

# Views from the Desk

## Updates in the Equity and Fixed Income Market

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### **BoC Increasing Rates and Quantitative Tightening**

So far in 2022, we've seen rates rise significantly and the yield curve flatten. This trend is expected to continue as the BoC continues to look at raising rates. The potential of another 50-point hike in June is on the table, the market is currently pricing this in. In addition to rate hikes, as of April 25, BoC has begun to tease Quantitative Tightening (QT). BoC will start to allow maturing bonds to roll off their balance sheet. They will also cease participation in all government of Canada purchases in the primary market and will no longer participate in government of Canada auctions. By the end of July, the Bank of Canada expects to reduce its government of Canada bond holdings by 5%, 15% by the end of the year, and 35% by the end of 2023. This will continue to tighten financial conditions, putting some pressure on the bond market and increasing volatility. We are still in favor of shortening duration at a portfolio level ([ZSB - BMO Short-Term Bond Index ETF](#)) while complementing your core portfolio ([ZAG - BMO Aggregate Bond Index ETF](#)).

### **Elon Musk, Twitter, Tesla**

Dominating the headlines this week is Elon Musk's purchase Twitter. There was an immediate effect on Tesla's stock after this deal was finalized, with the stock falling 12% in a single day. Short-term impacts on the Tesla stock may be reflected based on how the deal is financed, i.e., Musk selling Tesla shares in the market to raise cash, or more shares as collateral for a bank loan, which ties up additional Tesla shares. Both of which create an overhang on the stock, with a bit of selling pressure. That said, if you take a look at Tesla in the major indices, it is a major weight in the S&P 500 and the NASDAQ. [ZAUT - BMO MSCI Tech & Industrial Innovation Index ETF](#) also holds a larger weighting in Tesla. Tesla is a leader and excels in innovation on two fronts, robotics (industrial and manufacturing capability), and autonomous technology (transportation). These are major areas of innovation and growth going forward, which will not be hindered by Elon Musk, also owning Twitter.

### **Fixed Income Tax Loss Harvesting and Discount Bonds**

With current fixed income returns being some of the worst we've seen in decades, to start 2022 investors have a rare opportunity to undergo tax loss harvesting, to crystallize some losses within their portfolios. For more on this topic please listen to our podcast at [bmoetfs.ca](https://bmoetfs.ca)

We also offer 3 discount bond funds: [ZDB - BMO Discount Bond Index ETF](#), [ZSDB - BMO Short-Term Discount Bond ETF](#), [ZCDB - BMO Corporate Discount Bond ETF](#). These ETFs are aimed at providing more tax efficient fixed income exposure for investors. Especially since fixed income has been a challenge, for taxable investors. These solutions aim to provide more tax efficient exposure to fixed income.

### **Canadian Banks**

Towards the second half of 2021, as we saw a steepening yield curve, banks had a great environment for their business models (lending on long term rates and borrowing on short term rates). The steepness of the curve really helped with that and with capital activity in general. In 2022, we have seen long term rates continue to rise, but short-term rates have been rising much quicker. Resulting in the flattening of the yield curve, and an undoing of what we saw, in late 2021 (in terms of the slope of the yield curve). The Bank's ability to capture the spreads between the long-term rates and the short-term rates has been hindered so far this year.

In periods such as this, we've seen a lot of investors rotate into [ZWB - BMO Covered Call Canadian Banks](#) ETF, the covered call version of our Canadian banks. [ZWB](#) gives up a little bit of growth potential, in return for more current income through call options that are generated through a call option overlay. Increasing the cash flow and increasing the consistency of your turn.

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### ZDV - BMO Canadian Dividend ETF

We've built this portfolio by looking for dividend growers, companies that are growing their dividends over time, on a sustainable basis. When inflation expectations are on the higher end, it's important to be invested in cash generative companies. They are earning money today through their operations, day in and day out. A portfolio of companies (like the ones in [ZDV](#)), that are very cash generative is what's been benefiting in the market currently, especially in Canada. In addition, because Canada is focused on energy and resources, Canadian companies have been benefiting as well. The two tailwinds working in the favor of [ZDV](#) right now are energy companies (15% allocation) that are benefiting from higher oil prices and materials companies(8.9% allocation).

BMO ETF podcasts are also available on



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

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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.

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