

# Views from the Desk

Updates in the Equity and Fixed Income Market

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## Value ETFs

The **BMO MSCI USA Value Index ETF (ticker: ZVU)** has been getting asset flows over the past month as the value factor has rotated into favour. ZVU is enjoying many of the value tail winds that have been part of the “reopening trade” and has outperformed other factor ETFs so far YTD. Some names in the portfolio which have been driving performance have been from the tech sector, but less growth-focused and more traditional. These are the companies that have significant manufacturing capabilities. For example, there is a global chip shortage and by far the largest chip manufacturer is Intel which is one of the largest holdings in ZVU. IBM is another top holding which recently reported strong earnings. As the sector rotation continues and investors become more concerned about inflation and higher rates, investors are looking at companies which have a lower P/E ratios relative to peers. We think the positive outlook for value will continue throughout 2021.

## Yield Curve

We are seeing a divergence between the 30-year and 10-year rates in Canada. *Long end of the curve (30 year):* The Bank of Canada (BoC) announced they will reduce the size of its bond purchase program by a meaningful amount (25% reduction). This announcement has impacted the yield curve especially on the long end as many of these bond purchases were longer dated. The purpose of quantitative easing is to flatten the yield curve so now that the BoC will begin tapering this program we are seeing the opposite impact; higher rates and a steepening yield curve. *Middle of the curve (10 year):* This is more impacted by what’s going on in the U.S. where the April job number was short of expectations. This dropped the U.S. 10 year, and Canadian bonds followed. The impact of changing mid and long rates on the **BMO Canadian Aggregate Bond Index ETF (ticker: ZAG)** has been minimal. Two thirds of this portfolio are less than 10 years and short and mid term bonds are up slightly, while long bonds (one third of the portfolio) are down slightly. ZAG is a good core fixed income holding because it is diversified exposure to the bond market.

## Industrials

Railroads have been a hot topic for industrials this month as CP Rail and CN Rail are bidding to buy KC Southern Rail. Whoever wins the bid will own a lot of the rail space in North America. Railways are well positioned to benefit from the reopening trade. They are a good indicator of economic activity because they handle the shipment of goods. The **BMO Equal Weight Industrials Index ETF (ticker: ZIN)** is a diversified way of getting access to industrial companies who may benefit from an economic reopening such as railroads (CN Rail, CP Rail), and airlines (Cargo Jet, Air Canada) and from infrastructure related names (Akon, SNC Lavalin) who will benefit from the U.S. infrastructure spend. The companies held in ZIN are equally weighted which minimizes the company specific risk as well.

### The BMO Premium Yield ETF- ZPAY

We are seeing more interest in this ETF as volatility picks up and investors look for defensive income in a low environment market. [Read here to learn how we manage this portfolio.](#) [Click here to read about how the portfolio performed during 2020.](#)

Source: Bloomberg, All returns and data points May, 2021.

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