Views from the Desk

Updates in the Equity and Fixed Income Market

Chris McHaney and Matt Montemurro, BMO ETF Portfolio Managers

Update on the Shaw & Rogers Deal

Rogers has announced a proposed purchase of Shaw Communications for $26 billion. It is not certain yet if the deal will be able to close (there is about one year until the proposed closing date) as multiple regulators will need to review the acquisition. However, the markets like this deal. Rogers and Shaw both got price boosts, which is rare in the M&A space (usually the buyer takes a price hit) so initial reaction was positive. This proposed acquisition is putting the spotlight back onto low vol sectors such as Communication Services, Utilities and Consumer Staples and both Shaw and Rogers have around a 2% weight in the **BMO Low Volatility Equity ETF (ticker: ZLB)**. Low volatility strategies did not offer the same level of growth as other sectors in 2020 however they delivered on the risk moderation side. During March 2020 low volatility strategies maintained lower volatility and continued to do so throughout a volatile year.

BMO MSCI Next Generation Internet Innovation Index ETF, Ticker ZINT

When people think about this theme, they think about 5G wireless tech innovation and what this might mean for the future of the internet. But this megatrend is not just about faster connection speeds; the next generation element is focused on the number of things and devices that will be connected to the internet in the future, which is founded in cloud technology. Secondly, as we move to more towards digital, this creates digital footprints or put more simply, data collection. Companies in ZINT such as Microsoft and Amazon have been leaders in this space so far. And companies like Visa and Mastercard are leaders in ecommerce, a sub theme of next gen internet that we've seen accelerate over the last year. These larger blue-chip companies are important components in a thematic portfolio as they provide some stability and diversification. As a buy-and-hold strategy ZINT is a great way to access the trend because both large and small caps are represented.

BBB Bonds in a Rising Rate Environment

We are on a path of a steepening yield curve especially on the long end and so bond investors are looking to protect themselves in these challenging markets. The Bank of Canada and the Fed are both committed to keeping short term rates locked in, so we need to look for ways to compliment core fixed income positions and provide protection from rising rates. This protection can be added in two ways: increase corporate exposure and reduce overall duration. Credit continues to outperform and credit spreads overall remain wider than pre-covid levels so there is room for spread compression. The **BMO BBB Corporate Bond Index ETF (ticker: ZBBB)** is a portfolio of BBB-rated Canadian corporate bonds with 1-10 years to maturity. With ZBBB, investors can maintain investment grade credit exposure, and can also maximise their yield in the BBB space. ZBBB provides the same yield as the **BMO Corporate Bond Index ETF (ticker: ZCB)** with a shorter duration by 2 years. Therefore, ZBBB takes some interest rate risk off the table while maintaining the yield. In a rising rate environment, ZBBB is a great satellite option to navigate the market. ZBBB's duration is 4.4 years and it provides a diversified sector exposure within the corporate universe; this diversification is beneficial as the economy reopens. With ZBBB investors can take advantage of the reopening trade, because it has higher weights in real estate and energy.

The Inflation Trade with Gold and Base Metals

The gold rally is cooling off and base metals have been accelerating of late. Gold's greatest use is that it is a store of value whereas base metals are used to create things (construction, industrial etc.). As economic growth activity picks up, so will base metals because their prices are tied to this growth. When economic growth runs hot, this is when you will see inflation, and this is how base metals can benefit from inflation concerns. The gold play benefits more from things such as negative real rates, which we are seeing right now. Both gold and base metals can be used in a portfolio as an inflation hedge. Gold is less correlated to broad equity markets, (less correlated to overall portfolio) and so it's a nice diversifier and an allocation here can improve efficiency of the overall portfolio. Base metals are more correlated to traditional equities, because they are quite responsive to economic activity picking up, as we are seeing right now. The **BMO Equal Weight Global Gold ETF (ticker: ZGD)** or the **BMO Global Base Metals Index ETF (ticker: ZMT)** are two ways investors can tactically add exposure to these sectors to a portfolio as an inflation hedge.