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Views from the Desk

Updates in the Equity and Fixed Income Market

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ZWG - BMO Global High Dividend Covered Call ETF

Volatility has calmed down for the first time since Pre-COVID. The VIX is now under 20 for the last couple of months. However, the VIX at 17 or 18 is still a little high from the norm Pre-COVID. As the volatility comes down, our moneyness will also come down. Currently, we are about 4% to 5% OTM right now.

The option yield has come down to 4%. Still attractive, and a little more normalized. Altogether with the dividend yield we are at approx. 7% for ZWG, which is very attractive from a cash flow perspective. Option premiums are tax efficient source of yield which benefits the end investor in a non-registered account. Overall, in ZWG, we can expect around a 2% to 4% option premium in a normalized environment.

Innovation ETFs

A low rate environment has fueled the story of these Megatrend ETFs. The companies within these ETFs are at the frontier of innovation in the industry.

Sentiments have been bouncing around YTD due to volatility in the first half of 2021. Rising rates and inflation could be a detractor for the short term. Their ability to innovate cost effectively in the short term can be a little more expensive as rates go up. So, we are seeing some retraction and pull back because of the rising rate story.

ZINN - BMO MSCI Innovation Index ETF or any of our BMO Innovation ETFs, should be looked at from a long-term time horizon. The companies within these ETFs have been identified as being impactful to a client portfolio over the next few decades, not over the next few months.

As an entry point, right now could be a great opportunity to buy the dip and take advantage of this short-term volatility. There will be noise in the short term however, over the long term these companies will do well as they are viewed as game changers in the marketplace.

The Yield Curve

We have started to see the curve normalize in April and May compared to the aggressive steepening at the beginning of 2021. We do believe the trend will be rising rates over the next 6 to 12 months.

2020 has been a challenge for FI investors. May was the first month of the year where every segment of the Canadian fixed income market all had positive performance, which has been a good month for your aggregate bond core FI allocation.

Given the recovery is going to be somewhat choppy, its good to keep your allocation in core stable FI like ZAG - BMO Aggregate Bond Index ETF. ZAG has all the pieces to keep stabilization with your portfolios and offset volatility in equities.

We expect some steepening in the yield curve in the short term. Volatility is going to be data dependent from economic data releases.

ZAG is a core component of a FI portfolio; however, we'd also look at complimenting it with some short-term exposure due to the threat of rising rates and the steepening of the yield curve. ZCS - BMO Short Corporate Bond Index ETF, ZQB - BMO High Quality Corporate Bond Index ETF and ZBBB - BMO BBB Corporate Bond Index ETF can help you ride some of that volatility going into 2022.

Canadian banks

Banks have had strong earnings for the most recent quarter. Loan loss provisions were uncertain at the beginning of COVID. Loans have been strong performing which has been beneficial. Capital markets and wealth management have been strong. Nice diversification for the banks from a variety of sources.

As economies continue to reopen it will be beneficial for the banks. The expectation is banks will be able to raise dividends again. We are on pause right now from raising rates but, with capital ratios being stronger than what they are, we will see banks being allowed to resume raising dividends again.

If you feel the reopening is going to be slower than perceived and still want Canadian Bank exposure, than you can look to ZWB - BMO Covered Call Canadian Banks ETF. You may minimize volatility and get paid a higher distribution yield while you wait.

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