Views from the Desk

Updates in the Equity and Fixed Income Market

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US Banks and Canadian Banks

Yields in the US bottomed out at the end of July and the yield curve has started to steepen. A steep yield curve is a positive for US Banks in terms of their business (borrowing short term and lending long term). Having a steeper yield curve allows the US banks to increase their margins. Furthermore, a steep yield curve indicates strong growth into the future of the economy. Additionally, capital return program purchases in the US have been given the go ahead to resume practices (dividend increases, stock buy backs). It has been a great environment for the US banks to outperform.

Historically, Canadian banks pay out higher dividends and are less volatile than US Banks. Regulators in Canada haven't removed restrictions to allow Canadian banks to increase dividends and stock buy backs thus Canadian banks haven't had the same tailwind as US Banks but still remain great performers for Canada.

To get access to US and Canadian Banks please see ZBK - BMO Equal Weight US Banks Index ETF and ZEB - BMO Equal Weight Banks Index ETF.

Energy

Demand for energy has increased in the last few months. The International Energy Agency increased oil demand expectations for the fourth quarter. Natural gas demand in Europe has surged over the last couple of weeks due to the colder weather. Natural gas hit an all time high at 5.84/Billion BTU. Oil WTI reached $75, and Brent crude broke through $80 yesterday. ZEO - BMO Equal Weight Oil & Gas Index ETF is up 11.3% YTD and the TSX is down approximately 1.7% YTD. If you are bullish about Energy, Canadian Energy could be of benefit to your portfolio as Canadian producers give you exposure to oil and natural gas. ZEO will give you exposure to the entire energy sector and allows you to be diversified across many names and avoid diversification risk.

Fixed Income

We are seeing some repricing in the bond market. The Fed has been hinting at tapering over the summer. The market needed to digest the news the Fed provided last week. We've maintained the call to overweight equities and to consider some repositioning on the fixed income side. Funding costs have gone up and companies want to borrow now before it goes any further. ZAG - BMO Aggregate Bond Index ETF will give you low cost, breadth and liquidity. We recommend complimenting your fixed income portfolio with ZPR - BMO Laddered Preferred Share Index ETF to protect you against rising interest rates and ZTIP - BMO Short-Term US TIPS Index ETF to protect you against inflation.

Covered Call Tech

We have seen significant advancements in new age technology as the world has shifted to be more digital and we have seen the FAANG (Facebook, Apple, Alphabet, Netflix and Google) stocks greatly influence consumers and our economy. Advisors have been looking to generate income off of the equity side of their portfolio and they can now do that with ZWT - BMO Covered Call Technology ETF.

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ZWT provides exposure to new age technology companies, benefiting from the growth of the technology industry while also providing sustainable income through covered call writing.

The ZWT portfolio is about three quarters tech and one third in broader tech (Consumer Discretionary and Communication Services). For ZWT's methodology, we look at the largest North American technology and technology related companies based on market cap ~ 30 stocks. We have a security cap of 7.5% and write out of the money call options on approximately 50% of the portfolio. We will write further out of the money to generate greater upside potential compared to our other Covered Call ETFs.

*To learn more about BMO ETFs, please contact your ETF Specialist.

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