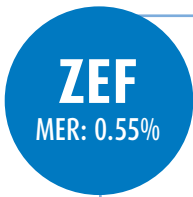


Three Tools to Optimize your Fixed Income Portfolio

A quarterly look at fixed income trade ideas for today's markets.

1. Credit Spread Opportunities

- Credit spreads in many areas have tightened to pre-COVID levels and still within recent historical norms.
- Credit spreads in emerging market (EM) bonds are wider compared to historical levels.
- Investors looking for income are increasingly challenged when it comes to fixed income.



BMO Emerging Markets Bond Hedged to CAD Index ETF

- With rates extremely low in developed regions EM can provide the opportunity for real yield in a region that looks attractive from a valuation perspective.
- EM fixed income can be a great complement to existing strategies with lower correlation.
- EM countries have been more fiscally responsible through Covid which is positive for balance sheets.
- EM bonds are about three quarters investment grade, the universe is well diversified.
- Several countries who are oil exporters will benefit from rising oil prices. Other countries are tech and consumer focused, such as China which also stand to benefit from the economic reopening.

2. Rising Bond Yields

- Owing to the optimism around the vaccine roll-out and reopening, the yield curve has steepened with longer-term rates moving up.
- With low rates, investors have been forced out of cash and a steepening yield curve has forced investors to rotate from bonds to equities, causing a further steepening in the yield curve.
- Over the last six weeks, bond yields have experienced a significant rise. As of March 23, 2021 the U.S. 10-year which is now 1.62% is 56bps higher than the end of January, while the Canadian 10-year currently sits at 1.49%, 60bps higher over the same period.

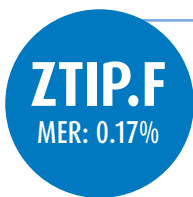


BMO Laddered Preferred Share Index ETF

- Rate reset preferred shares perform well in a rising interest rate environment, given their dividends reset to higher interest rates.
- The asset class has undergone a structural change, which is favourable for the prices of preferred shares as issuers have been raising capital via Additional Tier 1 Capital bonds (AT1) and using the proceeds to redeem outstanding preferred shares at par value.

3. Inflation

- While inflation has been muted in the last decade, it may become a growing concern as the year progresses.
- The Fed's policy shift to target longer-term averages of inflation rather than short-term is only one of the potential catalysts.
- Increased monetary stimulus, alongside a rise in energy, commodity and materials prices are also signaling a rise in expected inflation.



BMO Short-Term US TIPS Index ETF (Hedged Units)

- While the market anticipates inflation across the curve, the expectations are higher in the short-end (0-5) than the 10-year, this makes sense as supply/demand imbalances due to COVID would normalize over the longer-term.
- By hedging currency, investors can isolate just the inflation component without the noise of currency.

¹Bloomberg December 2020

Fixed Income Portfolio Statistics

Ticker	Distribution Yield	YTM	Coupon	Duration
ZEF	4.33%	2.71%	4.56%	4.9
ZPR	4.95%	-	4.45%	3.11
ZTIP/ZTIP.F	-	0.31% ²	0.43%	2.7

² YTM with inflation adjustment

Source: BMO Global Asset Management as of Feb 28 2020



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