

Views from the Desk

Updates in the Equity and Fixed Income Market

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YTD Flows and allocating to Fixed income

Flows into ETFs this year have been quite strong even though the equity and Fixed Income markets have been volatile. It is a good time to re-balance into Fixed income if investors have too much exposure to equities [ZAG - BMO Aggregate Bond Index ETF](#) currently offers 0.65% yield pickup over the TSX and a good core solution. [ZCS - BMO Short Corporate Bond Index ETF](#) is also a good option, good way to shorten duration risk and invest in good quality corporate bonds it has captured approximately \$100 Million in positive flows YTD. Finally for investors that are concerned about recession and greater escalation of geopolitical events [ZTL - BMO Long-Term US Treasury Bond Index ETF](#) offers a strong YTM of ~ 3%

Rising Yields and Taxation

As rates are climbing this is pushing up the yield to maturities on bonds, investors are taxed on coupons rather than YTM, this could be an opportune time to allocate to bonds and bond ETFs that have lower coupon payments than their YTM. Discount bonds look attractive, investors can use [ZDB BMO Discount Bond Index ETF](#), [ZSDB BMO Short-Term Discount Bond ETF](#) or [ZCDB BMO Corporate Discount Bond ETF](#) to take advantage of favourable tax conditions and yield.

International Equities Vs US Equities

Both geographic areas have had a rough start to the year both are down ~ 11%, however sectors in EAFE have better value characteristics. A good time to have some exposure to value-oriented equities given the rising rate environment. International equities are currently trading at a discount to US equities and offer a good way to get diversification.

Investors can look at [ZWE - BMO Europe High Dividend Covered Call Hedged to CAD ETF](#) it is only down YTD ~ 2 % vs the broad market of ~11 %. ZWE benefits from volatility as it writes covered calls to generate tax efficient yield and it also has lots of exposure to value equities. We believe that the Value over growth trade will likely continue going forward.

Low volatility US Equities vs S&P 500

[ZLU - BMO Low Volatility US Equity ETF](#) has massively outperformed the SP 500, YTD up ~ 1.5% vs a decline of ~ 11% for the broad market. ZLU is underweight technology and overweight defensive sectors which have largely outperformed. Good time to have exposure to low vol equities as concerns around raising rates, heightened inflation and the war in Ukraine will exist for a considerable amount of time.

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REITS in Canada

REITS in Canada are down about 8% YTD largely reacting to interest rate movements and higher carrying costs for REIT equities. However, as lockdowns are largely lifted across the country office and retail stand to benefit greatly as more people return to the norm. Investors can use [ZRE - BMO Equal Weight REITs Index ETF](#) to get an equal weight approach to different types of REITS in Canada and a strong yield of ~ 4.3%, current sell off is likely overdone.

BMO ETF podcasts are also available on



Source: Bloomberg, All returns and data points May, 2022.

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