

Views from the Desk

Updates in the Equity and Fixed Income Market

Chris McHaney and Chris Heakes, Portfolio Managers, BMO ETFs

COP26

The United Nations Climate Change is much more important than it was in the past as more and more countries are committing to aggressive plans on climate change. China's current plan is to peak carbon emissions by 2030 and reach net zero by 2060. Coal has by far the greatest impact on the climate of all the fossil fuels, and also has damaging impacts on air quality. The G7 nations in June committed to scaling up technologies and policies to transition away from unabated coal power, and to end any government finance for domestic or overseas coal power.

Canada is looking to become net zero by 2050. It is becoming clearer that if companies are not willing or able to become "greener" they will pay an economic price. Our clean energy ETF [ZCLN - BMO Clean Energy Index ETF](#) focuses on renewable power generation. Renewables are about 25% of energy production and are expected to go from 25% to 50% by 2050 which is a massive increase (and will take a massive investment to get there). Furthermore, we just recently rebalanced ZCLN from 75 names to 81 names and there is now an ESG screener added to it. Our view is ZCLN is a long-term trend that will play out over decades.

For more on clean energy please visit [Clean Energy - The Global Transition](#)

ESG

At BMO we use the MSCI ESG rating framework since they are the worlds largest provider of ESG indexes. MSCI's ESG rating framework monitors and evaluates companies on material environmental, social, and governance issues to generate an overall ESG rating from AAA to CCC. ESG data is gathered from government and NGO datasets, company disclosure documents such as proxy reports and sustainability reports, and public media sources on 37 key ESG issues selected annually for each industry to form an ESG risk assessment. Unlike bond ratings which are across the investable universe, these ratings are determined within sector and industry for a per to peer approach. Once the Key Issues have been selected for a GICS Sub-Industry, weights are set that determine each Key Issue's contribution to the overall rating. Each Key Issue typically comprises 5-30% of the total ESG Rating. Issue scores and weights are combined to generate the overall ESG rating relative to industry peers. The MSCI ESG portfolios have an inclusionary approach for each sector and are compared to their individual sector.

For more on ESG please visit [Understanding BMO ESG ETFs](#).

US Snowbird ETFs

As US borders open up to Canada, we are anticipating a more regular environment for the snowbirds. Our ".U" ETFs trade in US dollars on the TSX. BMO now has 18 tickers available in ".Us". [ZDY.U - BMO US Dividend ETF \(USD Units\)](#) and [ZWH.U - BMO US High Dividend Covered Call ETF \(US Dollar Units\)](#) are very popular amongst the snowbirds since they generate both yield and growth opportunities. ZWH will give you about a 6% net income rate in US dollars. We also have broad index ETFs available such as [ZSP.U - BMO S&P 500 Index ETF \(USD Units\)](#). On the Fixed Income side, some of our popular USD ETFs are [ZUS.U - BMO Ultra Short-Term US Bond ETF \(USD Units\)](#), and [ZTIP.U - BMO Short-Term US TIPS Index ETF \(USD Units\)](#).

To see more on our US ETFs please visit [Getting a Handle on the Impact of Currency](#)

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China

China's GDP is reading at 4.9% which is slightly below pre-COVID levels. There is an increase in government regulations this year in the internet, education and gaming industry. Equity investors typically prefer less regulations on companies/sectors so, there are some concerns around Chinese equities due to these increased regulations. The Evergrande situation has slowed things down in China as well. There is some geopolitical tension still at large with the US which started with Trump and has continued on with Biden.

Overall, there are a lot of risks with China however, risks can create opportunities. Valuations have started to look more attractive. Our view is exposure to emerging markets shouldn't be ignored and is important for a portfolio diversification. Valuations in an ETF like ZEM present a great entry point. [ZEM - BMO MSCI Emerging Markets Index ETF](#) is a consistent outperformer within the emerging markets category.

ZSP - BMO S&P 500 Index ETF

The [ZSP - BMO S&P 500 Index ETF](#) is a large, liquid, transparent ETF at a low cost. ZSP is now the largest ETF in Canada. Not only do we see massive inflows into this ETF from individual investors, we see big inflows from institutional investors as well. The S&P 500 is one of the most efficient indices in the world and has been doing great this year. In October, what has been driving performance has been tech related companies as earnings came through very strong in the last quarter. Tech has a 28% weighting in ZSP. Financials and Energy have also been leading performance YTD and is 14% of ZSP (11% financials and 3% energy). ZSP is a nice diversified extremely liquid portfolio and is a great building block.

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

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