

# Views from the Desk

Updates in the Equity and Fixed Income Market

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## **G7 Corporate Taxes and the Impact on the Market and Technology**

Achieving consensus throughout the G7 can be somewhat difficult. There are a lot of details that still need to be settled. The press release was very brief which indicates that we are in the preliminary stages. The movement to increase the tax rates globally does impact IT companies a little bit more than the average.

Trumps corporate tax cuts were a big portion of his policies. The S&P 500 avg tax rate 5 years ago was about 27%, in 2020 it was 18%. Tech companies have been lower than the average at around 15% in 2020. We think this will be addressed. There may be some client concern that may lead to volatility in the short term. However, if corporate taxes increase, we don't think the magnitude will be a great shock. Some companies may be more impacted than others. Which is why investing in ETFs can be helpful. Spreading out your concentration risk such as investing in ZNQ – BMO Nasdaq 100 or ZQQ – BMO Nasdaq 100 Hedged, you have 100 companies to potentially minimize volatility.

## **Currency and ZEF - BMO Emerging Market Bond ETF**

With Emerging Market (EM) debt, there are 2 levels of currency. US dollar denominated currency (hard currency), and locally denominated currency (soft currency). US dollar denominated for EM debt tends to be more stable, and widely accepted among foreign investors. Locally denominated currency for EM debt tends to be less stable. Other than defaulting, the way out of debt for issuing countries, is to devalue their currency or to inflate their way out of debt.

Thus, we use US dollar denominated debt for our ZEF - BMO Emerging Markets Bond ETF as it tends to avoid issues that relate to devaluation or inflating your way out of debt. ZEF uses a smart beta strategy and it will tilt towards countries that have a stronger GDP profile. ZEF is 72% invested in IG companies to eliminate default risk. We have been bullish on EM debt for the last 6 months.

Furthermore, from a currency point of view, ZEF is looking great. USD weakness makes it a lot easier for EM countries to pay back their debt as EM local currency appreciates to the USD. The CAD has been on a big run as of late and until the FED starts talking about tapering (maybe in late Q4) we will see the CAD increase to the USD. Additionally, ZEF is hedged to mitigate currency risk. Overall, EM debt can be a good way to get yield for income investors.

## **Innovation ETFs and the Collaboration Between BMO and ARK Invest**

The rationale for innovation companies is that it is going to drive growth, and growth is going to drive equity returns. The idea is to try and identify growth companies in the early or in the mid stages. Cathie Wood (CEO and CIO of Ark Invest) is looking out 5, 10, 15 years and more. We are seeing Artificial Intelligence, Automation and FINTEC playing a big roll right now. Long term trends are really starting to play out.

BMO Innovation ETFs such as ZINN – BMO Innovation Index ETF is based on an MSCI index. The MSCI index is in collaboration with ARK. MSCI is a very seasoned index provider who provides robust, diversified innovation indices for BMO. ARK is more

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concentrated, fundamental, active investing. This has been a great partnership overall and can be a good compliment within a portfolio.

Currently, we've been seeing a bounce back in Tech. We are starting to see the 10-year rates coming down. Innovation ETFs such as ZINN are expected to offer a higher rate of return over a long period of time.

### **Investing in Canada vs US**

We have seen a lot of institutional flows going into our ZSP – BMO S&P 500 ETF over the last month. These flows don't always relate to sentiment however, it is a good demonstration of how an ETF can absorb institutional sized tickets with very little or no market impact at all.

In terms of Canada vs the US. We really like Canada right now. With the economy opening up, we expect financials, energy and materials sectors do well. This plays well for Canada. We expect oil demand to have upward pressure since everyone will be commuting more again. Furthermore, a steeper yield curve is the type of yield curve that will do well for banks that do a lot of lending.

ZCN – BMO S&P Capped Composite ETF started the year at approx. 4.5 Billion market cap. It is now at approx. 6.5 billion, partially by market growth but, also from flows from institutional and retail investors. ZCN is a great way to play Canada from a broad-based point of view.

Another great way to trade Canada is ZVC - BMO MSCI Canada Value ETF. Along with the three sectors we see set to outperform (financials, energy and materials), you will also get the more favoured value trade (at the moment) with ZVC which focuses on three fundamental variables; price to book value, price to forward earnings and enterprise value-to-cash flow.

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

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