

Views from the Desk

Updates in the Equity and Fixed Income Market

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Positive Catalyst in the Market

We have seen investors calm down from interest rate hike/inflation fears. 10-year yields have come back down a few basis points and breakevens have come down to levels we saw at the beginning of the year. 50 basis point increases are expected from central banks (U.S. Canada) over the next 2 meetings. Economic data will determine if what the central banks are doing is working. We believe we may have seen a floor in the equity markets. [ZSP - BMO S&P 500 Index ETF](#) has climbed about 6% off the bottom due to large cap technology companies and financials performing well. Defensive sectors are still performing as expected. We think there is still room for markets to go up by the end of the year led by the U.S. All eyes will be on inflation prints and GDP numbers.

Short Provincial Bonds

We have a provincial election this week and we everything to remain status quo with a Conservative party win. Provincial bonds have performed well this quarter. Corporate spreads widened; however, provincial spreads have remained firm. If you want to reduce your risk in the corporate bonds, we'd recommend provincial bonds over federal bonds. [ZPS - BMO Short Provincial Bond Index ETF](#), [ZMP - BMO Mid Provincial Bond Index ETF](#) and [ZPL - BMO Long Provincial Bond Index ETF](#) are strong options to enhance your yield, have less credit risk, and lower your corporate exposure. On the flip side from a contrarian point of view, we are seeing corporates starting to look attractive from a long-term perspective. If there is a risk on tone in the market corporate bonds could be an attractive entry point right now. [ZCS - BMO Short Corporate Bond Index ETF](#)

Update: BoC raised rates by 50bps today

ESG Leaders

Elon Musk has expressed his dissatisfaction regarding Tesla... For more on this topic please visit bmoetfs.ca/trade-ideas-podcasts

Global Infrastructure

We have seen strong performance from our [ZGI - BMO Global Infrastructure Index ETF](#). Investors are looking to alternatives to beta. Defensive investors have started to turn to ZGI on the institutional side. From an attribution perspective in an inflation perspective infrastructure is very well positioned. From the revenues and cash flow perspective infrastructure is long term in nature and linked to inflation so you have a natural hedge to protect yourself. This is a key factor for investors to protect themselves from an inflation drag and looking for companies that have resilient business models.

Canadian Banks

There has been a lot of positives from bank earnings. Loan books and mortgages have been strong with Canadian banks. Cost pressures are moving up along with loan loss provisions due to economic slowdown on the horizon. We saw dividends go up around 5% across the major banks and remain a great place to be for income-oriented investors. Bank of Montreal and TD have closed some business across the boarder, and we expect these two banks to slow down on dividend increases until their transactions are in the rear-view mirror. Investors that are looking at how to play the banks going forward [ZWB - BMO Covered Call Canadian Banks ETF](#) is particularly attractive since there is an option premium added to the dividend and [ZEB - BMO Equal Weight Banks Index ETF](#) is a great place to be if you're looking for more growth potential.

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Source: Bloomberg, All returns and data points May, 2022.

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