Updates in the Equity and Fixed Income Market

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Earnings Season for US Banks

US banks released their earnings this past week. Most had positive results. Wells Fargo had the worst results and cut its dividend. Other banks such as JP Morgan had very strong earnings because of record trading levels with the increased volatility. Overall the tone coming from the US banks is that this is not going to be a V-shaped recovery. We are not seeing any potential economic problems right now because of the stimulus. The Energy and Real Estate sectors are still very challenged. The market might be a bit ahead of itself in other sectors such as IT and the Consumer sectors. Banks resonate as a more defensive growth sector and should be a good position if this is a more prolonged recovery. The **BMO Equal Weight US Banks Index ETF (ticker: ZUB)** and the **BMO Covered Cal US Banks ETF (ticker: ZWK)** make good defensive growth satellite positions. An alternative way to get US bank exposure is through the **BMO US Dividend ETF (ticker: ZDY)**; Financials are the largest sector in this ETF, so it's a good way to get exposure to the trade. Dividends tend to be more of a value trade. We really like the cyclical value trade of the banks.

NASDAQ 100 Hits New Highs

The NASDAQ 100 Index is very concentrated at the top: Apple, Amazon, Microsoft, and Alphabet make up 40% of the Index. These 4 names are at the source of most of the performance. These are all names that are benefitting from the economic shut-down and new trends emerging from a more "distanced" world. Information Technology as a sector has been performing very well. However, it is interesting to note that only two of the top 4 names in the Index are in the IT sector. Amazon is Consumer Discretionary, and Alphabet is Communication Services. Most of the Info Tech names are smaller weights but are doing very well. For exposure to the NASDAQ 100 Index BMO offers the **BMO NASDAQ 100 Index ETF (ticker: ZNQ, ticker ZQQ for hedged)**.

Low Volatility in Canada

YTD the **BMO Canada Low Volatility ETF (ticker: ZLB)** returned -8% vs the S&P/TSX Capped Composite Index return of -5%. Usually, low volatility provides significant outperformance in down markets. The largest drag on ZLB today is that it is missing out on the Shopify rally, where single stocks can move the needle in a smaller market like Canada. Shopify is now the largest company in the Index, so it is responsible for half its positive returns. Because Shopify is a Tech stock with high volatility (its beta is 2) it doesn't fit the objectives of the Low Volatility rule set. Gold has been another theme; bouillon has rallied and the **BMO Equal Weight Global Gold Index ETF (ticker: ZGD)** is up around 50% this year. So not owning gold in gold is also drag. Lastly, ZLB owns a lot of REITs, and REITs are still struggling in this economic environment but as we recover the residential and retail sub-sectors will bounce back. The underweight in Energy has been positive, and ZLB still remains a second quartile fund.

EM and China

The only other area that can rival the Nasdaq's returns so far this year is Chinese equities: China is up 20% YTD. 10 years ago, China was only 12% of the MSCI EM Index, and now it is 41%. The inclusion of A shares has helped it increase. But most of it has come from major capital growth in Chinese equities. 10 years ago, China was more of a resource-based exposure, but today it's much more diversified with heavier weights in IT and the Consumers sectors. We think that overall Emerging Markets can offer more to Canadian investors now than it has in the past because of its shifting weights out of Materials and Energy and into other sectors. The **BMO MSCI Emerging Markets Index ETF (ticker: ZEM)** is a great way to get exposure to China, and investors should look at EM as part of a diversified portfolio.

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