Views from the Desk

Updates in the Equity and Fixed Income Market

Listen on Apple Podcasts Spotify Listen on Google Podcasts

Chris McHaney & Alfred Lee, BMO ETFs

Gold and Gold Equities

The price of gold is up ~ 8.5 year to date in US dollar terms. Our **Equal weight Global gold ETF- ZGD** is up about 16% and our **Equal Weight Junior gold ETF -ZJG** is up 14 % year to date in Canadian dollar terms. Gold and gold stocks have gotten support from a weakening US $, the US Dollar Index, which is a trade weighted basket versus six other currencies, it is down 9.5% Since September 2022, which was the peak. Gold has recently hit levels of technical resistance at $2050 per ounce and has started to retreat. Over the long term however, there are a lot of long term reasons in which investors may want to be a little bit more bullish of gold, or at least have a small position in their portfolios. The US debt ceiling, the on going the US banking crisis, potential for rate cuts from the US federal reserve which will cause the dollar to come down in value and central bank buying across the globe are all supportive of gold. Equities look attractive as they mine at spot prices and have the ability to sell them at higher prices in the future as prices rise.

Canadian banks

So far we've seen Bank of Montreal and Bank of Nova Scotia released their earnings both results were mixed, weakness in capital markets business and increased expenses pulled down earnings throughout the recent quarter. We also saw some higher loan loss provisions, specifically over 700 million from Bank of Nova Scotia and over $1 billion from Bank of Montreal, both banks are setting aside capital to cover loans that they expect could potentially go bad in the future. We expect banks to do the prudent thing and set aside some more money for loan loss provisions going forward. This will potentially hurt earnings a little bit however it is worth mentioning that both banks, despite this challenged earnings environment raised their dividends. Investors can gain access to the space with BMO Equal Weight Banks Index ETF- ZEB, valuations are beginning to look attractive at these levels and our ETF is yielding 5 %. Historically Canadian banks don't generally have a 5% dividend yield for too long and we expect the share prices to recover in the long run. Higher interest rates environments are generally a tailwind for banks and with recent selloffs these are attractive entry points.

Broad markets : Potential catalysts & risks on the horizon

Both equities and bonds have made a pretty decent comeback despite the Fed not having given up any legitimate cues for softening its monetary tightening. The NASDAQ is up roughly 21% S&P 500, up around 9% and the S&P TSX composite roughly around 4.8. The BMO Aggregate Bond index ETF - ZAG , which is the broad Canadian bond market is up around 2.6% year to date. In terms of catalysts in the US especially last earnings cycle, a lot of the S&P 500 companies reported very strong earnings with quarter over quarter, quarter, quarter over quarter earnings per shares, coming in ahead of expectations. When you look at valuations of the market specifically at PE ratios as a gauge, currently in line with their long term average. Prices of the S&P 500 companies haven't really moved in lockstep with the increase in earnings as a result there is a potential for further multiple expansion, if prices were to move up with earnings.

The US debt ceiling is another important catalysts. If we do get a resolution this should be supportive of not only the equity market, but also the bond market as well. Finally inflation, even though we've been talking about inflation for pretty much over the last two years, still very much, you know, a concern for a lot of investors. Both CPI and PCE as gauges for inflation continue to trend in the right direction. If we continue to see inflation continue to come down, that should be a catalyst for risk assets to move higher, as that would basically imply that the Fed would have less tightening to do, which should also be supportive of equities and bonds going forward.

Views from the Desk

One of the major risks and ongoing concerns is the health of the recent market rally. Alot of the performance has come from a small number large cap US tech companies only, we would like to see the breadth of the rally get better and more companies participating in share price growth this would increase the health of the rally and create more stability.

The other large concern out there is the the inversion of the Treasury curve, typically when you see the yield curve invert, this is one of the most reliable indicators for a pending recession as a result this is a reason to be concerned. he good news on the recession front is that when you do look at the labor market, the labor market continues to be very strong so if we do end up with a recession it will likely be more shallow then previous ones.

With the recent run up in broad indices a good strategy may be to take some gains and move into to some factor based ETFs. A good combination to look at is low volatility and quality as they compliment each other and create more diversification. Investors can look at combining **US Low volatility Equity ETF - ZLU** and combine it with our **USA High Quality Index ETF- ZUQ.** Over the last 10 years annualized returns have been a little bit higher and returns are better from a risk adjusted perspective. The other thing to consider is that with this approach you get a lot more downside protection with the Low Volatilty ETF then you would if you had your whole portfolio in the S & P 500.

Combining factors like low volatility, and quality is a great way for investors to remain invested, but at the same time position themselves more defensively as there are a few risks that we highlighted in our podcast.

Listen on Apple Podcasts | Listen on Google Podcasts | Spotify

Source: Bloomberg, All returns and data points April 2023.

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 trademarks/trademark of Bank of Montreal, used under licence.

BMO Exchange Traded Funds