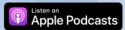
Views from the Desk

Updates in the Equity and Fixed Income Market







Chris Heakes & Chris McHaney, Portfolio Managers, BMO ETFs

Flows into ETFS for August

- Lots of recent flows into broad market Canadian ETFS, International investors have become more interested in Canadian
 equities and value equities, <u>ZCN BMO S&P/TSX Capped Composite Index ETF</u> provides broad exposure at only 5 bps
 management fee
- Strong flows to money market type of investors as they become concerned about market volatility and rates have been increasing
- Covered call ETFS were amongst the top 10 for flows for the month of August, Income has become more of a focus, as inflation has been escalated, CC are providing 7-8% yield and allow investors to monetize volatility. ZWC BMO Canadian High Dividend Covered Call ETF and ZWC BMO Canadian Utilities ETF have been getting a lot of attention
- Low volatility ETFS have had strong performance, <u>ZLB BMO Low Volatility Canadian Equity ETF</u> has outperformed the TSX YTD, ZLU BMO Low Volatility US Equity ETF is positive ~3 % YTD vs SP 500 down ~14%

Fixed income Discussion

- 2022 overnight lending rates have raised 300 bps this year at the fastest pace since the mid 90's, rates were raised 75bps today and the market was pricing this in very strongly, market is expecting a final rate hike in October to conclude 2022 rate hikes
- Core inflation is around 5.5% and they have a goal of reducing this number, the market is expecting that the bank of Canada will get inflation under control and that longer term rates will be lower as the economy will likely be slowing in the coming years.
- Recent flows have been strong to <u>ZFS BMO Short Federal Bond Index ETF</u>, and <u>ZMMK BMO Money Market Fund ETF</u> Series as interest rates have come up these strategies are providing higher yields and low duration risks
- <u>ZTIP BMO Short-Term US TIPS Index ETF</u> looks attractive with a 0–5-year maturity, 2-year inflation breakeven rates are currently ~ 2.30%, if investors believe these rates will be higher than this in the future, ZTIP should perform well as CPI remains elevated

Asset Allocation discussion US vs Can Vs International equities

Globally coordinated rate hikes are happening, valuations are becoming attractive, Canada has a forward P/E ratio of 11, US is at ~ 17 P/E, international equities are much lower as there are issues with Ukraine and energy prices, emerging markets have been a tough place to be for the last few years and provide more upside potential

Currency Discussion

- US \$ strength is occurring globally and is expected to continue, USD vs Euro highest since 2002, The British pound is close to parody last time it was this low relatively was in the mid 1980s, 1998 low for the Yen vs USD currently
- USD vs CAD; CAD has been strong due to strong energy prices and raising interest rates which both have been providing continued support
- Global slowdowns do have a negative effect on the Canadian dollar, but elevated energy pries will continue to support it



- Japan has not been increasing interest rates and are continuing with quantitative easing, USD vs YEN is at levels not seen since 1996
- For investors that want some protection a currency hedge back to CAD for international equities is ideal, for USD and CAD investors can consider a 50-50 approach to hedging/ un hedging as it is difficult to make a definitive call in one direction

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

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