Views from the Desk

Updates in the Equity and Fixed Income Market

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Quality

Markets have been choppy, and we are seeing heightened valuations among some of the higher growth names that have been dominating returns. With vaccine news and the idea of a reopening trade pushing investors to take on more risk we have seen Quality fall behind some other areas of the market. For those looking for a more defensive growth exposure Quality companies remains a good place to turn. The Quality factor has been very topical over the past year and a preferred method to playing the growth equity markets in a responsible way. Quality companies typically have healthy capital positions, with lower levels of debt and higher ROE. With the unknowns surrounding speed and timing of the re-opening, we expect that it will be uneven and face hiccups along the way. Quality companies will weather this slower more uneven recovery better than others by providing some downside protection. **BMO MSCI All Country World High Quality Index ETF (Ticker: ZGQ)** gives you exposure to high quality global companies, with a high allocation to Technology, Healthcare, Consumer Staples and Industrials (which would have great exposure to that reopening trade). Within these sectors, we are investing in a responsible way by investing in those higher quality companies that are well-established names you would recognize.

Growth

Genomics is an interesting theme to look at to diversify your growth exposure which is typically focused around Tech and New Economy names. **BMO MSCI Genomic Innovation Index ETF (Ticker: ZGEN)** provides exposure to areas such as DNA sequencing, synthesis, bio computing, bioinformatics, molecular diagnostics and agricultural biotechnology. Illumina Inc. is a top holding in the portfolio currently, and they are involved in gene sequencing, having developed a technological platform for analysis that other companies can leverage. They have taken costs down considerably for this type of analysis and have been very successful in the gene sequencing space. Of course we all recognize Moderna, and it is another top holding in the portfolio. Moderna has developed one of the first Covid-19 vaccines and has done so using MRNA technology which allows for faster, more potent formulas with excellent efficacy. What may be less known about them is the fact that they've been developing Cancer vaccines, among others. ZGEN provides great diversification tool and is a very timely exposure. With this product you will also get exposure to more traditional household names in the healthcare space such as Roche, Bayer, Bristol-Meyers Squibb and Teledoc (benefiting from the new virtual medicine trend).

Fixed Income

We've seen treasury yields flatten a bit over the past week, after a yield pick up on the 10-year bond over the last month. With a steepening yield curve, it's a good idea to re-examine fixed income exposures using a segmented approach. February was quite the ride for fixed income, we saw the first negative returns in fixed income since March 2020. The 10-year soared in February before coming back down around 1.33%. The velocity of these yield changes is also something to be cautious of. Rates seem to be locked in on the front end, so we continue to see steepening we haven't seen since June 2015. While we are seeing overall optimism around a reopening some time in 2021, we will continue to see elevated volatility and there are still many unknowns in terms of vaccine roll out and speed of reopening. Corporate exposures can provide a level of defense, using credit spreads helping to protect against the impact of rising rates. It's important to note that while we've seen tightening, credit spreads are still within recent historical norms. Reducing duration, not eliminating duration, is a good play to lower risk. You can do so using **BMO Mid Corporate Bond Index ETF (Ticker: ZCM)** or **BMO Short Corporate Bond Index ETF (Ticker: ZCS).**

Alternatively, if you are looking for a higher quality exposure or concerned about some of the higher beta credit names, **BMO High Quality Corporate Bond Index ETF (ZQB)** provides exposure to 1-10 year A rated and above bonds with a duration around 3.5 years. This would provide you added protection against downgrades that may come with a slower reopening. If you are looking for a bit higher yield **BMO BBB Corporate Bond Index ETF (ZBBB)** provides exposure to 1-10 year BBB rated bonds with a duration of around 4.5 years, with a 60 bps increase in yield over ZQB, with the added credit spread helping to offset the impact of rising interest rates.

Canada

If we look at major regional building blocks, Canada, US, International, and Emerging Markets – Canada has outperformed YTD. Driving this outperformance are a number of different sectors.

Financials are a big contributor to recent outperformance, with the overall sector exposure in the S&P/TSX Composite Index at around 30%. They have benefitted from interest rates moves, and the spike in the 10 year, as well as the overall steepening of the curve. Expectations around a faster reopening, and lower loan loss provisions have benefitted the Financials sector, and they should continue to do well.

Commodities are another area of the market that have done well in Canada, as they are dependent on global GDP growth. Oil, mining, base metals, all go into manufacturing and are impacted by global growth so they should fare well as economy heads into reopening.

Industrials are also tied to global growth and will benefit from this reopening trade

Info Tech – now 10% of the S&P/TSX Composite Index! Shopify has been the leader, here but also CGI and Constellation Software.

We are seeing a more diversified sector contribution, which gives us more confidence in the continued growth of the Canadian market as a whole. We expect these drivers should continue for 2021, and into 2022.

Source: Bloomberg, All returns February, 2021.
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