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Views from the Desk

Updates in the Equity and Fixed Income Market

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Recession bound?

If we see the Fed continue to raise rates aggressively, we may see anther inversion in the yield curve. The last quarterly GDP print out of the U.S was a cautionary indicator. If supply chains continue bottleneck as we continue to raise rates, we don't think that will be stimulative to the economy. Back in 2008 and 2020 the Fed was very willing to ease interest rates and implement QE. In the current environment (given that the primary concern is inflation) the Fed isn't going to be able to do the same thing they did in 2008 and 2020 until inflation is under control. As long as there is inflation the Fed is going to remain hawkish. We think the best way to play the market is to concentrate on asset allocation and ride out these downturns. ZLU - BMO Low Volatility US Equity ETF, ZUQ - BMO MSCI USA High Quality Index ETF ZST - BMO Ultra Short-Term Bond ETF, ZBI - BMO Canadian Bank Income Index ETF.

Sell in May and Go Away?

Selling your portfolio in May and buying it back in November can be a risky strategy. Timing the market is extremely hard to do and doesn't always work out the way we think it does. September and October historically have seen some downturns in the market however, we have noticed that June and July have been very strong seasonally. Furthermore, historically April has been a strong month for the markets, but we have seen the market drop approximately 8% this year (in April).

We do recommend that investors to stay invested and stick with their asset allocation however, if you really would like to take advantage of seasonal strategies we suggest only doing so with a portion of your portfolio. Consumer Staples tend to outperform months of May to November. Typically, STPL - BMO Global Consumer Staples Hedged to CAD Index ETF is seen as a defensive/ "risk off" strategy, on average. From November to May historically we've seen the Consumer Discretionary companies outperform DISC - BMO Global Consumer Discretionary Hedged to CAD Index ETF. For more on this topic please visit bmoetfs.ca/trade-ideas-podcasts.

Markets Oversold

CPI is one of the key indicators on whether the Fed becomes Hawkish or dovish. We need moderation in inflation for the equity markets to bottom out. Today, we did see inflation numbers print in the U.S. slightly lower than the peak but not as low as the market wanted. To mitigate risk we recommend using ZLU - BMO Low Volatility US Equity ETF which is up 3% compared to the S&P 500 at -13.5% (CAD).

For FI we are looking at the number of rate hikes priced into the market. At the moment we are seeing 8 more rate hikes being priced in before the end of the year. With only 5 more meetings this year, that means we could see a few more 50bp rate hikes. From our point of view, we may see the BoC become less hawkish than the market is anticipating.

Get Paid While You Wait

Those who are expecting some continued choppiness and want to stay invested may want to take a look at BMO's covered call suite of ETFs and get paid while you wait. ZWC - BMO Canadian High Dividend Covered Call ETF and ZWH - BMO US High Dividend Covered Call ETF have been outperforming the broad market and paying 6.3% and 6.1% distribution yield.

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