# Views from the Desk

## Updates in the Equity and Fixed Income Market

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### Markets Calm

Putin has eased tensions in Ukraine as of late which has contributed to some lower volatility in the markets. Moreover, even though rising rates will have an impact on growth stocks such as tech, we have seen earnings from the tech companies exceed expectations which has calmed investors. The Fed and the BoC appear to be raising rates in March which seemed to further ease anxiety around how quickly the central banks will be raising rates in 2022.

This year we have been positioning Value and Dividend Factor ETFs. The S&P 500 is down about -5% where ZDY - BMO US Dividend ETF is down -0.9% ZVU - BMO MSCI USA Value Index ETF is down only -1.3% and ZWH - BMO US High Dividend Covered Call ETF is only down -0.7%. We are noticing Value and Dividends across the globe outperforming overall.

### Emerging Markets

Our ZEM - BMO MSCI Emerging Markets Index ETF has been showing some positive returns. We think there has been a mean reversion this year as there were struggles in 2021 for EM. Financials, Materials and Energy which is about 1/3rd of the index has performed well. Brazil, Saudi Arabia, and South Africa have been the top 3 contributors to performance in ZEM. Overall, China is being stimulative to their economy and we think there is more upside to come for China after a tough 2021. We still think EM exposure is important to your overall portfolio.

### Rate Increases in 2022

Both the Fed and BoC have held off on raising rates in January. The market continues to price in 6 hikes in Canada which would mean they would increase rates 6 out of 7 meetings left for 2022. We are a little more dovish than 6 hikes and think it may be around 4 which would bring us back to “more normalcy” without chocking out the economy. There could be a 50bps rate hike in March (vs the regular 25bp increases) but we don’t think it is likely. We have seen Fixed Income underperform for 2022 so far. Our ZAG - BMO Aggregate Bond Index ETF has a duration of 8 years but 1/3 of the portfolio is in short term bonds and 1/3 in medium term bonds which offers duration protection. We recommend complimenting a FI portfolio with ZBBB - BMO BBB Corporate Bond Index ETF which has credit exposure and a shorter duration than the aggregate. Additionally, ZFH - BMO Floating Rate High Yield ETF can compliment your FI as it has a strong yield with very little duration exposure.

Our new ETF ZBI - BMO Canadian Bank Income Index ETF which launches on Feb 10th (see our sales aid BMO Canadian Bank Income Index ETF (ZBI)) allows credit-oriented investors to get a yield pick up while anchoring to traditional fixed income from Canadian banks. The portfolio is divided into two broad components: bonds and hybrids. The ETF is reconstituted on a monthly basis in order to capture new issuance activity, while being rebalanced on a semi-annual basis back to its target allocation. There is an intra period buffer of +/- 5% where a rebalance would be triggered.

### Japan

Our new Japan ETF is an additional tool for asset allocators. Japan has a significant market when looking at major developed markets. There is a solid overall economy in Japan, and there are a lot of familiar names in ZJPN - BMO Japan Index ETF. Industrials and Consumer discretionary are some of the top sectors in the portfolio. Japan is known for low interest rates as is in line for cyclical exposure.

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