aggregate discount bond exposure. ZCDB focuses on Canadian investment grade corporate discount bonds with a maturity of 1-10 years. ZSDB focuses on short term discount bonds within 1-5 years and holds federal, provincial, and corporate bonds. For more on these discount bonds visit [Innovative Tax Efficient Low-Cost Bond Solutions](#).

Entry Points in the Market

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

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