

# Views from the Desk

Updates in the Equity and Fixed Income Market

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## Equities

Equities are what investors look to for growth. From an asset allocation point of view right now fixed income is more challenging. Investors look to fixed income for capital preservation and income. Capital preservation is there right now but low interest rates and inflation are two headwinds for the income component. It is difficult to forecast what will happen in the short term but long-term equities tend to deliver a risk premium. The **BMO S&P 500 Index ETF (ticker: ZSP)** is broadly diversified among 500 companies. Consumers have been building up their savings during a year of economic closures. This build up of cash will lead to future spending when things reopen which will boost equity markets. Investors should not be distracted by short term headlines and should stay focused on their long-term goals. Earnings reports have been strong although tech companies are taking a bit of a breather. Forward looking earnings- the P/Es are reasonable and closer to long term averages.

## Preferred Shares

The **BMO Laddered Preferred Share Index ETF (ticker: ZPR)** has outperformed the Canadian equity market since early 2020. Prefs are still enjoying some tailwinds: reduced supply, continued redemption and rising rates. Fixed income credit spreads have gotten very tight. So, investors looking for a higher yield are looking at preferred share exposure to boost yield. The yield is tax efficient because it comes from dividends and not income, which is a bonus. ZPR's portfolio is made up of rate reset prefs and incorporates laddering out over five years, which lends itself to a rising rate environment. Many investors think rising rates will continue. There is also less supply in the pref share space as companies are redeeming prefs to issue LRCNs. These prefs are being redeemed at par, and currently are trading below, so this creates some upside potential.

## Price Volatility in Bitcoin

This week Tesla announced a change of course on its bitcoin outlook, based on environmental concerns. Elon Musk initially wanted to hold bitcoin on Tesla's balance sheet and take it as payment, but he has reversed course due to the environmental impact that bitcoin has with the energy consumption related to mining bitcoin caused by large amounts of computing power. Bitcoin miners are looking to migrate to new renewable energy sources. This is really underscoring the importance of renewable energy sources in showing that CEOs are making big decisions based on environmental and social impacts.

## Small Caps

Small caps are performing how we expect them to in this environment. They have been providing more return than the broad large cap indexes but with more volatility. Small cap ETFs are a higher risk tolerance product. Our thesis stands that we are still in a good environment for equities, and small caps will provide higher beta to the economic reopening. Small caps still carry more risk but have potential for more returns.

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

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