Views from the Desk

Updates in the Equity and Fixed Income Market

Matt Montemurro and Chris Heakes, Portfolio Managers, BMO ETFs

Infrastructure Bill Passes

This is one of the largest US infrastructure bills to pass in history. Some of the allocations are; 110 billion to roads and bridges, 39 billion to modernize public transit, 66 billion to passenger rail, 65 billion to broadband and internet, 108 billion to the electric grid, 25 billion in air transit and so on. Sectors such as materials, industrials and transportation are going to benefit and is expected to continue its bull run. Our ZIN - BMO Equal Weight Industrials Index ETF should benefit directly from this new deal. Overall, this new infrastructure bill should be a benefit to the broad market ZSP - BMO S&P 500 Index ETF.

China and US Relations

Recently China and the US had a video conference call that seemed to be productive. The Chinese economy is very intertwined with the world economy and we believe it is of best interest for the US to come to the table and figure out some diplomatic solutions with China around trade. It has been good to see some progress with these 2 countries and there certainly is room for negotiation between them. Emerging Markets are about 15% of the MSCI ACWI index and China is about 40% of that and is continuing to grow. Within China there has been a rise in the middle class and there appears to have a lot of growth opportunity. Consumer and Technology sectors in China continues to grow strong. EM had pulled back in the last year and there is still a great entry point available to us right now. ZEM - BMO MSCI Emerging Markets Index ETF is a consistent outperformer within the emerging markets category.

We recently announced an index change for our ZCH - BMO China Equity Index ETF from the S&P/BNY Mellon China Select ADR Index to the MSCI China ESG Leaders Index. The holdings within ZCH will be increasing from 58 constituents to 178 constituents. We view this change as a positive. The Chinese local market has matured as the Index represents over 2.5 trillion (USD) in market cap, from 1.1 trillion (USD) 5 years ago.

Inflation and Rising Yields

YTD, we have seen some underperformance in EM debt. We are a little concerned about volatility going into 2022. Inflation is starting to plague these EM economies and supply chain issues and labour shortages are limiting output. Lower expectations on global growth can be concerning for EM bonds in the near term. Evergrande (and some of the real estate issues they've been having) are threatening the entire Chinese economy. Spreads remain around historical norms however, there has been some widening as of late.

There seems to be more downside around yield for EM at the moment than upside. If you are looking for yield in your portfolio, we would want to look at ZHY - BMO High Yield US Corporate Bond Hedged to CAD Index ETF which has a 4% yield and a duration of approximately 4 years. ZFH - BMO Floating Rate High Yield ETF could also be a way to enhance yield within your portfolio and avoid interest rate risk. We see fewer headwinds within high yield and most high yield issuers are well funded for the next 2 years. In a rising rate environment High Yield is less correlated, more resilient and less sensitive to rising interest rates because of the additional credit spreads from these lower rated issuers.

Views from the Desk

Updates in the Equity and Fixed Income Market

Value Factor

The value reopening trade started mid 2020 and really took off. In the US there has been a slowdown however, value is still keeping up with the broad index. In Canada value has continued to grow strong and has remained the case. Overall, the economic reopening is still happening, and we are still yet to see the full impact. Value stocks should have strong earnings relative to their price and should continue to get stronger as long as the economic reopening remains strong. Shopping centers in the US are above pre-COVID levels and retail REITs are rallying. The fact that we are in a rising rate environment should play well for Value as well. Value stocks will have a lot of current cashflows coming in and rising rates will have less of an impact on value companies. The value factor should outperform as yields increase.

For value solutions please see ZVC - BMO MSCI Canada Value Index ETF and ZVU - BMO MSCI USA Value Index ETF.

To listen to BMO ETF podcasts please visit bmoetfs.ca.

BMO ETF podcasts are also available on

Listen on Apple Podcasts Spotify Listen on Google Podcasts

Source: Bloomberg, All returns and data points November, 2021.
Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

The viewpoints expressed by the Portfolio Manager represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time without any kind of notice. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. The statistics in this update are based on information believed to be reliable but not guaranteed. This communication is intended for informational purposes only.

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. ("MSCI"), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

Commissions, management fees and expenses (if any) all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently, and past performance may not be repeated.

For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the prospectus. BMO ETFs and ETF series trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.