Views from the Desk

Trade Ideas to Capitalize on Current Flows in the ETF Industry

Chris McHaney and Chris Heakes, BMO ETF Portfolio Managers

Canada and US Financials: The Value and Dividend Trade

We have seen some positive economic surprises with company earnings and job reports, and this has created a strong equity rally of late in many sectors such as Info Tech and Health Care. But we think now is a good time to keep an eye on Dividend and Value as these factors have not participated in the recent rally. A great example to get exposed to Value and Dividends is in the Financial Sector, with an ETF such as the **BMO Equal Weight Banks Index ETF (ticker: ZEB)**. This is a cyclical way to play the recovery. Canadian banks have underperformed YTD but have returned 20% over the last 2 weeks vs the S&P/TSX Capped Composite Index return of 6% during this time. And these also offer Dividend exposure: the Canadian Banks are still yielding around 5% and this is a very healthy dividend in terms of historical levels. US Financials such as the **BMO Equal Weight US Banks Index ETF (ticker: ZBK)**, also offer cyclical exposure. US banks are yielding about 3.5% which is attractive, and these banks offer more growth potential than Canadian banks.

Flows to International and US Equities: How to Play this Trade

Recently ETF flows having been going to equities over bonds and to International and US over other regions. While investors have rushed to get back into the equity market, there are still warnings of a deep recession, maybe one of the worst in 100 years. We think investors want to be exposed to stocks that will help in either a bull or bear market, given the unexpected outlook. For long term investors looking to add international equities, we think quality companies will be able to withstand a prolonged equity slowdown, such as the **BMO MSCI High Quality Europe Hedged to CAD Index ETF (ticker: ZEQ).** This ETF is overweight to sectors such as Health Care and Consumer Staples and holds the types of companies that we think will continue to generate cash through the current environment and in the coming years. In the US, we also have a high conviction in Quality companies such as the **BMO MSCI USA High Quality Index ETF (ticker: ZUQ)**. Whether we see a fast growth recovery or a more prolonged, drawn-out recovery, these quality companies will be profitable and have strong cash flows. Adding this exposure is also beneficial For Canadians to compliment a home bias portfolio. ZUQ has an overweight to Large Cap Info Tech and Health Care, exposures which we do not have to the same extent in Canada.

Asset Allocation ETFs

Balanced funds have been the bread and butter of the Mutual Fund world for 20+ years. They appeal to investors because of their disciplined mix of stocks and bonds. This balanced model is now also available in an ETF. These building blocks are helpful as a disciplined core holding to provide exposure to broad asset classes in a cost-efficient way. Within BMO's suite of asset allocation ETFs the most interest has been in the **BMO Balanced ETF (ticker: ZBAL)** which is 60% equities and 40% fixed income. We have also seen interest in the **BMO Balanced ESG ETF (ticker: ZESG)** as investors are becoming more aware of the potential performance drivers that ESG companies have to offer.

Fixed Income Update: Outflows in Canadian Aggregate Bonds

We saw large outflows in Canadian Aggregate exposures, as investors look to take advantage of more precise fixed income. BMO offers a "3x3 Matrix" which is exposure to the 3 main fixed income sectors in Canada (Federals, Provincials and Corporates) and within this, dissected among three durations (Short, Mid and Long). Investors want to slice-and-dice the grid to get their desired exposure. Right now, because government interest rates are very low with the return to QE, we are seeing most value in Corporates and this is where you're getting yields of 2-3%. **The BMO Short Corporate Bond Index ETF (ticker: ZCS)** has a higher Financials weight than other durations so ZCS would be a good way to play the Financial sector on the fixed income side. Also, the Bank of Canada is buying 1-5-year duration bonds which creates more liquidity in the short end of the curve.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

The viewpoints expressed by the Portfolio Manager represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time without any kind of notice. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. The statistics in this update are based on information believed to be reliable but not guaranteed. This communication is intended for informational purposes only.

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. ("MSCI"), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

Commissions, management fees and expenses (if any) all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the prospectus. BMO ETFs and ETF series trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.

®/™Registered trade-marks/trade-mark of Bank of Montreal, used under licence.