Views from the Desk

Updates in the Equity and Fixed Income Market

Chris Heakes and Alfred Lee, Portfolio Mangers, BMO ETFs

Archegos Update

Credit Suisse has cleaned house in the aftermath of the Archegos fall out, and will be hiring new senior executives and risk officers. Outside of Credit Suisse and Nomura, the situation has been pretty contained. These were large derivative exposures which were not properly collateralized. Credit Suisse had the most exposure, to the tune of a $5 billion dollar loss. In terms of the Canadian banks, institutional investors all over the world have looked to Canadian banks as better capitalized and more risk averse, relative to their global peers. Canadian Banks continue to look strong and even US Banks have been rallying since November.

Inflation

From a real yield perspective near term inflation is the real worry. There has been a significant spike in negative real rates in the 5-10-year space. This is concerning for bond investors who look to bonds for stability and income, so when real yields turn negative this presents challenges. The most recently reported CPI is just above 1%, but this is a backward-looking metric. The market measures future inflation by looking at breakeven rates. And when we look at these rates the market is pricing in around 1.9% looking out 5 years. What this means is that the expected inflation in the future will be much higher than current reports. So how do we protect ourselves? Investors can consider complimenting core fixed income holdings by allocating to the BMO US TIPS Index ETF (ticker: ZTIP) which provides exposure to short-dated U.S. Treasury Inflation Protected Securities (TIPS). These bonds are 0-5 years, which is where we see that near-term spike in inflation. Adding ZTIP would also decrease overall duration risk, which will become a problem as rates begin to rise. So, addressing two birds with one "ETF": decrease duration and inflation risk.

Updates to the S&P Global Clean Energy Index

When the S&P Global Clean Energy Index was created many years ago, the theme of clean energy was much more speculative and there were not many companies involved, so the index only held 30 names. Today, there are so many more companies involved in the business of clean energy, and investor interest has increased as well, evidenced by flows going into this space. So, the S&P has decided to build out a more robust Clean Energy exposure. The names will go from 30-70. The Index will have improved liquidity, being 4x more liquid than the existing. The companies included must have a minimum of 70% of their business activities exposed to clean energy, which is down from 100%. The final exposure will be about 90% to the clean energy theme, so this is still very much a pure play index. The changes will be happening Friday April 16. This will position the BMO S&P Clean Energy Index ETF (ticker: ZCLN) well to capture the broad trend going forward.

Value

Value has under performed for 10 years and especially last year when large cap, tech, and work from home beneficiaries dominated. But the vaccine announcement in early November spurred the value trade. For investors looking for exposure to the value trade, BMO offers the BMO MSCI Canada Value Index ETF (ticker: ZVC) and the BMO MSCI USA Value Index ETF (ticker: ZVU) which both importantly have a forward looking measure, so are more nimble at avoiding the value traps. Further vaccine role out and continued stimulus will continue to help value-oriented exposures recover.

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