

Views from the Desk

Updates in the Equity and Fixed Income Market

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YTD ETF Performance & Flows

It has been a record-year so far for ETFs. The ability to access exposures effectively and cost efficiently has resonated with investors. Increased volatility does lead to increased ETF trading. On the equity side, the last few months have been very strong. Investors are gravitating to beta exposures since the sell off, such as the **BMO S&P 500 Index ETF (ticker: ZSP)**, the **BMO S&P/TSX Capped Composite Index ETF (ticker: ZCN)** and the **BMO MSCI EAFE Index ETF (ticker: ZEA)**. Smart beta (factor investing) has also been very popular, especially Quality and Low Volatility that allow investors to tilt their exposures around beta. And derivatives strategies such as our covered call ETFs and our **Premium Yield ETF (ticker: ZPAY)** have also been popular as they provide the ability to earn defensive, tax efficient income. In fixed income, we witnessed ETFs act as a liquidity vehicle when the underlying market went no-bid, and fixed income ETFs became a true proxy for the underlying market.

ESG Products in Canada

ESG is something every firm must think about now; whether it is the quality in procedures for existing funds, or launching ESG specific products. We are starting to see the dollars flow into ESG products as investors and institutions are rewarding ESG companies. We think there is going to be a new factor premium associated with ESG investing as ESG is beginning to prove it is an alpha driver. BMO is a leader in the ESG space. We have a Responsible Investing Team, a recently launched broad suite of ESG ETFs and we are now integrating ESG in our more traditional products, such as the **BMO Global High Dividend Covered Call ETF (ticker: ZWG)** which is a global covered call ETF with an ESG overlay. The **BMO Balanced ESG ETF (ticker: ZESG)** is our balanced ESG solution, with ESG equity and fixed income wrapped into one ETF which is interesting for someone who wants a one-ticket solution. This is definitely a segment of the market where investors should really be paying attention now.

Canadian Equity

Clients are looking at asset classes that underperformed or have not recovered to the full extent yet. Canada is coming up on this screen; it has underperformed the US and Europe since March. Investors are wondering how much runway is left in US equities, and investors may want to round out their regional exposures. One area of Canada that has seen a lot of flows is Financials, and the Canada banks are still yielding around 5.4% which is attractive. The **BMO Equal Weight Banks Index ETF (ticker: ZEB)** or the **BMO Covered Call Canadian Banks ETF (ticker: ZWB)** have been seeing flows over the last few months. Also, Canada has done a way better job at containing the virus than the US, and this is supportive of the Canadian economy recovering as well.

Government Bond ETFs

When buying government bonds using an ETF, the cost savings is less pronounced than buying corporates. However, you are still benefitting from the portfolio construction advantages of an ETF. Investors don't have to worry about duration management, laddering a curve, or rebalancing as this is all taken care of within the ETF. This makes the investment process more efficient. We have seen significant flows going into government bond ETFs recently, which is the classic flight to quality trade. For example, the **BMO Government Bond Index ETF (ticker: ZGB)** has been popular recently and we've seen flows from both retail and institutional investors.

Factor Update

Quality ETFs have really outperformed, but we have seen some underperformance in Low Volatility during the recent few months. Low Vol will provide protection against a second wave in corona virus, which is especially something to consider given how poorly the US is doing stop the virus from spreading. Low Vol is designed to perform well in times of market stress. In Canada Low Vol provides long term market growth and is underweight cyclical sectors. It still provides a defensive tilt, and given we are not out of the woods it still plays a role in the portfolio.

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