

Views from the Desk

Updates in the Equity and Fixed Income Market

Matt Montemurro and Chris McHaney, BMO ETF Portfolio Managers

Earnings Season

It has been hard to interpret earnings and guidance from companies right now. Most earnings are hugely negative currently, but this may not indicate future negative growth as the economy is slowly normalizing. Tesla recorded a profit for 4-straight quarters in Q2. This makes it eligible for inclusion into the S&P 500 Index, so investors are keeping an eye on this name. Netflix reported significant user growth in Q2, but forward guidance was negative as the company believes that increases in new-users was accelerated in Q1 and Q2, which may take away some growth from later in the year. Starbucks reported its same-store sales were down 40%. However, the market was expecting worse, so Starbucks surprised to the upside. Overall it is still difficult to interpret what earnings mean and investors are trying to sort out who will be the winners and losers and how long the recovery will take.

Anti-Trust Hearing on Capitol Hill for Tech Companies

This is a big week for Tech companies. Apple, Facebook, Amazon and Google all have CEO's in Washington today to testify in an anti-trust hearing. These companies are all reporting earnings tomorrow as well. With these two large events unfolding this week, there could be some big moves for these Tech companies. The hearing is focusing on potential anti-trust issues, anti-competitive behaviors, privacy of data, and disinformation spreading on platforms. These companies are increasingly dominating the large indexes making up about 35% of the NASDAQ 100 Index and 16% of the S&P 500.

Cash on the Sideline

On the sideline investors are only getting 30-50bps of yield, and this will start causing performance drag. You must ask yourself, in the long term is 30bps going to cut it for your clients? Mid-term credit spreads are 20% greater than historical norms and 40% wider than pre-Covid levels. **The BMO Mid Corporate Bond Index ETF (ticker: ZCM)** provides exposure to mid-term credit. This offers double the yield as some cash products and still the security of fixed income. You can also look to the stability of a very diversified asset allocation ETF like the **BMO Conservative ETF (ticker: ZCON)** which is 60% fixed income and 40% equities. This offers a very diversified exposure, protection on the downside, and a 2.67% yield. It is also low cost (0.18% MER) so the fee won't erode returns.

Gold

Gold is now closing in on \$2000 per oz. Most analysts are expecting gold to continue its ascent and pass the \$2000 mark over the next few months. There is a seasonal factor to be mindful of: August and September historically tend to be the strongest months for gold prices. But the technicals (large amounts of stimulus, high unemployment etc) are tailwinds. Some analysts are calling \$2300-\$2400 gold, looking out 1-2 years. Gold is up 27% YTD. Gold miners see more than double this return because this is a leveraged play. So far, the market has rewarded the seniors more than the juniors. **The BMO Equal Weight Global Gold Index ETF (ticker: ZGD)** is a great way to get access to senior gold companies.

Update on REITs & ZRE

The **BMO Equal Weight REIT Index ETF (ticker: ZRE)** is well diversified across Real Estate sub-sectors. Office REITs may not be as threatened as many expect. Companies have recognized the benefits of working from home, but many have indicated that a hybrid home and office approach may work best looking forward. Retail REITs however could really be impacted. There are less people in stores and restaurants and so these spaces, if they stay in business, may require less overall space in the future. Residential REITs have been strong both in Canada and the U.S. Industrial REITs are also strong. Each sub-sector carries a similar percentage weight in ZRE. And, ZRE carries a high distribution, at about 5.8% (annualized) right now, so as the sector recovers over the next few years, you get paid to wait.

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