Views from the Desk

Updates in the Equity and Fixed Income Market

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Rogers Communications

Rogers hasn't performed well over the last little while. Edward Rogers was looking to fire their CEO, and other board members including members of the Rogers family voted against removing the CEO and in turn voted to remove Edward Rogers as chairman of the board. The Rogers family still owns 97% of the voting shares of Rogers Communication. All the shares are held in a controlled family trust which Edward Rogers is also chairman of. Edward does have the control to remove certain members of the board however, it is confusing as to who exactly has most of the control.

We believe that this whole situation is going to play out in court and decisions aren't going to be made immediately as it could be a long process to determine who exactly has control over Rogers Communications. Until then it looks like the stock price will be moving sideways for awhile.

Diversification is important in your portfolio especially when owning sector funds. Furthermore, using an equal weight methodology can lower your diversification risk (don't necessarily want to be overweight in 2 or 3 companies within a sector ETF). As volatility increases, we will increase the room for growth and write further out of the money. We will write further out of the money on Rogers and allow a little extra premium to grow on the company. We own rogers within our ZWU - BMO Covered Call Utilities ETF.

Low Volatility Strategies

Our BMO Low Volatility Methodology The selection universe consists of mature securities that are the largest and most liquid. Next, the remaining securities are ranked by beta and the lowest betas are selected. The beta used for weighting purposes is calculated using 5 years of market data, with 25% weight placed on the most recent year, 22.5%, 20%, 17.5% and 15% in prior successive years. The portfolios are rebalanced semi-annually, where security weights of the existing holdings are adjusted to reflect changes in their beta.

We rebalance twice a year and if the volatility increases too much the holding can either be underweighted or kicked out of the portfolio. Regarding Rogers Communications we will be keeping an eye on the company and consider what we will do during our next rebalance that is coming up soon. ZLB - BMO Low Volatility Canadian Equity ETF, ZLU - BMO Low Volatility US Equity ETF

Transitory Inflation to Real Inflation

If you ask the Fed, they would definitely say that inflation is transitory in nature. People are starting to recognize that inflation right now is actually sustained or more durable than what we initially thought. The CPI last measure came in at 5.4% and Canada came in at 4.4%. If you look further out over the next couple of months, it is hard to rationalize how inflation is going to normalize within the next 12 to 18 months. A major concern is that when all markets reopen, demand could come back online faster than supply can keep up.

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Updates in the Equity and Fixed Income Market

The Bank of Canada (BOC) is most likely be first to raise rates (between US and Canada) and the outlook when that is going to happen is pointing to approximately April of 2022. Higher commodity prices and record household debt still remains an issue on how fast the BOC can raise rates and how many times within a short period. The BOC will have to move slowly. The Fed on the other hand has outlined their plan in terms of tapering. The Fed plans on tapering over the next 6 months and then take a break over the next 6 months after that. However, given the economic recovery and the pace of inflation we are seeing that there is a possibility the Fed will move faster.

There are very limited areas in which you could navigate around duration risk right now. For our ZST - BMO Ultra Short-Term Bond ETF and ZUS.U - BMO Ultra Short-Term US Bond ETF (USD Units) we buy bonds that hold bonds until maturity and we only bonds that are under a year. ZST and ZUS.U is a great way to stay short on the yield curve and a great way to protect yourself from in a rising rate environment.

Entry point in Emerging Markets

We are starting to see our ZEM - BMO MSCI Emerging Markets Index ETF stabilize and a big part of that is because of China. China has been hinting that it doesn't want to bail out Evergrande. It seems like China has taken steps to calm the market and told its regulators to ease credit for home buyers and injected 19 Billion USD into the banking system as well. China also bought out Evergrande's stake in a struggling bank and they are also looking to support the healthy developers in the market as well.

There is no Evergrande exposure in ZEM and when you look broader into the ETF real estate is approximately 1.9% across all countries in ZEM. We expect to see some slower growth out of China but the middleclass within China is growing and the middle class tends to spend money. We don't feel it is necessary to go all in on ZEM however, we believe it is important to keep emerging markets as part of your portfolio and now is a great entry point.

Infrastructure

In the US, we are seeing a stall on the infrastructure bill. In the house we are seeing progressives holding off until they get their terms on a social safety expansion bill. In the senate we are getting held up because there is debate on getting the top line cost of the spending bill to be reduced from 3.5 trillion to between 1.5 trillion and 2 trillion. Regardless, we believe a form of the infrastructure bill will pass. North American infrastructure is outdated and needs to be revitalized and this could look great for ZGI - BMO Global Infrastructure Index ETF.

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