Views from the Desk

Updates in the Equity and Fixed Income Market

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S&P 500 Update

The BMO S&P 500 Index ETF (ticker: ZSP), which tracks the performance of the S&P 500 Index, is near pre-covid highs. Earnings and valuations have not really been revised downward since the global economic shock from COVID-19. In February, the S&P 500 was trading at 24x forward earnings, when markets were at all-time highs. Today, the S&P 500 is trading at 28x earnings, so valuations have gone up. The growth we have seen since March has been concentrated in certain sectors such as Information Technology, Communication Services and Health Care. To have a more concentrated exposure to these sectors, **the BMO MSCI USA High Quality Index ETF (ticker: ZUQ)** has an overweight to Info Tech and Health Care, a reflection of the strength of the companies in this sector and their solid balance sheets.

Fixed Income Update- Short Trade After BOC comments

Credit spreads have tightened significantly since March, but we are still 60bps wider than the beginning of 2020. Right now, we see opportunity in the short and mid sections of the yield curve. And within this we see corporate bonds as an attractive opportunity where spread compression still has a way to go to return to historic averages. The opportunity in short-duration, investment grade (IG) credit is supported by the central bank bond buying programs which will ramp up this summer. **The BMO Short-term and Mid-term Corporate Bond Index ETFs (tickers: ZCS and ZCM)** offer strong opportunities to capitalize on spread compression in the short to mid-section of the curve within IG credit.

Canadian Government Bonds and U.S. Treasuries

Investors are concerned about "second-wave" fears and view equity market valuations as stretched. One way to remain defensive while putting your cash to work is in government bonds. Canadian Government bonds and U.S. Treasuries can offer protection while earning some yield. Treasuries YTD have done well because of the flight-to-quality trade, especially in the long end of the curve. Long duration US treasuries have had a great run this year, with high teens to low 20% returns, so this trade has become a bit over crowded. Moderate duration, around the 5-10-year mark, has good value right now in this space as mid-term treasuries have been slightly overlooked. **The BMO Mid-Term US Treasury Bond Index ETF (ticker: ZTM, or ZTM.U for USD)** provides exposure to U.S. Treasuries in the middle part of the curve. **The BMO Government Bond Index ETF (ticker: ZGB)** provides access to Canadian Government Bonds, both provincial and federal. Government bonds make a great defensive trade because they provide protection from second wave market volatility while adding a little extra yield.

Is the Gold Trade Over?

Second wave concerns have bubbled up this week which has advanced the price of gold. Gold started the year at $1500 and now it is over $1700/oz. We see the gold trade as having a multi-year timeline. There are many similarities between '08 and '09 right now: a huge amount of stimulus (both monetary and fiscal) and a record amount of quantitative easing. Last time this happened, the gold price doubled within 3 years. Analysts are expecting this to happen again with price targets at $2000-$3000/oz in gold. You can buy the physical bullion to get access to gold. Gold miners are another good way to play this trade, and to add more torque to your portfolio. Those who want to take on more risk with a higher pay off, look at the gold miners to play the gold trade. There is more risk in junior miners because they are more leveraged. But if they maintain debt servicing levels, the juniors should perform well. Senior gold producers benefit from stronger balance sheets. We think there is lots of room left in the gold trade plus it's a hedge to add to equity exposures. **The BMO Global Gold Index ETF (ticker: ZGD)** or **the BMO Junior Gold Index ETF (ticker: ZJG)** both offer exposure to gold miners.

Alternative Exposures: Update on ZPAY

The BMO Premium Yield ETF (ticker: ZPAY) was launched as a defensive, income-oriented strategy in late January and the strategy was tested in March which showed investors what the risk reward trade off looks like in this ETF. ZPAY entered the sell off with 35% long exposure to equities. As markets sold off put options moved into the money and we bought the underlying stocks at steep discounts, therefore the equity weight went up to 70% equities. ZPAY enjoyed the growth from the rebound in the spring. During this time, ZPAY participated in 50% of the US equity drawdown and 75% if its rebound. The equity weight has come back down to about 40% today. If you think there is more downside risk in the market, this fund will position you well to protect if there is another downswing. ZPAY also generates a healthy premium by selling put options so it offers a consistent return stream regardless of how markets are moving in the short term.