

Views from the Desk

Updates in the Equity and Fixed Income Market

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Clean Energy

We recently launched our [ZCLN - BMO Clean Energy Index ETF](#) on Jan 20th 2021. Clean energy has been a popular theme and is recognized by the long-term investor for its potential for high returns. Since 2016 there has been 1 trillion in financing in wind and solar assets. However, in the last year there has been 500 Billion in financing where bonds have been earmarked for green projects which proves there has been a lot of momentum into clean energy and ESG investing now more than ever. The biggest investor in markets is the government and the government can really move markets. Moreover, people want the governments to pursue more of a clean energy agenda. We think that clean energy is a megatrend that is going to play out in the next 5 to 10 years. If you look at renewable electricity right now, its about 25% of the world's electricity supply. The expectation is that renewable electricity is to go to 55% of the world's supply by the year 2050.

ZCLN is a global clean energy ETF with 78 holdings which includes large, mid and small capitalization companies across developed and emerging markets. ZCLN invests in 2 types of companies, Energy Renewable Producers (hydro solar and wind) and Equipment Providers that provide the technology (such as solar panels). We view ZCLN as a high return satellite position.

ESG Fixed Income ETFs

The Canadian industry is now over 1 Billion in ESG ETFs. We have started to see the flows amplify as investors increasingly align their financial outcomes with their ESG objectives. Companies issue debt more frequently than they do equity and more and more companies have been aligning their ESG priorities to their capital funding needs. In 2021 we are seeing a trend of green bond issuance in Canada and investors have been increasingly interested in pushing their ESG agenda.

We look at ESG fixed income as a way to limit downside risk. If you look at companies with higher ESG scores, historically they have lower default and downgrade risk. When you think about it, using ESG fixed income ETFs is an easy way to add a quality tilt to your FI portfolio. Investors can reach their ESG objectives without having to sacrifice risk characteristics like yield, duration, credit quality or diversification. At BMO we offer 3 different exposure types [ESGB - BMO ESG Corporate Bond Index ETF](#), [ESGF - BMO ESG US Corporate Bond Hedged to CAD Index ETF](#) and [ESGH - BMO ESG High Yield US Corporate Bond Index ETF](#).

BMO leverages the ESG experts at MSCI and we implement their ratings system into the index creation and the portfolio creation process. All securities within ESGB and ESGF have a minimum of a BBB credit ratings score excluding controversial sectors such as alcohol and gaming. We think it's a great way to add quality to your portfolio with out giving up yield or return.

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Autonomous Technology

[ZAUT - BMO MSCI Tech & Industrial Innovation Index ETF](#) is a megatrend ETF that was launched in Jan of 2021 and is a subtheme of our innovation suite. ZAUT is a great way to catch the ongoing themes we see in the news such as space travel. The holdings include industrial automation & manufacturing, autonomous vehicles, artificial intelligence, machine learning, and robotics. Technology-enabled innovation is accelerating faster than ever before. The industrial and manufacturing space, in particular, are capitalizing on major advances that range from 3D printing and drone deliveries to driverless cars, robots and space travel. Within the next 10 to 15 years there is potential for space tourism to pick up over time. Machine learning A.I, robotics, and vehicle automation is some of the highest weights within the ZAUT ETF portfolio.

When constructing these innovation ETFs, we rely on MSCI. MSCI will look at market cap and innovation scores (innovation score X market cap) and weight them accordingly. The portfolio is self rebalanced, and you have less risk of having too much exposure to companies that aren't performing. ZAUT is rated medium risk and has high return potential over longer periods of time.

Canadian Housing and Mortgage Backed Securities

Historically low interest rates have sent housing prices up and there has been significant upward pressure on homes in major cities. We are starting to see it cool a little bit. Historically a rising rate environment should naturally cool and bring down valuations/prices of some of these expensive homes in Canada.

In the U.S Mortgage Backed Securities (MBS) are more speculative in nature vs Canada. Volatility in Canada cooling down has very little impact of the stability of our Canadian MBS. The MBS in Canada are NHA 5-year pools that are fixed and have to refinance over 5 years. All bonds purchased in the portfolio are fully insured by the CMHC. The holdings are 100% guaranteed by the government. Our view [ZMBS - BMO Canadian MBS Index ETF](#) will continue to be stable. For more information on ZMBS visit [Mortgage-backed securities: Guaranteed by the Canadian government](#).

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

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