Views from the Desk

Updates in the Equity and Fixed Income Market

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Fed Rate Hikes

The U.S Fed has just raised the overnight rats by 0.25 bps which was largely expected by the market. They also signaled that they are not done with the hiking cycle. The market initially dropped on the news but then spiked higher towards the end of the day. The market does not seem to agree with the fed in that more rate hikes are coming. Technology stocks which are very rate sensitive rose the most in terms of sectors.

Fixed Income Space and ideas

Investment grade bonds are a good place to be with rates likely to stay high, quality bond issuers will have an easier time paying higher yields and rolling over their debt going forward compared to non quality issuers. Two ETFs to look at given the rate environment we are currently in ZMU- BMO Mid-Term US IG Corporate Bond Hedged to CAD Index ETF currently yielding 4.9% and ZCB- BMO Corporate Bond Index ETF currently yielding 4.7% both offer exposure to investment grade space.

Inflation

Downward trend is starting with CPI starting to come slowly lower. Investors still need to hedge themselves against high levels of inflation currently 6.3% year over year CPI as of December in Canada. Many issues around the world are keeping certain areas like food inflation high with the war in Ukraine continuing and poor crop yields due to weather around the world and higher transportation costs as energy and input costs have kept inflation sticky in food prices.

Good trade idea for food inflation to look at ZEAT- BMO Global Agriculture ETF, has a quality screen in its selection process that has exposure to the most profitable companies involved in the food and food production process.

Another place to look at is Infrastructure as companies in this space generally have their revenues indexed to inflation, investors can use BMO- Global Infrastructure Index ETF as hedge and satellite as CPI remains

Equity factors

Value could outperform in the first half of the year as the market will remain very concerned with central bank's rates and potential continued rate hikes. Investors can look at BMO MSCI USA Value Index ETF or BMO MSCI Canada Value Index ETF to gain access to value factor equities which tend to perform better than growth companies in raising rate environments. Towards the second half of the year as rate hikes will likely pause in North America quality factor could outperform as it has acess to alot of growth equities, investors can use ZUQ-BMO MSCI USA High Quality Index ETF or ZGQ- BMO MSCI All Country World High Quality Index ETF

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Sectors

In 2022 energy largely outperformed as a sector as energy prices rose with inflation and the war in Ukraine. For investors looking to get access to the sector but who are concerned that most of the growth has already happened they can look to our new covered call ETF, ZWEN-BMO Covered Call Energy ETF. This ETF offers monthly yield generation via a covered call overlay that is employed on about half of the portfolio. This strategy allows investors to get a high level of regular distributions and participate in some growth in the future of the underlying stocks as options are only written on half of the portfolio.

ARKK has had a very strong start to 2023 has investors are becoming interested in innovation and growth names. Investors can gain access to Cathie Wood of ARK Investment Management LLC strategy without the need to exchange currency and purchase over a U.S. stock exchange through ARKK- BMO ARK Innovation Fund ETF Series. The space is well positioned as most of the pain of raising rates has been felt and as rates begin to stabilize this type of strategy could perform well in 2023. ARKK can be used as a growth sleeve and to add diversification to a portfolio.

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