

Views from the Desk

Updates in the Equity and Fixed Income Market

Alfred Lee and Chris Heakes, Portfolio Mangers, BMO ETFs

Earning Season Kick-off

Earning season is on an uptick at the moment lead by US financials. The earnings season for US banks is another positive tailwind for a sector that has already done very well. Valuations for US banks are still attractive, the PE ratios are about a 13 times current earnings vs the broader S&P 500 of 26.8 times current earnings. US financials is a great place to focus when buying on a dip. [ZBK - BMO Equal Weight US Banks Index ETF](#)

If you look at investor behavior over the last couple of months, they have been focused on earnings and the quality of earnings vs sentiment and momentum (which we think is healthy for the market). We look to focus on high quality stocks. [ZUQ - BMO MSCI USA High Quality Index ETF](#) going forward looks attractive since the market is starting to move away from “higher beta reopening trades” given the macroeconomic worry such as China, inflation and Fed tapering.

Quality is well positioned to deal with all of these headwinds. A lot of these quality companies have competitive advantages in their respective sectors and has a greater ability to pass on these higher input costs to the end consumer. Furthermore, as rates rise and the yield curve starts to steepen because these companies have low financial leverage/low debt load they will be better positioned than the overall market. The areas we are looking at is and ZUQ.

Currency and Currency Hedging

We’ve seen the USD trade around 1.23 right now which is close to the long-term average of 1.25. As risk has come on the USD strength has weakened. Energy prices are strong, and a Canada rate hike would point to Canadian dollar strength. The estimates on the street are viewing the USD to lower to approx. 1.22. For a balanced investor we believe it is prudent to have 15% to 20% exposure to USD in their portfolio from a strategic point of view. From a tactical point of view, we look to be slightly overweight towards hedged right now. For more about currency, please visit [Getting a Handle on the Impact of Currency](#)

Natural Gas

Initially there was a surge in Natural Gas prices since had been driven due to the shortages in Europe. Russia recently said they would boost supply to Europe however, that remains to be seen. We believe Russia is using the natural gas supply as a bargaining chip to build a pipeline between Russia and Germany. As of right now it doesn’t look like there will be an end to the energy crisis even if Russia does build a pipeline. Countries have committed to aggressive timelines of committing to carbon neutral and clean energy. The demand to hit the grid come winter will be apparent and when we start moving from “work from home” to “back to work” we anticipate many people will be using their cars to get to work and the demand for gas will be even higher. A great play right now is [ZEO - BMO Equal Weight Oil & Gas Index ETF](#).

For more on oil and gas, please visit [The Oil Trade Revisited](#).

Views from the Desk

Updates in the Equity and Fixed Income Market

The VIX and Covered Calls

In our [BMO Covered Call ETF Methodology](#) we are actively adjusting the strike price to generate yield. The VIX hitting the “15s” still isn’t as low as the pre-COVID levels. We do stick to our goal of generating yield and keeping our upside potential in our covered calls. Overall, we should likely see volatility spike up again with uncertainty around fed tapering and rates rising. We are able to achieve some great yield right now and the market is still at historical averages.

For more on our covered calls please visit the [Monthly Derivatives Report](#).

To listen to the **full** BMO ETF podcast please visit www.bmoetfs.ca/en/#current-podcasts.

BMO ETF podcasts are also available on



Source: Bloomberg, All returns and data points September, 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.

®/™Registered trade-marks/trade-mark of Bank of Montreal, used under licence.